2017

Annual & sustainability report

AXIS COMMUNICATIONS

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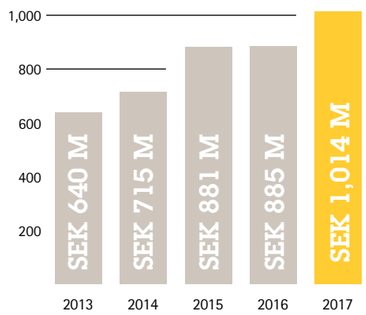
The year in brief

- SEK 8.6 billion in revenue
- 11.8 percent profit margin
- Continued growth and global expansion
- Investments in R&D equivalent to more than 18 percent of revenue
- More than 120 new products and solutions, for example:
  - Radar technology as a complement to video surveillance
  - Further development of Wide Dynamic Range for better image quality and Zipstream for more efficient data compression
  - A new generation of positioning cameras
  - Development of Axis offering to the retail sector with Axis Loss Prevention Solution and Axis Store Optimization Solution
  - Three new explosion-protected cameras
  - Several new products in network audio

2,865
employees

Operating profit/EBIT



Key ratios

Group, SEK M (unless otherwise stated)	2017	2016
Net sales	8,603	7,386
Operating profit	1,014	885
Profit before tax	1,011	884
Profit after tax	736	639
Earnings per share, SEK	10.59	9.20
Cash and cash equivalents at the end of the period	1,538	858
Dividend paid, SEK	0.92	0.64

Sales per region, SEK M

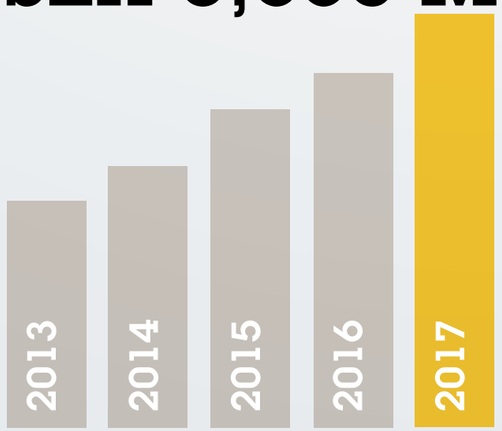
Region	2017	2016
Americas	4,495	3,856
EMEA	3,087	2,646
Asia	1,020	884

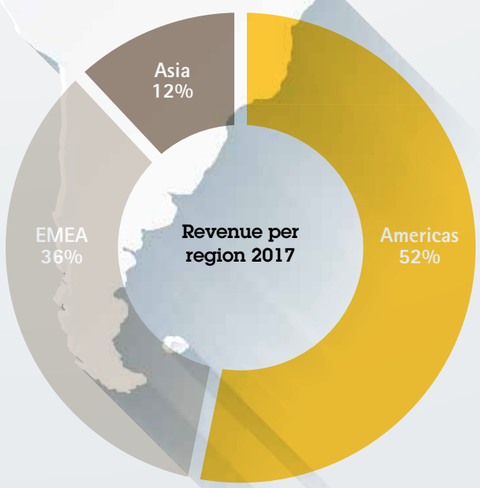
Axis at a glance

Axis enables a smarter and safer world by creating networked solutions that provide insights for improving security and optimizing business performance. As the industry leader in network video, Axis offers products and services for video surveillance, access control and audio systems, as well as video analytics, distributed throughout the world in a global partner network.

Revenue 2017

SEK 8,603 M





Employees in more than
50
countries

Partners in
179
countries

More than
90,000
partners

2,865
employees in the Group

Constant focus in a changing world

In many ways, 2017 was a year of contrasts. In the ongoing globalization process, we see signs of national protectionism. A good market situation is creating challenges and longer delivery times for electronics components. And while digitalization implies ever-smarter solutions, cybersecurity is in greater focus. At the same time, sustainability is becoming even more important. These are all challenges that Axis is well-equipped to meet.

Living up to the potential
When I look back at 2017, I can confirm that Axis has continued its successful progress, with focus on sustainability, and performed in line with our expectations. Our main business – network cameras – continued to be a natural choice for customers requiring high quality, stability and innovation. In addition to this, our new businesses, including the acquisitions in 2016 of 2N, Citilog and Cognimatics, displayed rapid growth.

Cognimatics' solutions are now fully integrated with Axis' offering. 2N's products complement Axis' overall solution for IP door stations with communication solutions, IP-based network video door stations and speakers. In addition to this, all of Axis' video-related releases and our new radar technology were well received in the market.

Finding solutions in new connections
I have high expectations from our investment in IP audio. This includes horn speakers and background music speakers in stores and other public environments. The many millions of speakers in such environments around the world today are usually traditional analog installations that offer poor flexibility. The potential to replace these with IP speakers may be compared to the shift from analog to network cameras ten years ago.

Taken together, our broader range is generating new opportunities to develop overall solutions in close collaboration with our customers. This is a long-term strategy where we aim to listen to and collaborate directly with customers, without compromising our successful business model with partners and distributors. Innovation, quality and an increasingly solution-focused offering are creating value that is safeguarding Axis' leading position in a market characterized by intense competition.

The market situation is favorable. Demand for digital security solutions shows no sign of slowing down. The market for the Internet of things is generally showing a positive development. Unfortunately, a consequence of this is longer delivery times from our component suppliers. Consolidation of the supplier market in recent years has not helped matters either. This continues to impose demands for careful planning of our sourcing and I expect the component market to also remain strained during 2018.

Security based on trust
The positive development of the Internet of things and powerful online services is proceeding while cybersecurity has naturally emerged as a high-priority area. We are encountering these threats in various ways in different parts of the world. In the EU, comprehensive sets of regulations are on the way that aim to protect the privacy of individual citizens and consumers, and to improve the protection of critical social functions, such as energy supplies and cybersecurity infrastructure.

Ray Mauritsson
President

> Successful progress, with focus on sustainability

The new regulations and stricter standards are essentially positive for Axis' business but they are making great demands on our organization. We have to handle the inherent conflict between society's need for security and companies' legitimate need to understand their customers' behavior on the one hand, and the risk that comes with the rise of digital interfaces on the other.

For Axis, it is therefore crucial to earn customers' trust through open and transparent communication that our products and solutions are safe. We achieve this by having an in-depth understanding of the security needs of our customers and public requirements for privacy and security. Axis shall have an offering that adds such a degree of value that our customers will want to provide us with the business-critical information required to deliver the solution.

Acting now for a better tomorrow
Considering the global trends and the challenges we face, sustainability is a crucial issue. Sustainability is an integrated part of Axis' operations and is important for our successful development. We want to act as a model in sustainability-related matters, and as a leading market player we have good opportunities to influence those around us. 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. Through our sustainability efforts, we contribute to the UN's sustainable development goals.

Measures implemented to reduce environmental impacts include phasing out PVC from even more camera models. We have adopted new environmental goals and new goals for how we work with our suppliers. We have also tightened our Suppler Code of Conduct. Audits and training to ensure that the new supplier requirements are followed will occur during 2018.

Strength in who we are
Our qualified employees and strong corporate culture have been very important for Axis' successful growth. We aim to advance our positions for improved equality and greater diversity and we participate in various initiatives to boost interest in technology among women. We train women in programming and help integrate new arrivals into the labor market.

An ethical approach is fundamental. Almost all employees have received training regarding what is implied by Axis' anti-corruption policy, and have renewed the agreement where they undertake not to accept bribes or participate in any other type of corruption. The continual work on maintaining and developing the strong corporate culture with common values is of course the most important initiative in this area.

We have a continual dialogue with our stakeholders and during the year we carried out a global survey among our partners. This showed that 82 percent of the respondents are highly satisfied with Axis.

Customers and partners are requesting more environmentally-friendly products, and they are imposing demands that we operate in a sustainable way. Axis is well-positioned to meet these demands.

We are continuing to take account of sustainability considerations in our business and are striving to reach our sustainability goals, which include reducing our environmental impact, having an attractive and safe workplace defined by equality and diversity and having an ethical approach in all our business relationships. In this way, we are creating sustainable products and solutions for a smarter and safer world.

Growing to meet the future
All in all, Axis is operating in a world, which is undergoing strong and rapid change, where globalization is occurring in parallel with signs of protectionism in key markets. In these circumstances, it is encouraging to be able to report a sales growth in local currencies close to 15 percent. In profitability terms, we are in line with the previous year, which implies stable margins and sound long-term profitability.

Axis' organization is growing with the expanding business volume. During the year, we welcomed about 250 new employees to Axis. Roughly speaking, these employees are equally divided between research & development and sales.

Looking ahead towards 2018, Iexpect a market with continued strong demand for our security products and solutions, which means that Axis will continue to grow in terms of sales, innovation, new releases, continued recruitments and further development of our partner network.

Axis operations and financial goals

Business concept

Axis enables a smarter and safer world by creating solutions that combine intelligent technology with high-quality products and services. As the industry leader in network video, Axis drives development and continuously innovates to provide its customers with the benefits of improved safety and optimized business performance. Carried out in close cooperation with a global network of partners.

Financial goals

Axis is a growth company with an ambition to maximize revenue growth with an operating margin above 10 percent. The current yearly growth ambition is 15 percent.

Vision

Innovating
for a smarter,
safer world.

Mission

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

A smarter, safer world

Axis challenges conventions and re-imagines security and business optimization. This is a natural part of the company's DNA. With curiosity and open minds, Axis develops connected solutions based on sight, sound and analytics to unlock hidden potential. As the industry leader in network video, Axis' portfolio of today extends far beyond cameras, covering a whole new world of application areas, and there is much more to come. By combining intelligent technology and human imagination, Axis adds new dimensions of insight, empowering people to interpret, predict and respond. Together with partners, Axis strives to shape the future, making it smarter and safer than it was before and is today.

Success built on breadth and depth

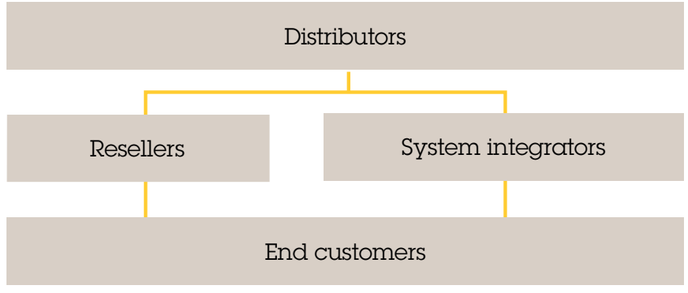
Axis is driving the development of network security solutions while the company is broadening its offering to include more areas, in order to create more value for the company's customers. The basis for this is a global market presence, long-term collaboration and continual development of innovative products, services and solutions. World-leading products are combined with local market knowledge through a broad network of partners and through Axis' own global operations. This makes it possible for end users all over the world to benefit from solutions that brings enhanced security and new business possibilities.

Axis' strategy is based on three key cornerstones – a global presence, sales via distributors and partners that are experts in their local markets, and continual renewal and broadening of the offering in the form of products and solutions.

Axis identifies needs and requests through dialogue with partners and end customers and turns this into new innovation. In this way, the overall offering can meet the needs of both large and small customers that can have different preferences depending on local variations in different markets.

The development of the software that runs and connects the security products is an important part of Axis' innovation strategy. For Axis, it is of great importance that the software is robust against hacking and a lot of effort goes into training of partners and customers so that Axis' solutions are used safely.

AXIS COMMUNICATIONS



Global market presence

Axis has built up a market presence with its own representatives in more than 50 countries and through resellers in 179 countries, and is continuing to expand. The strategy is to be a global market player while maintaining a strong position in each market where the company operates. There is a strong focus on strengthening the company's presence in emerging markets. Meanwhile, continued investments are being made in order to get closer to end customers in more mature markets with the aim of creating innovative products and solutions that meet changing customer needs.

Stronger partner network

Long-term and loyal partnerships enable mutual exchange of competencies, a strong market presence and combined development of the market. This collaboration is being strengthened in line with Axis' expanding offering, while new partners are being added. New customer segments, trends and business opportunities are rapidly identified through open and close dialogue in the partner network.

Smart, innovative products and solutions

Axis' ambition as an industry leader and innovative force is to drive the rapid global development of network security solutions. The offering is continually broadened with new products, accessories and overall solutions for customer needs. As the market grows and matures, investments are continually being made to strengthen the overall offering and to assume greater responsibility for cybersecurity.

Axis market segments

Enterprise business

Axis' largest segment consists of applications to create value and enhance security for public environments such as cities, airports, hospitals and universities. This segment is characterized by complex solutions where there are high demands for reliability and cybersecurity while ensuring flexible integration with other security systems.

Hyatt Hotels

With more than 700 hotels worldwide, Hyatt Hotels sought out a network video surveillance system, to more effectively protect its guests and staff. Axis and its partner Milestone were responsible for a solution consisting of fixed and panoramic cameras that could be brought onto a powerful video management system along with further technologies such as access control and audio equipment. The instant results from a move to IP video were major boosts in video quality and flexibility, for example configuration of cameras may now occur remotely.

Medium business

This is a fragmented segment with many different types of end customers, including schools, stores and larger offices with 10-100 cameras and speakers. Axis has a broad range of solutions to meet the various needs in the segment. These may include advanced specially-designed overall solutions and standardized offerings.

Concón, Chile

The tourist resort of Concón on the coast of Chile was one of the places affected by a powerful earthquake and tsunami a few years ago. To better protect its citizens and visiting tourists, the city needed a surveilance and warning system. Axis provided a system consisting of network cameras and loudspeakers, which now plays a vital role in the event of natural disasters. Additionally, as a result of the installation of Axis cameras and loudspeakers, Concón is also now able to prevent crime by rapidly identifying threats and alerting individuals via the speaker system.

Small business

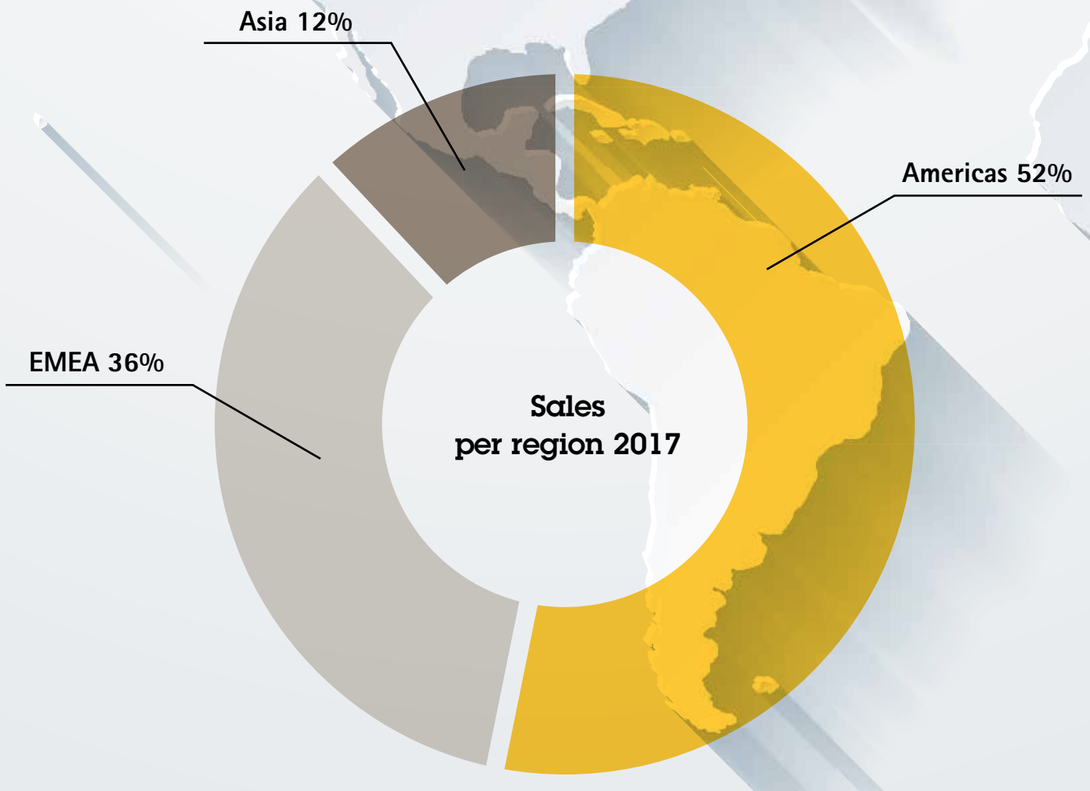
This segment is characterized by smaller stores and offices with up to 10 cameras and speakers. The IP penetration rate here is lower than in the enterprise and medium business segments, which means that the growth potential is higher. Axis develops cost-efficient solutions for this segment, which is expected to grow faster than the market as a whole over the next few years, particularly in the case of network speakers.

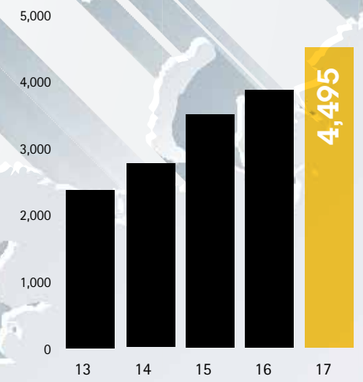
Pause Cat Café

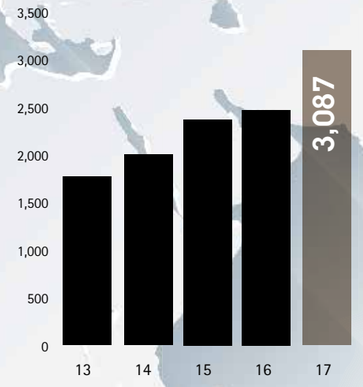
Pause Cat Café, is a not-for-profit enterprise located in Bournemouth, England, where people and cats can enjoy each other's company. With such a unique business model, the café owner needed to not only closely monitor the cats 24/7 to ensure their welfare, but also to satisfy stringent compliance regulations set by the local council. With the AXIS Companion Line, in this instance consisting of five cameras, the owner and nominated staff can check on the wellbeing and whereabouts of the cats through mobile devices while the technology is contributing to improved security in general.

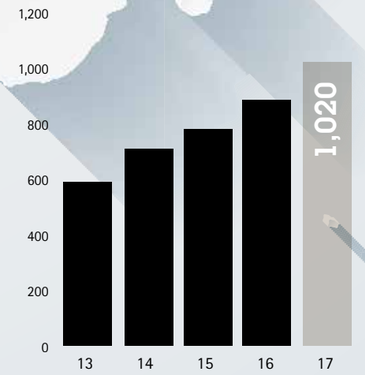
Axis worldwide

Axis has more than 2,800 employees in more than 50 countries. In cooperation with a global partner network, Axis can offer its products and services to customers in 179 countries. The global market is divided into the three regions Americas, EMEA and Asia.









Americas

Axis is the market leader in North and Central America. The countries in these regions constitute Axis' largest market where Axis is driving the replacement of analog with digital technology, for example in the audio and intercom fields. South America continues to have good potential where urbanization and IT development are driving an increasing demand for network solutions.

EMEA

Axis has a leading position in EMEA. The region is a fragmented market with considerable differences in demand between Central Europe and the Middle East. While Europe is driven by the conversion market and cybersecurity, demand in the Middle East has slowed down due to financial and political turbulence with investment restraint as a consequence.

Asia

China is the world's largest market for network video and has great potential along with the rest of Asia. There is strong interest for city surveillance solutions in many parts of the region. Axis is continuing to invest here, to a large extent by increasing its local presence and expanding the partner network.

Research and development

Looking beyond expectation

Three new explosion-protected camera models

Radar technology as a complement to video surveillance

Axis should create value for its customers by being the most innovative supplier of network security solutions, which imposes strict demands on the company's R&D operations. Products and systems are evolving and becoming increasingly sophisticated and technically advanced, and it is a critical competitive factor for Axis to improve simplicity and user-friendliness during installation and operation.

The product release rate continued to grow during 2017. Some 120 new products in total were released in the market, including entirely new applications and better performance in existing solutions.

Innovation and development imply staying one step ahead of the customers and continually testing and exploring what the market wants. Afterwards, this information is taken back to Axis in order to make changes based on customer needs. During 2017, Axis improved its innovation process in order to become quicker and more efficient. Updating of hardware products occurs at high speed, and Axis can rapidly meet the market demands.

A natural channel for obtaining feedback is via the mobile applications pertaining to Axis' systems. There is already an existing infrastructure for measurement and automatic feedback about how the products are used and user behavior. This is an easy and quick way to get feedback that Axis is increasingly using. Similar feedback can also be obtained via the proprietary applications.

Product development at Axis is carried out in two areas:
Hardware development
Hardware development takes place for all of Axis' hardware products. There is extensive innovation about how new technologies will be applied and how Axis can solve customer problems in an innovative way.

Software development
Within the software organization, development occurs within the software that is found in existing products, but also within the applications that bind together the solutions into complete systems. Innovation occurs in the form of technological advances on a small scale and also through larger steps forward. A lot of innovation is about solving customer problems through a tailored and novel approach.

A large and key area of innovation is AI, artificial intelligence, with several subareas such as deep learning and machine learning. One area in AI that Axis has worked a lot with is video analytics. This is a tool for performing better video analysis and a technology which is broadly applied by the company in many areas. It is an expanding area where Axis is dedicating considerable resources for development and innovation. It is a system that can "teach itself", for example in relation to network load, where the system automatically guides customers if the load needs adjusting. The system learns what is normal behavior and reports any deviations. In this way, it is possible to act preventively and provide maintenance of products and solutions directly to the customer.

Axis' offering is increasingly moving from product offerings to solutions, and in this way different comprehensive offerings are being developed for customers. However, the products have a central role in the solution offering. The broad offering also means that Axis must continually update and make innovations within the entire product range. This in turn requires a broadening of the skills among development staff.

IT security has become increasingly important in the market (read more on page 23). Internally, Axis has worked in a secure way for many years, and much of the security thinking that characterizes cybersecurity is already part of Axis' culture. In recent years, Axis has the increased the priority of this area and has allocated significantly more resources to cybersecurity because it has become more important in the market.

During the year, Axis established a software security group (SSG) and a security development model (SDM), which includes the entire method of working for development of IT security. Technical security features involving encryption are only a small part of the overall solution when it comes to building secure products. The SDM controls how we develop products and complete systems so that they will be secure, particularly when Axis uses external code and if open source is used. It is also important to ensure that customers receive updates quickly and securely.

New thinking in collaboration

Within the framework of its R&D operations, Axis has extensive collaboration with universities and colleges around much of Sweden and within a number of different product areas. A list is provided below of some selected examples of collaboration. A total of 59 students also conducted thesis work at various Axis departments during 2017.

WASP – Wallenberg Autonomous Systems Program
This is a major research umbrella group including the Faculty of Engineering at Lund University (LTH) and Linköping University and the business community with Volvo, Saab and Kockums, financed by the Knut and Alice Wallenberg Foundation. An industrial doctoral candidate, partly financed by WASP, is employed at Axis. The doctoral candidate is researching how to control bandwidth in systems.

IoTaP – Internet of Things and People
A research consortium with Malmö University and the business community in the region, including Sony, E.ON and Dataductus. Axis is participating in projects about how cameras and sensors can work together to produce information in order to help people in office environments, for example to find the best workplace.

ViaTech
Vinnova-financed research project at the Blekinge Institute of Technology (BTH) where Axis in conjunction with Ericsson provides advice about what BTH should research and what experiments are suitable.

ELLIIT
One of the research centers designated by the government for strategic research. Participants include LTH, Linköping University, BTH and Halmstad University. Axis has a representative on the Industrial Council.

Software Center
A large alliance of Chalmers University of Technology and Swedish companies for research about rapid software development and using data from users to control their development. Axis connects internal development projects with this.

SOM – Smart Public Spaces
A research project financed by Vinnova. Participants include Lund Municipality, the City of Malmö, Trivector, Kraftringen and LTH. Research into how smart cities and their infrastructure should look.

eHealth@LU
Newly established platform for e-health research at Lund University.

120 new products were released during 2017

59 people completed thesis work at Axis R&D during 2017

18% of the group's sales were invested in research and development

1,000 people work with research and development at Axis, in other words more than 30 percent of the group's employees

SEK 1,486 M was invested in research and development during 2017

Securing IT takes unbroken commitment

IT security has gained an increasingly important role in society, and consequently for Axis and the company's customers as Axis' products and solutions are made to be part of a network. In recent years, Axis has developed a more focused strategy, provided additional staffing resources and has developed a structured process in order to able to offer increased security to the company's customers when it comes to hacking over the Internet.

Axis' goal is to be the market's most mature company when it comes to IT security. The company should be at the leading edge and handle incidents in the best way for the customer. Axis should help its customers to reduce their risks through training and high-quality products and services. And regardless of what it relates to, Axis should operate according to best practice to handle situations that arise.

Developments show it is not possible to manufacture completely secure network products for the long term. It is important to be constantly alert and perform continual updates. Axis has developed processes for identifying possible weaknesses and also in order to continually improve them.

Handing IT security is about building confidence. Since it can be hard to assess and understand the potential threats of having systems connected to the Internet, this causes concern for private individuals, companies and for society in general. Increased reporting in the media has also created greater awareness. To avoid unnecessary concern, it is important to gain an overview of where the real threats and risks lie.

Different types of organizations have different needs and different risk exposures. In small companies it is usually the individuals running the business who are affected by possible incidents, when vulnerabilities in systems are subject to hacking. In larger organizations and companies, similar incidents may cause shutdowns, a lack of confidence and large-scale financial losses. The risk of potential damage is greatest in the event of hacking of critical social functions, such as energy supplies and transport systems, where the general public may be affected. Since Axis' offering is targeted towards small and large companies as well as international organizations, Axis must be able to adapt its IT security work depending on the customer and the circumstances. The basis for Axis' IT security operations is focused on three areas: protection, incident management as well as learning and cooperation

Protection
Protection is about strengthening the security of products and systems, such as password management, updates of software and configurations. The main challenge is not installing the product in a secure way, but being able to maintain the security level over a longer period. New weaknesses are discovered and new players enter the market, which increases the likelihood of external attacks. There are processes that Axis and the company's suppliers and customers must follow and continually develop updates around.

Incident management
Despite the fact that everything has been done to maintain the best possible protection, weaknesses can arise that may be exploited. Incident management is about what Axis does to reduce the risks of releasing products or systems with possible weaknesses and the way that Axis acts in order to reduce the risks when a weakness is identified.

In recent years, Axis has handled incidents according to a predetermined process with the goal of providing answers and information within 48 hours. Among other things, it is important to quickly classify the incident in order to decide how Axis should handle the communication.

Axis has produced a guide for how to strengthen a product, how to configure it and how it should be installed and maintained, to make products more secure. However, there is no such thing as a completely secure product, especially if it is part of a network. It is only possible to continue making it more secure than before through various protective measures.

When an incident is discovered transparency is important and to take the situation extremely seriously and act quickly. It is also important to continually improve security surrounding products from third parties. Axis has therefore built up external communication via a proprietary website.

Learning and cooperation
Security can only be achieved if all of the involved parties collaborate. Learning means how Axis' organization learns and becomes more mature, and also how the company uses its partners and customers in order to increase understanding. Perhaps a solution does not exist at present, but through collaboration regarding various threats, Axis together with its partners and customers can develop a solution that solves the specific problem. Learning and cooperation can occur through Axis Academy with both online and classroom training, lectures or workshops at industry seminars or through external blogs where Axis publishes articles. Knowledge is built up in this way and everyone shares their know-how.

The number of cameras in a system naturally plays an important role in IT security management. If there is only one or a few cameras, it is naturally easier to manage than if there are hundreds or thousands of cameras, which requires carefully prepared systematics and automation, for example surrounding dispatch of updates and password managment.

AXIS Device Manager is a tool for customers to cost-effectively administer their security controls in the camera. Axis Connect is a service for smaller organizations, which includes various levels of automation and basic configuration. Continuity in cybersecurity also means ensuring that you continually utilize and perform security checks, otherwise they will gradually break down.

Risk management

Axis is an international group with operations and customers all over the world and is thus exposed to many different risks. The group's risk management aims to minimize the risks but also to ensure that opportunities are utilized in the best way in order to facilitate continued strong growth and business expansion.

During 2017, Axis took the decision to formalize its risk management work. The risk framework's connection with the internal control and follow up was clarified. Axis has already implemented an internal control framework based on COSO (Committee of Sponsoring Organisations of the Treadway Commission) with well-documented controls, which are tested annually. During 2018, risk assessment will continue to be performed in relevant parts of the organization.

Axis risk management framework
Axis' risk management framework based on its corporate strategy, aims to identify, evaluate and prioritize risks related to Axis reaching its commercial goals. Both a top-down and a bottom-up approach are employed. The owners of the various risks are identified in this process.

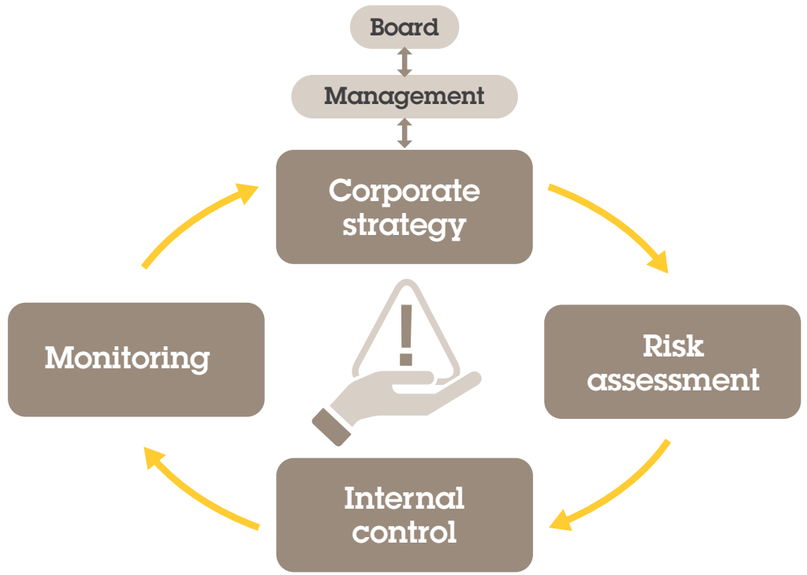
Axis' department for governance and internal control manages, follows up and evaluates the risks, in consultation with other departments and functions. Annual follow up and risk updates are performed by group management, which takes decisions regarding measures and handling. Annual reporting occurs to the board, which handles the risks.

Risks
Risks are identified based on Axis' overriding strategy, incorporating both a business and sustainability perspective. The risks are divided into external, strategic and business-related risks. External risks are those arising from events in the company's external environment and which are outside the company's influence or control. Strategic risks are defined as risks that can prevent Axis from reaching the company's strategic goals or that prevent the company from working towards these goals. Business-related risks are those that may result in losses due to inadequate or failed internal processes, human errors or defective systems.

The work on identifying, handling, following up and evaluating the risk exposure that the group is subject to is continually ongoing, at a group-, regional- and local level. External and strategic risks are mainly handled at group management and board level. Business-related risks are primarily handled at 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, 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 and advisors.

The list below shows identified risks, in no particular order of importance. The list does not claim to be exhaustive.

Axis' risk management framework



Risk	Description of risk	Management of the risk
External risks		
Natural disasters and accidents	Natural disasters or accidents, which affect Axis, Axis' suppliers, distributors or partners can impact Axis negatively.	Axis is well-insured and has effective processes in place and agreements with suppliers in different regions for redundancy and diversification of risks.
Market development and competitive situation	**Market development** As a leading player in the network camera market, Axis is benefiting from continued global market growth. A global market downturn would impact Axis negatively. **Competitive situation** Greater competition due to the market attracting additional players increases the risk that Axis will lose market shares.	**Market development** Axis is broadening its customer offering through acquisitions and innovative product development and is establishing a presence in new geographical markets. Axis carefully monitors global trends in order to take necessary measures when conditions change. **Competitive situation** Market shares and market leadership can be maintained through careful competitive intelligence, a capable global sales force, close collaboration with partners as well as vigorous and rapid product development.
Political risks	**Political instability** Political instability in countries where Axis operates can impact Axis' global expansion negatively. **Acceptance of camera surveillance** Less acceptance of camera surveillance and more privacy questions linked to this can have a negative impact on Axis.	**Political instability** Axis follows developments closely in the countries where the company operates. **Acceptance of camera surveillance** There are currently no known plans to Axis for significant changes with regard to laws or restrictions in the markets where Axis operates. Axis continually strives to monitor legislation in the area and to communicate the benefits of camera surveillance for a safer and more secure world.
Strategic risks		
Risk related to broadening the customer offering	Axis' tendency to supplement its offering with new products and overall solutions, can imply an increased risk when this occurs through entry into new markets with greater demands for adaptation and development.	Axis recruits personnel, develops solutions and conducts a dialogue with its partners about new forms of collaboration, for sales of the company's expanded offering.
Risk of obsolete technology	A lack of innovation could make Axis' technology obsolete.	Axis works in a focused way with research and development. More than 18 percent of the group's sales were invested in R&D in 2017. Axis' strong corporate culture, defined by an entrepreneurial spirit, contributes to a powerful climate of innovation.
Customer satisfaction risk	Axis' continued success depends on customers being satisfied with Axis' products, solutions and support. If customer satisfaction falls, it would impact Axis negatively.	Axis regularly conducts customer surveys among distributors, partners and end customers in order to listen to customers and implement improvements in accordance with customer expectations and needs.

Risk	Description of risk	Management of the risk
Reputation risk	If Axis is not perceived as a reliable business partner or employer due to the fact that Axis as a company, the company's employees, suppliers or partners do not act ethically and sustainably in all respects, it could impact Axis and its stakeholders negatively.	Axis works actively with business ethics, IT security and compliance. Axis evaluates and continually updates internal processes and controls, performs supplier audits and informs and trains its employees and partners.
Business-related risks		
Risks in the supply chain related to environmental impacts, working conditions, human rights and corruption	**Environmental impact, working conditions, human rights and corruption** Environmental impacts occur in all manufacturing processes, including energy consumption, hazardous waste and carbon emissions. Risks for the employees include the working environment and working conditions. Overtime implies a risk to employee health and a product risk in respect of quality. If human rights are violated and corruption occurs, it may impact Axis and its stakeholders negatively. **Conflict minerals** If conflict minerals, in other words gold, tantalum, tin or tungsten, which finance conflicts, are found in components for Axis products, it can impact Axis and its stakeholders negatively.	**Environmental impact, working conditions, human rights and corruption** All Axis' suppliers shall comply with laws, regulations and Axis' Supplier Code of Conduct. This includes having control of environmental impacts, fighting corruption, ensuring good working conditions and that no form of child or compulsory labor occurs. Suppliers should be ISO 14001 certified or have a management system in accordance with ISO 14001. Suppliers are initially evaluated using a self-assessment form and Axis conducts regular audits to ensure that suppliers meet the requirements in the Supplier Code of Conduct. In Axis Supplier Academy, suppliers are trained in relation to sustainability questions. **Conflict minerals** Axis has a structured process for ensuring that the minerals used by suppliers and subcontractors are not conflict minerals. All suppliers have undertaken to have a process in place for ensuring that conflict minerals are not used. Suppliers shall also control their own supply chains and inform Axis if conflict minerals are found.
Environmental risks	**The operations' environmental impact** Transports, energy consumption in the operations and business trips give rise to environmental impacts and emissions run the risk of damaging water, air and land. Unless Axis helps to reduce the operations' environmental impact, it can impact Axis and its stakeholders negatively. **Product environmental impact** The risk of overutilization of finite resources is affected by the design and choice of materials. Unless Axis helps to reduce the products' environmental impact, it can impact Axis and its stakeholders negatively. **Hazardous material** If Axis' products contain substances that are hazardous to health and the environment or Axis' environmental performance is poorer than the competitors or Axis does not meet customer requirements concerning materials, it would impact Axis and its stakeholders negatively. **Energy consumption** Product use implies energy consumption that gives rise to environmental impacts and emissions that run the risk of damaging water, air and land. Unless Axis helps to reduce energy consumption, it can impact Axis and its stakeholders negatively.	**The operations' environmental impact** Axis' environmental policy prescribes that Axis shall minimize environmental impacts in its product lifecyles and throughout the entire value chain. Awareness is raised among employees through environmental training. Axis is streamlining logistics flows and has clear goals for reducing carbon emissions from transports and reducing energy consumption from the operations. Axis uses carbon offsets for business trips and encourages less travel. **Product environmental impact** Axis strives to increase the proportion of recycled material in its products. Design regulations encourage environmentally friendly design. **Hazardous material** Axis lists hazardous substances, which are not permitted and substances where use shall be restricted. Axis checks the material content in its products in order to ensure that requirements are met. Axis is working proactively on phasing out hazardous materials from its products. Axis also has a goal of offering products, which are free from brominated and chlorinated flame retardants. **Energy consumption** Axis is working to develop more energy-efficient products and solutions, while maintaining functionality.
Material	Shortages of components and input materials can have a negative impact on Axis.	In order to minimize risks in the supply chain, Axis works with several subcontractors that are equally important from a competency and capacity perspective.
Quality and product safety	Product quality helps to ensure continued satisfied customers and safe handling and use of the products. Defective product quality, which can cause injuries to people, the environment or property, can impact Axis and its stakeholders negatively.	Axis works to ensure the highest possible quality in its products and has a well developed process for handling product defects.
Technical risks	Defects in Axis' IT and business systems could impact Axis' operations negatively.	Axis has well tested systems and processes for follow up and control.
IT security and protection of customer privacy	Ensuring good IT security in products and solutions is crucial in protecting customer privacy during incidents. If Axis' products are not perceived as safe, it can impact Axis and its stakeholders negatively.	In Axis' research and development operations, great importance is attached to producing very safe products and solutions. In addition, Axis works continually with training of partners and end customers in relation to how products, solutions and services should be installed and used safely. When defects are discovered, Axis has an organization and routines in place to immediately take corrective measures.

Risk	Description of risk	Management of the risk
Personal integrity	If Axis cameras are used in a way that violates personal integrity and human rights, it can impact Axis and its stakeholders negatively.	End users are responsible for how surveillance cameras are utilized and for how video material is stored. Axis is careful with its choice of partners and informs its partners to ensure as far as possible that network cameras and solutions are installed and used correctly, that video material is protected and stored securely and that personal integrity is safeguarded. Technological functions enable anonymization and functionality restrictions.
Legal risks and compliance	**New and stricter legislation** If Axis does not comply with relevant legislation, the company may be subject to company fines and subpoenas, which may affect Axis in a negative way. If Axis breaches any country's export controls or competition law rules, this may result in fines and affect Axis negatively.	**New and stricter legislation** Axis agrees to comply with relevant applicable legislation nationally and internationally. The company follows the development of new relevant legislation and adjusts products and operations to new requirements. Examples of control in this respect are the company's export compliance program, ongoing analysis of competition law and internal training in competition law issues. Axis also collects external expertise in different legal areas. Internal frameworks for control, an Export Compliance program, an anti-trust policy, thorough processes and controls, Trade Compliance Department meetings, training and external advice help to ensure compliance.
Intellectual property risks	Axis is party to various disputes as part of its day-to-day business operations, including in the patent field. Costly and protracted disputes can impact Axis negatively.	The exposure to intellectual property risk in the patents area is managed by Axis' specialists, in collaboration with external lawyers and advisors. Axis conducts an active patent strategy in order to safeguard investments in core technology and intellectual capital. Axis currently holds 333 active patent and registered design families.
Business ethics	**Corruption** If Axis' personnel, suppliers, distributors and partners involve themselves with bribes or another type of corruption, or in another way act unethically, it may impact Axis and its stakeholders negatively, as well as potentially constitute a violation of the law. **Unethical context** If Axis' cameras are used in an unethical context, it may impact Axis and its stakeholders negatively.	**Corruption** All employees and the board shall comply with Axis' Code of Conduct, anti-corruption policy and insider policy. Employees shall sign the anti-corruption policy and participate in anti-corruption training. Axis also has a whistleblower and inquiry function, an e-mail address which employees can write to and address questions relating to corruption and report suspected cases of irregularities. **Unethical context** Axis' personnel participate in training. Axis informs it partners, in order to ensure as far as possible that its products and solutions are installed and used properly.
Risks connected to the workplace, employees and talent supply	**Corporate culture** The corporate culture is an important factor behind Axis' successful performance. If Axis does not succeed in retaining its unique corporate culture, it can adversely affect the company's future success. **Talent supply** Axis is growing strongly. If Axis does not manage to attract and retain talented personnel in order to reach its goals, it would impact Axis negatively. **Lack of diversity, equality and discrimination** A lack of diversity and too homogenous a workforce can mean that personnel are not quite as innovative or dynamic as they could be. If employees or jobseekers cannot be afforded the same opportunities due to gender, ethnicity, religion, sexual orientation, age or other factor, apart from possibly constituting a violation of the law, it may impact Axis and its stakeholders negatively. **Leadership** If Axis fails in its leadership succession planning, it would affect Axis negatively.	**Corporate culture** Axis works systematically on strengthening its corporate culture and on reinforcing its core values, for example through training, during kickoffs, meetings, recruitments etc. **Talent supply** Axis has a very careful recruitment process, including recruitment training for all managers. Axis offers good career and training opportunities and competitive working conditions. **Lack of diversity, equality and discrimination** Axis conducts activities and initiatives in order to promote increased diversity and equality and to fight discrimination. The grandfather principle applies during recruitment and salary process. An equality analysis of salaries in Sweden is performed. All employees and the board shall follow the company's diversity policy, equality policy and Code of Conduct. **Leadership** Axis has a number of management training courses, policies and action plans in order to strengthen leadership and future succession planning.
Occupational health and safety	If occupational accidents or other types of illheath occur at the workplace, besides being negative for the individuals concerned and potentially constituting a violation of the law, it may affect Axis negatively.	Axis works sytematically on creating a safe and pleasant working environment. There are safety committees in Sweden and regular safety committee meetings are held. Axis carries out safety and fire prevention training, working environment training for managers and offers occupational healthcare. All employees follow policies such as Axis' global working environment policy etc.

The share

The share's performance in 2017
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 29, 2017 was SEK 339.90 (340.60). The highest market price, SEK 380.00, was recorded on January 17. The lowest market price of the year, SEK 323.00 was recorded on March 15. The number of outstanding shares amounted to 69,461,250 on December 31, 2017. The total share turnover on Nasdaq Stockholm during the period January 1, 2017 - December 31, 2017 amounted to 0.2 million shares (1.4). This is equivalent to a turnover rate of 0.3 percent of the total number of shares. The average number of shares traded per day during the period amounted to 721 to a value of SEK 0.2 M. The market capitalization on December 31, 2017 amounted to SEK 23,610 M (23,659).

Dividend
Axis' majority owner Canon Inc has informed the company's board of directors that Canon Inc at the 2018 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 2018 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 2017 was 0.1 percent. The annual total yield has amounted to 18.7 percent over the past five years.

Ownership
At year-end, Axis had 1,835 registered shareholders (1,726). 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 3.6 percent and RAIFFEISEN BANK INTERNATIONAL AG with 3.4 percent. The combined holdings of the ten largest owners represented 99.0 percent (99.2) of the number of outstanding shares in terms of capital and votes. The proportion of shareholders resident outside Sweden was 6.9 percent (127 persons), with a combined shareholding of 99.5 percent. The largest shareholder countries were Japan, UK and Austria. The proportion of shareholders resident in Sweden was 93.1 percent (1,708 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 in Swedish and English in accordance with the regulations of the stock exchange.

Shareholders December 29, 2017

	Number of shares	Share capital and votes
Canon Inc.	60,175,282	86,6 %
BNYMSANV RE GCLB RE BARCLAYS CAPITA	2,521,868	3,6 %
RAIFFEISEN BANK INTERNATIONAL AG	2,396,000	3,4 %
BARCLAYS CAPITAL SECURITIES LTD	961,805	1,4 %
SSB CLIENT OMNIBUS AC OMO7	859,250	1,2 %
Övriga	2,547,045	3,8 %
Totalt	**69,461,250**	**100,0 %**

Ownership December 29, 2017

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
Total	**1,726**	**69,461,250**	**100.0**	**100.0**	**23,658,502**

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
2016	69,461,250	0.01	694,612
2017	**69,461,250**	**0.01**	**694,612**

Per-share data

	2017	2016
Profit after financial items, SEK	14.55	12.73
Cash flow, SEK	9.78	-2.27
Shareholders' equity	44.28	33.87
Share price at end of period, SEK	339.90	340.60
Price/equity, percent	767.6	1,006
Dividend paid, SEK	0.92	0.64
P/E-ratio	32	37
Result, SEK	10.59	9.20
Number of outstanding shares (thousands)	69,461	69,461
Average number of shares (thousands)	69,461	69,461

Sustainability report

2017

Significant events during the year

- Almost all employees renewed the agreement where they undertake not to accept bribes or participate in any other type of corruption and received training about what is implied by the anti-corruption policy
- A global survey among partners was completed, which showed that 82 percent of respondents were very satisfied with Axis
- New environmental goals were drawn up
- Several new PVC free camera models were developed such as the AXIS M2026, a number of variants of the AXIS P3327 series, and the AXIS Q3517 series
- Improvements were initiated regarding energy consumption in the product use phase
- New carbon offsetting project in Uganda for forestry development at a local level
- New goals for supplier audits
- Tightening of Supplier Code of Conduct
- A new global diversity policy was drawn up
- New goals were adopted for anti-discrimination, health and safety in the workplace and for greater equality and diversity
- Initiatives to train women in technology and to promote greater interest in technology among girls

Sustainability strategy, governance and organization

Sustainability is an important and natural part of Axis' operations, where the company's innovative solutions 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 as well as business ethics.

Sustainability strategy
Sustainability is an integrated and natural part of Axis business strategy and operations. The company takes long-term environmental, social and economic responsibility and acts in an ethical, transparent and responsible way in relation to its target groups. Axis' goal is to take sustainability into consideration in all business processes and to promote sustainable conduct in the entire value chain.

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 creates value for its stakeholders and makes a positive contribution to society by developing innovative solutions for a smarter and safer world. Axis takes long-term responsibility and creates value by paying tax and investing in social initiatives in the markets where the company operates, creates job opportunities, offers a secure workplace with competitive employment terms, pays for material and services to suppliers and creates value for shareholders and investors. Strong and enduring profitability and financial stability ensure that Axis can continue to be a long-term and stable business partner for its distributors, partners and suppliers.

Thorough environmental work shall minimize Axis' direct and indirect environmental impacts, which helps to protect local and global ecosystems. Product development, manufacturing, distribution and sales shall occur in a sustainable way, where environmental impacts shall be limited in these phases and when the cameras are used.

Framework
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. For a list of the ten principles, see page 78. Axis also supports the UN's global Sustainable Development Goals.

Axis follows all applicable national and international laws and guidelines such as the Swedish Corporate Governance Code. Axis has a number of policies, including a code of conduct, which all employees and the board shall follow. Axis' Code of Conduct defines the values and guidelines upon which Axis conducts its business.

Group management ensures that business is conducted in a responsible way and in accordance with good business ethics, the Code of Conduct, policies and management systems.

Each department is responsible for the sustainability work in its unit. This work is coordinated by the Environmental Council and the Council for Social Responsibility together with the Sustainability Project Group.

The steering group for sustainability has overall responsibility for sustainability matters, in dialogue with the board.

The sustainability organization
Sustainability steering group
The Sustainability steering group has overall responsibility for sustainability questions. This includes ensuring that Axis' Code of Conduct and other policies are implemented in the organization as well as monitoring and follow-up of the work and activities conducted. The Sustainability steering group is mainly composed of representatives from Axis' group management, including the President.

Sustainability project group
The Sustainability project group is responsible for the development of sustainability initiatives and activities in various areas, and has operational responsibility for the sustainability reporting. The group is composed of representatives from the following functions: Human Resources, Sales, Quality and environment and Communication. The Sustainability project group is led by the Corporate Communications Manager.

Environmental council
Axis' Environmental Council works with overall environmental questions 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 group management.

Social responsibility council
The Social responsibility council drives sustainability efforts in the social responsibility area. It sets goals, is responsible for following up targets, has an advisory and decision-making role and also promotes cooperation between various departments on questions such as working environment, diversity, anti-corruption and sponsorship etc. The functions included in the council are representatives from group 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. One 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.

About Axis' sustainability report

This report has been prepared in accordance with the GRI Standards: Core option. The sustainability report also constitutes the company's Communication on Progress report to UN Global Compact. Axis has produced sustainability reports according to GRI's (Global Reporting Initiative) guidelines since 2010.

The sustainability report contains the economic, environmental and social topics, which are most important for Axis and the company's stakeholders and where the impacts are greatest, the topics' boundaries and a description of the Management Approach. The sustainability report covers the 2017 fiscal year. The entire group is covered, including Citilog, 2N and Cognimatics that were acquired in 2016, unless otherwise stated. Date of the most recent report is March 30, 2017. Axis publishes its sustainability report annually. It is not externally audited.

As of the fiscal year commencing after 31 December 2016, large companies shall establish a sustainability report according to the Annual Accounts Act chapter 6,11§. The sustainability report shall contain the sustainability information needed for understanding the company's development, position and results and the impact of the business, including information on environmental, social, employees, human rights and anti-corruption issues. This sustainability report constitutes the group's and the company's statutory sustainability report.

UN's Global Sustainable Development Goals
Axis supports Agenda 2030 and the UN's 17 Global Sustainable Development Goals, which were adopted by the UN in 2015, and the company is striving to contribute to these goals. Axis has analyzed these goals and has identified the following goals that the company is actively contributing to through its sustainability work:

SIA SECURITY INDUSTRY ASSOCIATION

SäkerhetsBranschen KUNSKAP · ANSVAR · KVALITET

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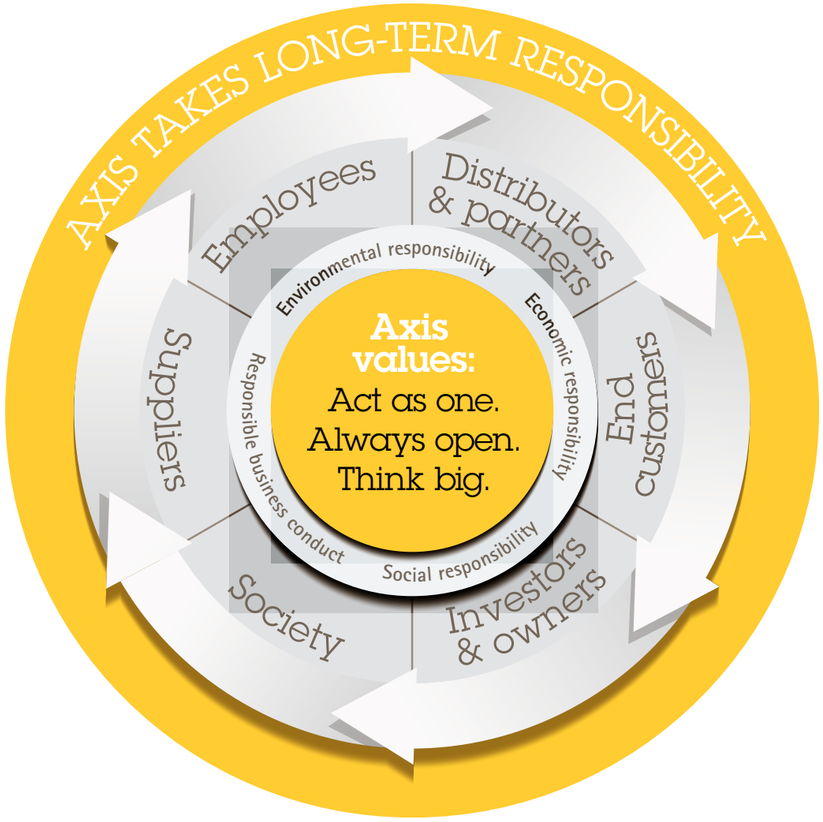
WE SUPPORT UN GLOBAL COMPACT

Axis participates in the above organizations.

Stakeholder dialogue

Axis takes a long-term responsibility for how its operations affect employees, distributors and partners, end customers, suppliers, investors, owners and the local community in the markets where Axis operates. Axis conducts a continual dialogue with its stakeholders aimed at building long-term relationships, increasing understanding of what is important for stakeholders and to continually improve its sustainabilty efforts.



Stakeholder dialogue 2017

Stakeholder group	Dialogue	Key questions
Employees	Web survey with all employees in companies acquired in 2016, employee survey, performance reviews, continual dialogue with trade unions, in-depth interviews about Axis' sustainability work, Intranet, meetings etc.	> Occupational health and safety > Non-discrimination of employees > Child labor and compulsory labor > Customer satisfaction
Distributors and partners	Web-based survey with distributors and partners in all regions where Axis has operations, training, webinars, events, in-depth interview about Axis' sustainability work, newsletters etc.	> Customer satisfaction > Market presence > Protection of customer privacy and IT security > Anti-corruption > Child labor and compulsory labor
End customers	Continuous evaluations, newsletters.	> Energy consumption in the products > Non-discrimination of employees > Direct and indirect greenhouse gas emissions > Personal integrity among users of Axis' products
Suppliers	In-depth interviews about Axis' sustainability work, training, webinars, supplier audits.	> Evaluation of environmental impacts, human rights and labor law and supply chain conditions > Child labor and compulsory labor > Customer satisfaction > Anti-corruption > Compliance with laws and regulations
Investors and owners	Meetings, board meetings, interim reports, annual report, annual general meeting, interview about Axis' sustainability work.	> Customer satisfaction > Compliance with laws and regulations > Product environmental impact > Energy consumption in the products > Direct and indirect greenhouse gas emissions > Energy consumption in own operations
Society	In-depth interviews about Axis sustainability work with representatives from local authorities and trade associations, membership of local and international trade associations, collaboration with universities, trade exhibitions and other activities for students.	> Anti-corruption > Personal integrity > Standards > IT security > Environmental impact from products and services > Compliance with laws and regulations

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

During 2017, Axis' Sustainability Project Group held internal workshops to plan how the dialogue with the various stakeholder groups should be conducted. Both internal and external factors were considered. 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, key external trends and challenges, its own strategy and its risks and goals.

During the year, Axis conducted a web survey among the employees in the companies Axis acquired in 2016 regarding what expectations they have of Axis' sustainability work and what sustainability questions are most important for them. The equivalent survey was conducted among Axis employees and other stakeholder groups during 2016.

As part of its strategy to communicate with its stakeholders and validate what questions are important for these groups, Axis also conducted in-depth interviews during the year with one or two representatives of each stakeholder group. The interview responses provided Axis with valuable input for the company's materiality analysis. Further dialogues were conducted in the form of employee surveys, satisfaction surveys, customer meetings, discussions and various types of collaboration etc. Axis is a member of trade associations such as the Security Industry in Sweden, SIA (Security Industry Association) in the USA and ONVIF, which are good platforms for conducting dialogue and discussing important questions for the industry.

See table "Stakeholder dialogue 2017" for more information about the dialogue with each stakeholder group.

Materiality analysis

The materiality analysis is based on the outcome of the dialogues with the stakeholders and shows the most important issues for Axis' stakeholders and for the company. Axis focuses its sustainability efforts on the most important issues, and where it has the greatest impact.

The stakeholder dialogues provide Axis with information about what economic, environmental and social issues are most important for the company's different stakeholder groups.

The results from the dialogues have been analyzed and weighed against what is most important and where Axis' economic, environmental and social impact is greatest.

The materiality analysis was conducted by the Sustainability Project Group and was then discussed in the Sustainability Steering Group, which is mainly composed of representatives from Axis' group management. The materiality analysis is validated every year.

Apart from the topics 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.

For Axis, it is a miminum requirement to comply with applicable laws and the company will continue to report on whatever is required to comply with these rules – but the goal with the sustainability report is to raise the bar further. 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.

Axis' sustainability work is divided into the following focus areas: economic responsibility, responsible business conduct, environmental responsibility and social responsibility.

Economic responsibility

Strong and enduring profitability and reaching financial goals are of central importance for Axis and for the company's stakeholder groups and constitute the basis for the long-term sustainability efforts. Tax is an important part of Axis taking responsibility. Tax contributes to development of the countries where Axis has operations and Axis pays tax in accordance with applicable laws and regulations.

Responsible business conduct

Axis has long-lasting relationships with its distributors, partners and suppliers and this is a central part of the company's business model. Close collaboration helps to ensure ethical conduct in all respects in the entire value chain. Read more on page 42.

The key issues are:

- Anti-corruption
- Customer privacy and IT security
- Personal integrity among users of Axis' products
- Customer satisfaction

Environmental responsibility

Axis' impact on and responsibility for the environment extends from a direct impact in its own operations to an indirect impact outside of the organization, related to manufacturing of the products and to energy consumption during the product use phase. Axis works to make improvements and 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 50.

The most important issues are:

- Materials
- Energy consumption in the products
- Carbon footprint
  - Emissions
  - Energy consumption in own operations
  - Transports
  - Suppliers' environmental impact

Social responsibility

Axis' social impact and responsibility involves safeguarding human rights and ensuring good working conditions in the company's own operations and at suppliers. This also means that Axis shall take a long-term responsibility to contribute to society in the markets where the company operates. Read more on page 68.

The most important issues are:

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

Responsibility along the entire value chain

Axis' business model with long-lasting and close relationships with its partners has been – and is – 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 about 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 the 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. Even though the legal responsibility for Axis' sustainability work only covers the company's own operations, Axis strives to ensure that suppliers, distributors and partners shall take an environmental, economic and social responsibility including working for good business ethics. The negative impact shall be minimized and risks handled at all stages in the value chain.

For a description of how sustainability risks are managed, see page 25.

Axis informs and regularly audits suppliers, and trains and informs its distributors and partners. This ensures that sourcing and development, manufacturing, sales, distribution and use of the company's products 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, for continued innovation, global expansion and long-term sustainable growth.

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

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

Customer cases

Increased safety and reduced carbon footprint

Rock Hill Schools in South Carolina, USA, deployed Axis low light network cameras for a "campus blackout" strategy to deter vandalism and save energy.

Rock Hill Schools was looking to upgrade its video surveillance system while aligning with its efforts to save energy. Thus, the challenge for Rock Hill was to find a video surveillance system that could produce high image quality and operate effectively on a dark campus.

Sustainability is an important part of the overall strategy at Rock Hill because it not only saves taxpayer money but also reduces the school system's carbon footprint and environmental impact.

A team of administrators determined that a "campus blackout" approach was effective in deterring crime and saving energy. However, the quality of traditional video footage on a dark campus can be an issue and decrease the effectiveness of identifying perpetrators.

Seeing clearly in the dark
Rock Hill Schools installed Axis network cameras in 27 schools with Lightfinder or Axis' OptimizedIR technology that provides clear images in near complete darkness without additional light sources. Axis' Lightfinder technology enables surveillance cameras to produce high-resolution, color images in extremely low light; in as little light as 0.18 lux (and sometimes less).

– "The system that had the best crime-deterring capability was also very good with sustainability. Safety is first but efficiency is also very important for the taxpayer," says Anthony Cox, Deputy Superintendent, Rock Hill, S.C., Schools.

Improved safety with significant costs and energy savings
Safety has improved in the 27 schools, and fewer incidents have been reported. Meanwhile, energy consumption has decreased, which has delivered large cost savings for the school district.

Sustainable solutions for smart and safe cities

Intelligent surveillance solutions contribute to increased safety and security for citizens, companies and organisations, and can manage, monitor and improve traffic flows, control traffic lights to avoid lines of vehicles, protect critical infrastructure, provide alerts in emergency situations and detect accidents quicker so that rescue personnel can arrive on site promptly.

Jihlava, Czech Republic
The city of Jihlava decided to install a unified network camera solution in the city, which has helped to solve crimes and violations of the law and an overall security system has facilitated the administration of the city. The cameras have a private masking function, which blurs faces and conceals some parts of the images, making it possible to safeguard personal integrity.

Vicente López, Argentina
Vicente López in the northern part of greater Buenos Aires has installed more than 800 Axis network cameras in government buildings, along public roads, in public transport as well as in emergency vehicles. This has led to increased security for residents and the time it takes for emergency vehicles to arrive at an accident site has decreased. The security system can also prevent traffic incidents, and the authorities can quickly resolve incidents that occur, regardless of whether it relates to a crime, a suspect that needs to be identified or if something happens in public transport.

Caen, France
On average, 83,000 vehicles per day pass through the Calix viaduct at Caen. Almost 2,500 incidents occur here each year, due to traffic jams, accidents, wandering animals, etc.

Real-time image analysis allows detection alarms to be sent automatically to the operators. The operators can immediately take the right measures, alert the police or other emergency vehicles when required and also inform road users, other citizens and public organizations. Since the smart surveillance system was installed, patrols' intervention time has been cut in half and precise information can be transmitted quickly to affected users and public organizations.

Protection of rhinos against poaching

Axis is supporting South African national parks and is helping to protect rhinos from poaching.

Axis donated network cameras and speakers in order to protect rhinos that are threatened with extinction in a sanctuary in Limpopo, South Africa's northernmost province. About 100 rhinos live here. Poachers arrive in helicopters with automatic rifles to poach the desirable rhino horns. The guards living in the sanctuary were not able to protect the rhinos properly before.

Axis donated thermal cameras, network horn speakers combined with scalable video analytics for surveillance and protection along the perimeter of the reserve. The cameras are adapted for outdoor surveillance and can handle poor lighting conditions including darkness.

As the nature reserve is in an isolated location there is no internet connection. Network connectivity was enabled using solar panels to generate electricity and these were installed together with the network cameras, the analytics app Perimeter Defender and network horn speakers. Axis visits the sanctuary regularly and performs maintenance.

Effective surveillance system
The installation makes surveillance of the nature reserve possible and saves rhino lives. The reserve has gained a more effective warning system that detects intruders earlier. There have been threats but so far no poachers have shot any rhinos.

Better flood protection

Météo-France, the French meteorological agency has gained improved possibilities to monitor water levels, and better inform the public if there should be a risk for flooding.

One of Météo-France's missions is to monitor the flow of the waterways and to measure and anticipate flooding. The organization uses hydrometry, observation and measurement with underwater flow sensors.

This can be tricky, difficult and sometimes even dangerous because of how quickly floods can arise. Météo-France wanted a solution for measuring and observing this natural phenomenon regardless of the flow conditions.

Tenevia's software solution together with Axis network cameras, mounted above the surface of the water, was installed at Météo-France's Flood Forecasting Service (SPC) on the territory of the SPC East Mediterranean waterways. The solution is used for measuring the water height and surface flow speed using images in real time.

Météo-France has gained totally new possibilities to monitor water levels, and is better prepared to inform the public if there should be a risk for flooding. Météo-France can compare measurements, and process and analyze images in real time. The solution provides a more precise and reliable interpretation of data.

– "Providing flood management crisis supervisors with images of the situation in real time is a definite improvement," explains M. Martin, project manager at the East Mediterranean Flood Forecasting Service and MétéoFrance's southeast interregional department. "This solution is appreciated by those of us who are links in the alert chain and by the community. If a town in the region is about to be flooded, having a view of the sector(s) where the waterway is flooding is important for making decisions and managing the crisis more effectively."

See rare eagles and black storks in real time

Axis' network video cameras make it possible to see wild birds online in Estonia in real time. Enthusiasts can study eagles and black storks from a distance, without disturbing the wildlife.

The non-profit organization Kotkaklubi (the Eagle club) studies, observes and works to protect eagles and black storks. The aim is to ensure the continued survival of black storks as well as certain species of eagles in Estonia.

Kotkaklubi installed network cameras to make it possible for the club themselves and other interested persons to see the rare birds in real time, in order to study and learn more about the life of the birds.

Kotkaklubi also wants to inform and increase public awareness about the need to protect these nests, and to provide basic data to decision makers for future legislation concerning protection of biodiversity.

As it is forbidden to visit the birds nesting sites, there is no other way to directly observe these species of birds than from a distance.

Discret video surveillance
Kotkaklubi allowed network cameras to be installed, where the main camera unit is concealed and only a small sensor unit is placed beside the birds' nests. As the camera is barely visible, the video surveillance is very discreet and the birds are not disturbed.

The cameras and sensor units offer HD quality, can handle backlight and images with poor lighting conditions and are weather-proof.

Rare bird life in real time
Thanks to Kotkaklubis' work and website, ornithologists from all over the world can observe the birds live, through video streaming, see them getting their nests ready, see young birds hatching etc. Kotkaklubis' work has spread to other bird forums around the world.

– "We have material for research, training, including civic information and basic data in order to help protect the areas where the birds are found," says Urmas Sellis, Kotkaklubi. "It is important that we share our experience with other enthusiasts to educate and increase the understanding of the protection needs of those species and wildlife in general."

Responsible business conduct

Axis has long-lasting 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.

Axis works in a focused way on prioritizing sustainability issues and aims to increase awareness of them, not just in its own operations but also among the other players in the value chain. Axis' proactive approach in sustainability issues is appreciated and positively received by the company's stakeholders. For more information about customer relationships, see page 49.

Successful business model
Axis's indirect sales model involves more than 90,000 partners in 179 countries. The direct responsibility for manufacturing, distribution, sales and installation largely rests with Axis' suppliers, distributors and partners such as resellers and system integrators. Axis communicates the importance of acting ethically and in a sustainable way generally, to all of the above parties.

"Axis takes a holistic approach to sustainability issues, has good knowledge of the issues that are material for the company, and also has good processes for integrating these issues into the operations."

Cecilia Alenius
Group CSR Officer
Securitas AB

Ethical policies and guidelines
All business transactions involving Axis shall be conducted in a responsible way. It is not just a matter of meeting requirements under prevailing legislation such as anti-corruption laws and sanctions and export controls, but it is also about other rules and regulations that Axis follows, as well as Axis' own ethical guidelines such as the company's Code of Conduct and anti-corruption policy. Changes in laws and regulations are continually followed up and Axis' policies are regularly reviewed in order to reflect developments in the sustainability field.

Axis' Code of Conduct
Axis' Code of Conduct establishes the values and guidelines on which Axis conducts it business and how the employees should act in business-related situations, internally and externally. The Code of Conduct is based on the UN Global Compact's ten principles, the UN Declaration of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

Employees
All employees, as well as board members, are expected to follow the Code of Conduct, have an ethical approach and work according to Axis' values. The watchwords are responsibility, professionalism, openness and honesty. Information about what is implied by our Code of Conduct is part of the introduction program for new employees. Compliance is ensured through internal controls, policies and guidelines, employee surveys and discussions. Axis' strong corporate culture and values contribute to openness, honesty and transparency.

Suppliers, distributors and partners
All Axis' 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. This includes requirements prohibiting any form of child or compulsory labor, ensuring good working conditions, keeping a check on environmental impacts and fighting corruption. In those cases where suppliers do not sign Axis' Code of Conduct, but instead refer to their own Code of Conduct, Axis has reviewed it to verify that the requirements in Axis' Supplier Code of Conduct are met.

Axis' distributors and partners are encouraged to follow the requirements in Axis' Code of Conduct and are informed about what it implies. For more information about undertakings from Axis' distributors and partners with regard to bribes and corruption, see page 45.

Rules about special export restrictions, sanctions and embargoes
Special export restrictions apply to products, which are intended for civilian use but that have such properties that they can also be used for other non-peaceful purposes. In addition to this, there are also restrictions from time to time in relation to trading with certain countries through special sanctions and embargoes. Axis, which is covered by the rules on special export restrictions, sanctions and embargoes, monitors the development and application of these rules. During the year, Axis was subject to an audit by US authorities in relation to export of certain Axis' products from the US to Mexico. The result of the audit during the year was that Axis reached an agreement with the authority, which meant that Axis paid a fine for certain Axis products that were exported to Mexico and for two cases of non-registration. The audit is expected to be completed in its entirety during 2018.

Insider policy
As part of its work on maintaining a high level of ethics and ensuring that Axis maintains a good reputation in the eyes of the public and capital market, Axis' board adopted an updated insider policy during the year. Due to suspicion of an insider offense in connection with the public offer made by Axis' largest shareholder Canon Inc. during 2015 for the shares in Axis, the Swedish Economic Crime Authority instituted three different indictments, but none of those indicted have been employed at Axis. Nor have the investigations directed any criticism towards Axis' handling of the insider issues which arose when the offer was made by Canon Inc.

Anti-corruption

Axis has zero tolerance against all types of bribery and other forms of corruption. Axis works continually to advance its positions in its work on fighting corruption in both its own operations and in relation to distributors, partners and suppliers.

All employees shall maintain the very highest standards when it comes to correct ethical and moral conduct, in all business relationships.

In the business environment were Axis operates, it is not possible to rule out that Axis employees can come into contact with corruption, both in the company's own operations and in relationships with distributors, partners and suppliers and with their customers. Axis therefore works actively to identify and handle risks relating to conflicts of interest, bribes, and other types of corruption, in order to protect both the individual and the company.

Policy and training
Axis anti-corruption policy stipulates that all business relationships shall occur in a responsible, transparent, consistent and credible way and that employees should not offer, accept or participate in any activity that includes any form of corruption.

Nor does the policy allow employees to make contributions to political campaigns. Donations to charity and sponsorship must be carefully documented and be in line with the company's sponsorship policy. The anti-corruption policy helps to clarify Axis' standpoint both internally and externally. The policy covers all employees and the board, as well as consultants and other persons who work on behalf of Axis.

Recurrent training in anti-corruption is compulsory for the employees and almost all have particpated in web-based training. All new employees should participate in training about what is implied by Axis' anti-corruption policy, and sign an agreement where they undertake not to accept bribes or participate in any other type of corruption. All employees regularly participate in training and sign the agreement again. During the year, almost everyone apart from those who were not present at work due to a leave of absence, parental leave or because they are on long-term sick leave, signed the agreement again and received training. During the year, the board has also signed the agreement again.

Whistleblower and inquiry function
Axis has an e-mail address that employees can write to in order to get support and ask questions relating to corruption as well as ethical dilemmas and challenges, report suspected cases of irregularities concerning the company and suspicions about conduct that violates the Code of Conduct. Employees can also communicate information about how they solved problems. The aim of the e-mail function is to obtain information if anything happens that may contravene the Code of Conduct, improve the 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 further improve its work on ethical questions, and contributes to continual training in ethical issues.

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

Policies and agreements for suppliers, distributors and partners
Axis continually informs its suppliers in order to ensure that they act in accordance with the anti-corruption policy. For example, this occurs in the regular meetings that Axis has with its suppliers.

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

Almost 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 other types of corruption and to follow Axis' anti-corruption policy. For a distributor agreement to be renewed, the distributor must have signed the supplementary agreement. If a distributor should breach the anti-corruption policy, the distributor agreement is not renewed. So far this has not occurred.

The partners are expected to follow Axis' anticorruption policy. All new partners at a gold and silver level and all new Application Development and Technology partners agree to comply with Axis' anti-corruption policy. If a partner should breach the anti-corruption policy, the partner agreement is not renewed. So far this has not occurred. Axis continuously informs its partners to ensure that they act in accordance with the anti-corruption policy. For example, this occurs at partner conferences, through web seminars and in newsletters.

Axis has zero tolerance against all types of bribery and other forms of corruption.

> All employees, including the company management, shall sign an agreement to comply with Axis' anti-corruption policy and participate in training in what Axis' anti-corruption policy implies. All employees regularly participate in training and sign the agreement again.
  - During the year, almost everyone apart from those who were not present at work due to a leave of absence, parental leave or long-term sick leave, signed it and participated in training.
    In 2015, practically all employees also received training in the anti-corruption policy and signed the agreement.
  - No cases of bribery or other corruption were identified during the year. Nor did the company become aware of any cases of corruption during 2015 or 2016.

IT security and protection of customer privacy

Axis' security solutions enable a smarter and safer world. Axis continually works and invests in different measures to ensure the best possible security in its products and solutions, and in Axis' own IT systems, in order to safeguard partners' and end customers' privacy.

For Axis and the company's partners, it is extremely important that customer privacy are handled correctly, by protecting information technically and having good ethics in relation to these questions.

Ensuring good effective security with the aim of protecting customer information and being a reliable business partner are crucial for Axis' long-term competitiveness.

The Internet of Things, means that devices are increasingly becoming interconnected, collecting and transferring data via the Internet. This creates many advantages and business opportunities, but also implies greater security risks, imposing new demands on IT systems, products and solutions.

Customers are also imposing stricter demands that information is well protected, in particular to ensure continuity in their operations. Stricter legislation also means that customer privacy is becoming an increasingly important question.

Questions relating to IT security are taken extremely seriously by Axis and incidents are dealt with immediately.

Work during the year
During the year, Axis further increased its focus on IT security and is working with the issue both internally and externally. Questions relating to IT security have also gained a more prominent role in the dialogue with distributors and partners. Axis has initiated work on becoming certified according to the ISO27001 information security standard. This certification is expected to be complete in 2018.

Protected systems
Axis' network cameras and solutions are components in security systems. Axis works preventively and strives to eliminate all types of vulnerability before an incident is likely to occur, regardless of whether it concerns the vulnerability of an individual camera or of a larger solution.

Axis conducts regular checks and evaluations to ensure that customer information is handled and stored securely, and works continually to further enhance security. Axis' research and development department attaches the highest priority to security and works to ensure that software and interfaces are robust and maintain a high level of security.

The company's products and solutions support encryption, IP address filtering and also enable user authorization protection and multi-stage logins.

Axis complies with national and international legislation and rules and will adapt to the EU's new General Data Protection Regulation (GDPR), which enters into force in May 2018. The GDPR will mean stricter requirements regarding the handling of personal data, among other things. Axis has carried out extensive preparatory work during 2017 due to the GDPR. All employees shall comply with Axis' IT security policy.

Training and dialogue
Axis trains its partners in the form of seminars and workshops, and has produced instructional materials. Axis also offers targeted training to its installers to ensure that video surveillance system installations are as safe as possible.

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

Handling of incidents during the year
Questions relating to customer privacy and personal integrity are dealt with immediately by the company and taken extremely seriously. During 2017, Axis published six security bulletins due to the dectection of vulnerabilities that had an impact on a number of Axis' products and solutions. Such publications, as well as software updates to correct the problem, occur immediately when vulnerabilities are discovered. Axis has processes in place and in every case could inform all partners.

Personal integrity among users of Axis' products

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.

Use of cameras for increased safety and security also gives rise to discussions about a potential impact on personal integrity. Axis is extremely careful about protecting customer information and safeguarding personal integrity.

Use of security cameras can prevent and solve crimes. A survey coordinated by LUSAX at Lund University and commissioned by Securitas, showed a very positive attitude to security cameras: 90 percent of the general public in Sweden are positive about the use of security cameras on streets and squares (KANTAR SIFO, August 2017). 83 percent of respondents stated that the presence of security cameras in public places does not violate their personal integrity.

An overview of research from seven different studies shows that monitoring with security cameras can reduce the number of crimes by between 24 and 28 percent in public places and metro stations in the inner city (Alexandrie, G. (2017). *Surveillance cameras and crime: a review of randomized and natural experiments.* Journal of Scandinavian Studies in Criminology and Crime Prevention).

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, and that video material is protected and stored securely. When partners and end users act in accordance with Axis' recommendations and guidelines and with national and international laws, the risk of improper camera use is reduced.

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.

Axis conducts a regular dialogue with its partners and trade associations about the need to safeguard personal integrity.

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

Goals
and target fulfilment
Customer privacy

> Axis shall handle customer privacy and personal integrity in a correct and secure manner.

- During 2017, one product-related vulnerability was detected, that could affect customer privacy. As soon as it was discovered, Axis immediately rectified the problem. Axis had processes in place and promptly informed all partners and customers that could have been affected.
- During 2016, one similar incident occurred. No such incident or complaints occurred in 2015.

Customer satisfaction

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

Axis strives to continually improve its offering and to maintain a continued high level of customer satisfaction and loyalty. Axis works to meet customer expectations and needs.

Increased interest in sustainable products
Axis sees an increased interest in ethical, social and environmental questions among its distributors, partners and customers. Customers are increasingly demanding sustainable and environmentally-friendly products, such as PVC free network cameras with low energy consumption and are also requesting recycling programs for worn out products.

Axis collaborates with its distributors to offer sustainable solutions to their customers. In regular meetings and seminars with distributors, Axis provides information and discusses expectations and requirements from partners and end customers in relation to ethical, social and environmental questions. At meetings with partners and end customers, Axis also maintains a continual dialogue regarding sustainability-related questions.

Customer satisfaction
Axis conducts regular surveys among distributors, partners and end customers, in order to understand their dynamics and expectations, as well as measure their satisfaction in the company's different business areas.

The satisfaction surveys, conducted on a regular basis, measure how satisfied different stakeholders are with Axis and how they think that Axis can improve its products, solutions and working methods. The results are evaluated against previously conducted surveys. The information is then taken back to the relevant departments in the organization, so that Axis can make improvements.

During the year, a global survey was conducted in 51 countries, where about 12,000 partners responded. 82 percent were highly satisfied with Axis. Among other things, Axis received top marks for high product quality, efficient solutions, knowledgeable support and honest, skilled and customer-focused personnel. Axis is also highly regarded for its leadership within IP technology, its professionalism and understanding of the market.

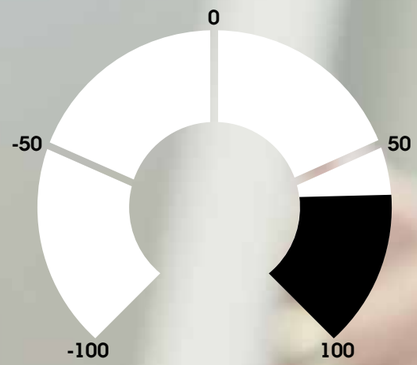
Furthermore, users of Axis' customer support continually have the opportunity to provide feedback after cases are closed. The responses from these surveys are compiled every quarter. The questions relate to whether the problem was resolved, if it was resolved reasonably quickly and if the customer was satisfied with the service.

If a customer is not satisfied, this is followed up as far as possible. If the customer perceives that the product is unsatisfactory in some respect or is dissatisfied with any documentation or the way a case was handled, this information is relayed to the relevant department for further action.

Employees are also encouraged to interact with customers to obtain information about how they perceive the collaboration with the company and their view of Axis' products and solutions. In this way, Axis can further develop and improve its customer relationships, in order to ensure satisfied and loyal customers in the future.

Global survey 2017

82%
highly satisfied with Axis



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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.*

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 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 life cycle of the products and solutions.

Environmental initiatives 2017

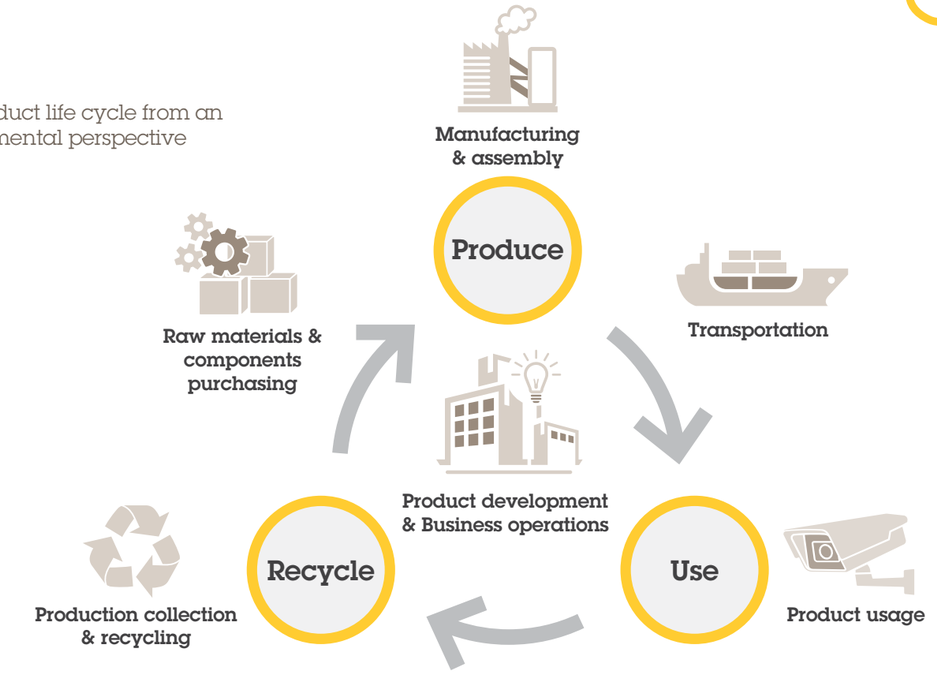
During the year, Axis carried out a number of measures to reduce its environmental impact. These included:

- continuing to phase out PVC from products
- using a higher proportion of recycled plastics in products
- identifying improvements regarding energy consumption in the product use phase
- drawing up new environmental goals
- conducting environmental training of personnel in the units Operations, Research and Development, Marketing, Sales, Logistics and of other persons who in their role can contribute to reducing the company's environmental impacts

Long-term environmental responsibility

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.

Axis product life cycle from an environmental perspective



Axis performed life cycle analysis on various products, in order to see where the greatest environmental impact lies in the products' life cycle. Measures to reduce environmental impacts include 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.

Environmental policy and Green Design Evaluation Form
Axis' environmental policy prescribes that Axis shall minimize environmental impacts throughout its product and solution life cycles and along the entire value chain.

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 requirement 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. The score card 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
Axis' products contain different material such as aluminium, zinc, steel, stainless steel, polycarbonate/acrylonitrile-butadiene-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 waste of materials, 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.

Material free from brominated and chlorinated flame retardants
In the electronics industry, halogen-free material is defined as material that does not contain brominated or chlorinated flame retardants (BFR and CFR).

Axis has now chosen to use the terminology BFR/CFR-free products, as these substances are in focus. This means that so-called homogeneous material in all parts (excl. printed circuit boards) contains <1,000 ppm of bromine if the bromine source is from brominated flame retardants and <1,000 ppm of chlorine if the chlorine source is from chlorinated flame retardants. All printed circuit boards meet the following threshold values for homogeneous material: bromine <900 ppm and chlorine <900 ppm or in total (bromine and chlorine) <1,500 ppm.

During 2016-2017, Axis prepared a business case regarding the cost and potential of removing all brominated and chlorinated flame retardants from the AXIS P3225-VE network camera. Critical components and the cost of replacing these were identified. In 2017, Axis decided to start developing a number of products free from BFR and CFR. Such development was initiated in 2018.

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 the AXIS M2026, several variants of the AXIS P3327 series and the AXIS Q3517 Series.

In 2017, 93 percent of network camera and encoder sales were PVC-free. In total, about 80 percent of Axis' network cameras and encoders are PVC-free.

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

Axis has continued to develop products with recycled plastic. In 2017, Axis released the AXIS M3047-P, AXIS M3048-P and AXIS M3046-V 1.8 mm, where 70 percent of the plastic is recycled. Axis has also changed to recycled plastic in the housings for the AXIS M3044/5-V and AXIS M3046-V 2.4 mm.

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 the precautionary principle, for example when it comes to choice of material.

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

Greensoft
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, which have lesser environmental impacts.

Energy consumption in products and solutions
The cameras' energy consumption is a significant part of their 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.

During the year, work was carried out in order to identify improvements and recommendations for how energy consumption can be reduced when the products are used. A workshop was held with the aim of producing goals and recommending measures.

Axis continually works to further improve energy efficiency in surveillance systems, while retaining functionality, which can present a challenge. Some of the technologies developed by Axis, help to reduce energy consumption in the product use phase. These include Axis' Lightfinder technology, which 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. Read more about technologies to reduce energy consumption when the cameras are used on page 60.

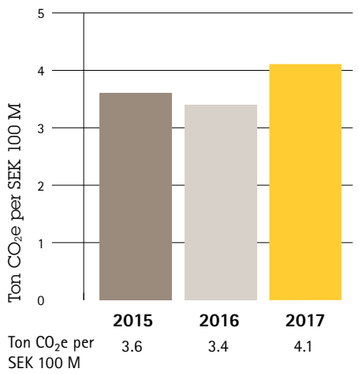
Scope 1 *Scope 1 includes Axis' direct emissions, Scope 2 includes indirect emissions such as energy consumption. In Scope 3, indirect emissions due to sourcing of goods or services, transports from suppliers and business trips, are reported.*

Scope 2

Scope 3

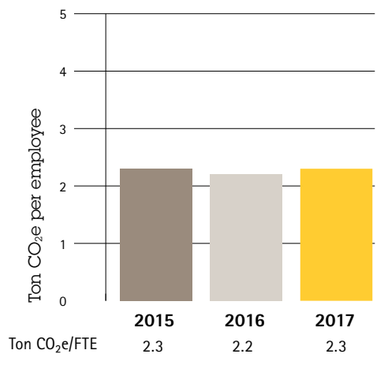
Emissions from 2N and Citilog and inbound transports for a contract manufacturer.

Ton CO_2e per sales [4]



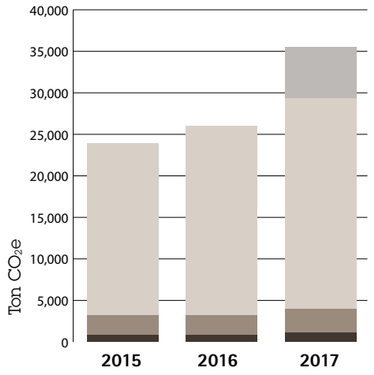
Ton CO_2e per SEK 100 M	2015	2016	2017
	3.6	3.4	4.1

Ton CO_2e per employee[4]



Ton CO_2e/FTE	2015	2016	2017
	2.3	2.2	2.3

Ton CO_2e per scope[4]



Axis' carbon footprint

Several activities related to Axis' operations generate carbon dioxide emissions, which have an impact on the climate. Axis' ambition is to take responsibility in these areas, to reduce the overall carbon footprint and impose clear demands on the company's suppliers, to the same extent as Axis takes responsibility for the manufacturing and design of the company's products.

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

The 2017 Carbon Footprint report focuses on emissions related to transports, energy consumption of premises, leased vehicles, business travel and paper consumption.

The carbon footprint report this year also includes the acquired companies Citilog and 2N and inbound transports from one of Axis' contract manufacturers. The report also includes emissions from all Axis-controlled inbound transports, in other words transports from contract manufacturers to Axis' Configuration and Logistics Centers (CLC) and emissions from all outbound transports, in other words transports from CLCs to distributors.

Carbon footprint

Axis' carbon emissions increased during the year from 26,035 to 35,068 tons CO_2e[1], an increase of about 35 percent compared to 2016[2]. The increase was mainly related to a very sharp increase in emissions related to inbound transports. The company also displayed strong growth during 2017 with a significant increase in sales, more employees, more offices and the carbon footprint from acquired companies was included in the reporting this year.

Increase in emissions from inbound transports

Emissions due to third party deliveries accounted for 76 percent of total CO_2e emissions.

In 2017, emissions from inbound and outbound freights increased by about 39 percent compared to 2016. Inbound transports accounted for most of this increase and rose by 70 percent compared to 2016. The main reason was that Axis took over responsibility for inbound transports from a contract manufacturer in December 2016. About 75 percent of the increase in inbound transports was related to transports from this contract manufacturer.

The remainder of the increase was related to the company's growth and to the fact that air freight was used instead of ship or road transports to meet customer demand for certain products. Emissions related to sales and to employees[3] , due to energy consumption in the business, paper use, leased vehicles, business travel etc., increased (see diagram).

Business travel

Business trips are the fourth largest source of Axis' total emissions, accounting for around ten percent of all emissions.

To address this, Axis initiated carbon offsets in 2015 for all business travel. In 2017, the offset was 2,987 tons of CO_2e from business trips by air. If this figure is deducted from Axis' total CO_2e emissions, the emissions per employee would be lower and would result in a total 1.5 tons CO_2e per employee. To read more about carbon offsetting at Axis please see page 58.

Axis' travel policy encourages less travel, whenever possible. During the year, Axis conducted tens of thousands of hours of webinar training seminars and virtual meetings around the world, which helped to reduce business trips. Axis launched a new goal for CO_2 emissions during the year: to reduce CO_2 emissions in the operations by 20 percent per sold unit from 2016 to 2021.

Energy consumption in the operations

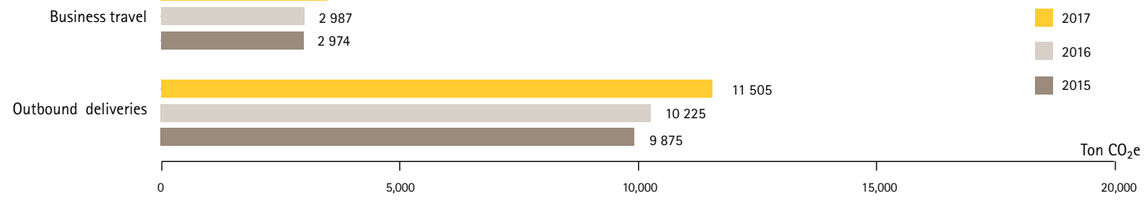
Energy consumption in the operations increased globally, due to inclusion of acquired companies, expansion of a logistics center and an increase in the number of offices. Energy consumption is the third largest source of Axis' total emissions, accounting for about 11 percent of all emissions. In terms 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 2.9[5] to 2.6 MWh per full time employee in 2017.

At the Lund headquarters, where 58 percent of all the employees are based, the goal is to reduce electricity consumption by five percent per employee compared to 2016. During the year, the electricity consumption per employee at the headquarters fell from 2.9 MWh to 2.5, in other words a decrease of 14 percent. This was due to increased awareness among employees, to the energy-saving measures and to more efficient use of the office spaces.

Green lease

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. This plan means that the property owner will survey what areas are not in use, conduct office lighting controls, review the ventilation and arrange bicycle service. During the year, Axis continued to replace light sources with LED lighting and optimize use of laboratory equipment and ventilation systems, among other initiatives.

Ton CO_2e per activity[4]



1 Carbon dioxide equivalent or CO_2e 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_2 .

2 An adjustment was made to the figures for 2016, which meant that total CO_2e for 2016 increased from 24,840 to 26,035.

3 Inbound and outbound transports are excluded.

4 The acquired companies 2N and Citilog are not included in the figures for 2016, but are included in the figures for 2017.

5 The figure has been updated due to an adjustment of consumption at the headquarters and in the US offices.

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 down transports costs and carbon emissions, caused by product transports. Customer needs and requirements should be met while reaching the set environmental targets.

During the year, Axis increased production in Mexico, in order to get closer to the US, which is Axis' largest individual market. This has reduced carbon emissions, thanks to shorter transport routes.

Cardboard manufacturing machines were installed at four of Axis' five CLCs, which means that Axis is sourcing less cardboard packaging for its CLCs. Cardboard boxes for outbound transports are optimized; the packaging is becoming leaner when manufactured for specific transports.

New goal

Axis has established a new goal for reducing carbon emissions which measures CO_2 emissions per unit. The goal is to reduce CO_2 emissions by 20 percent per sold unit from 2016 to 2021, measured in kg CO_2 per sold unit[6].

Reduction of carbon emissions from outbound transports is going according to plan. However, carbon emissions from inbound transports increased due to more air transports than planned. The reason for the increase was strong demand for camera models where there has been a shortage of certain components. Axis needed to use air freight to meet customer demand.

Overall, CO_2 emissions increased by about 6 percent to 6.93 kg CO_2 per sold unit. To meet this kind of sharply increased demand, Axis is investing to boost production capacity among its existing suppliers. Axis has also initiated collaboration with new suppliers.

Air freight

During the year, Axis increased the proportion of inbound goods, in other words, goods from contract manufacturers to Axis' CLCs, due to shortages of certain components (see above), compared to the previous year.

Overall, Axis used more sea and road transports than air freight during the year; 62 percent of all inbound transports measured in terms of the total weight of the products sold were sea or road transport and 38 percent were air transport. This can be compared to the sub-goal that 65 percent of inbound transports, in terms of the total weight of the products sold, 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. For each ton of CO_2 that Axis offsets, the company pays for the reduction of a ton of CO_2 equivalents in a carbon offset project.

Compact packaging

Axis continued its work on optimizing packaging boxes so that they correspond more closely to the products' size.

Inflatable packaging material is increasingly used in packaging, for more product families. The inflatable packaging material is lighter than other packaging material and takes up less space during transports. In addition, this material is reused when the products are repacked for transport to customers.

Optimization of packaging contributes to lower carbon footprints and lower transport costs.

6 In determining the baseline for the transport goal, Axis has allowed for inbound transports from contract manufacturers that are not controlled by Axis. For this reason, the goal follow-up is not impacted by the increased level of inbound transports.

Goals and target fulfilment

Product environmental impact

> Improving the environmental performance of the products
  - Axis has prepared a business case for a BFR/CFR-free AXIS P3225-VE network camera model and also decided on a strategy for implementation of BFR/CFR-free products. Two projects were initiated during the year, with the aim of developing BFR/CFR-free network cameras.
  - Axis has increased knowledge during development of more energy-efficient products and systems. A workshop was held with the aim of producing goals and proposals for improvements.

Material

> Increasing the proportion of recycled material.
  - In 2017, Axis released the AXIS M3047-P, AXIS M3048-P and AXIS M3046-V 1.8 mm, where 70 percent of the plastic is recycled. Axis also changed to recycled plastic in the housings for the AXIS M3044/5-V and AXIS M3046-V 2.4 mm.

Energy consumption in products and solutions

> Minimizing energy consumption throughout the product's entire life cycle, from product development to use by end users.
  - 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 2016.
  - During the year, Axis reduced electricity consumption per employee from 2.9 MWh to 2.5. In 2017, electricity consumption in the headquarters decreased by 2 percent compared to the previous year.

Emissions

> Reducing CO_2 emissions in the operations by 20 percent per sold unit from 2016 to 2021.
  - During the year, CO_2 emissions in the operations per sold unit increased by 2.5 percent.

> Reducing CO_2 emissions from transports by 20 percent per sold unit from 2016 to 2021, measured in kg CO_2 per sold unit.
  - During 2017, CO_2 emissions from transports increased by 6 percent, measured in kg CO_2 per sold unit.

> 65 percent of inbound transports, in terms of the total weight of the products sold, should consist of sea and road freight.
  - 62 percent of all inbound transports measured in terms of the total weight of the products sold were sea or road transports and 38 percent were air transports. In 2016, 68 percent of all inbound transports were sea or road transports and 32 percent were air transports. In 2015, 62 percent of all inbound transports were sea or road transports and 38 percent were air transports.

Responsibility, training and analysis

> The Environmental function will take over responsibility from research and development in relation to chemical substances in electronic and mechanical standard components.
  - During the year, the Environmental function began the work on taking this responsibility.

> More than 60 people will be trained in sustainability questions.
  - During the year, 71 employees participated in training.

> Performing a GAP analysis for ISO 14001 in order to gain better knowledge about how Axis can make improvements.
  - During the year, a GAP analysis was performed.

Trees of Hope, Malawi
The project aims to improve knowledge and awareness of climate-related questions among farmers, and to provide training in tree planting and nurturing of trees. There is a great need for sustainable forest farms in Malawi as most of the population are small farmers.

Carbon offsets for business trips

Axis has used carbon offsets for all business trips by air since 2015. In 2017, Axis offset 2,987 tons CO_2 equivalents from air travels.

The carbon offsetting is conducted through Plan Vivo, in the Trees for Global Benefits in Uganda and Trees of Hope in Malawi projects.

Trees for Global Benefits, Uganda
By developing agroforestry at a local level, the families in this project in western Uganda can get timber and fuel from the forest as well as fruit and vegetables.

The project is run by EcoTrust and is certified according to Plan Vivo. Since 2003, more than 1 million tons of carbon sequestration has been documented through improved agricultural techniques, expanded forest areas and reduced deforestation.

Training is also conducted regarding HIV and AIDS, entrepreneurship and global warming as part of the project.

Trees of Hope, Malawi
The project aims to improve knowledge and awareness of climate-related questions among farmers, and to provide training in tree planting and nurturing of trees. There is a great need for sustainable forest farms in Malawi as most of the population are small farmers.

Apart from the fact that trees absorb CO_2, this project run by the Clinton Development Initiative, has delivered other benefits to farmer families: they obtain food and fruit for consumption and sale, as well as wood and fodder for livestock. In addition, biological diversity is safeguarded, exposure to extreme weather conditions and soil erosion are reduced, the soil is protected and water is conserved in the ground better, which is important as Malawi occasionally faces severe droughts.

During 2017, a third-party audit was conducted by the Rainforest Alliance, which confirmed that the project is being successfully run according to plan and that it meets the requirements imposed by Plan Vivo.

Intelligent solutions reduce power consumption and save costs

IP video surveillance systems can reduce power consumption and save costs when the cameras are used.

Effective power consumption in products is important for reducing carbon emissions and environmental impacts. Intelligent solutions contribute to a responsible use of resources, provide better cost control and savings and also reduce environmental impacts.

AXIS Camera Application Platform
AXIS Camera Application Platform is an open platform that makes it possible for application developers to market and sell Axis-compatible applications.

The platform supports video analytics applications that provide the products with intelligent capabilities such as recognition, counting, detection and tracking etc. directly on the camera. One of the key benefits other than adding value and business intelligence to the camera is the significant reduction in hardware and cost. A new serverless architecture saves hardware costs and energy costs are reduced.

The table shows an example from Axis' development partner Digital Barriers. The is no difference in performance between the two solutions.

Smart recording and storage solutions
With new technologies, the methods for recording and storing data in surveillance solutions have improved significantly in terms of reliability, cost and performance. With IP network cameras, the solution's total power consumption requirements can be lowered and costs saved.

AXIS Camera Companion
AXIS Camera Companion is the market's easiest video surveillance solution for small systems from 1 to 16 cameras.

With AXIS Camera Companion, all video is recorded on SD cards in the cameras, without the need for a DVR (Digital Video Recorder) or server based recording platform - making each camera a smart, independent video recording device. The system consists of standard Axis cameras, SD cards, software clients for PC and smartphones, and standard network equipment.

As this is a DVR- or server-less solution, it removes the risk of operational stoppages and of the solution having a single point of failure.

The software will need to be installed on a PC or laptop in order to commission the system but for the purposes of monitoring and viewing images, this can be done from an alternative device such as a smartphone or tablet.

The table to the right shows a direct comparison between a DVR solution and AXIS Camera Companion, which is a serverless solution or where the server is located elsewhere, for example cloud-based.

With AXIS Camera Companion, you can choose whether to only use an SD card or an AXIS Camera Companion recorder. The example shows the SD card solution.

AXIS Camera Companion saves 85 percent in annual power costs. It is worth noting that for the purposes of the exercise both systems used the same cameras being performed in the same operational environment.

Based on 4 IP cameras (outdoor) with video analytics on 4 channels (24x7 operaton)	Server-based Video Analysis (e.g. original SafeZone Server product)	Edge-based Video Analysis (SafeZone edge product)
Annual power consumption	857 kWh	252 kWh

Annual energy savings amount to approximately 71 percent. Server specification, power consumption and support costs are based on Dell PowerEdge R210 II (Source: Dell.co.uk)

Based on 10 fixed IP cameras (24x7 operaton at 30 fps)	DVR Solution	AXIS Camera Companion
Annual power consumption	2 926 kWh	394 kWh

Annual energy savings amount to 86.5 percent. Server specification, power consumption and support costs are based on DVR with RAID5 storage.

Axis' Supplier Code of Conduct 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.

A long-term sustainable supply chain

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

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 also 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 269 suppliers. 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 cameras lenses and electronic components, among other things, are found all over the world.

120 of the 269 suppliers are considered to have a major impact on Axis from a sustainability perspective. 94 of these are based in Asia, 22 in Europe and 4 in North America. During the year, Axis gained 15 new suppliers.[7]

Axis carefully selects its suppliers for manufacturing and assembly of the company's products. This selection is made according to the criteria quality, price, business ethics, environmental impact, working environment, flexibility, employee working conditions such as the right to sign collective agreements and freedom to join a trade union, and respect of 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), or a purchasing office.

7 New suppliers include suppliers that have been phased in and where collaboration has commenced during 2017.

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 as well as forced labor. 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 a check on environmental impacts such energy consumption, management of waste, chemicals and emissions and having a well-functioning water purification system. Other requirements also include good business ethics and responsible sourcing of minerals in order to avoid conflict minerals.

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

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

Initiatives 2017
During the year, Axis updated its Supplier Code of Conduct and tightened the requirements for control of overtime. Extensive overtime is a commonly occurring problem among suppliers in Asia. Axis' goal is to take care of employees' health and safety, and Axis imposes stricter demands in some countries than required by law. Axis' view is that too much overtime is connected with risks to employees' health and safety and in relation to work performance.

The new requirements in the Supplier Code of Conduct are based on the Responsible Business Alliance's code of conduct regarding working hours. This means that suppliers shall comply with all relevant laws and rules regarding working hours and rest days. However, a working week shall not exceed 60 working hours (including overtime), even in cases where local law permits more. The control of weekly working hours is tightened while rest days and compensation for overtime shall be guaranteed.

The new requirements shall be communicated and specified in writing in employees' contracts of employment.

Axis has sent the new Code of Conduct to all suppliers, which must sign it.

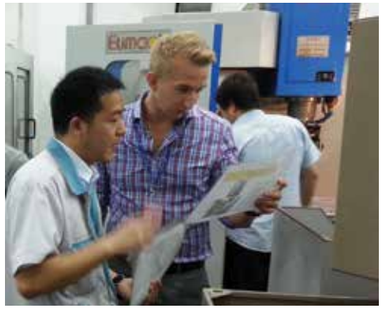
The suppliers that do not immediately meet the requirements have until December 2018 to carry out measures and shall provide an action plan. Follow-up will occur through audits and training during 2018.

Foreign labor in Malaysia has been identified as a special risk category concerning compulsory labor. For this reason, Axis has conducted more frequent supplier audits and training there, in order to ensure that no violations of human rights occur.

Initial evaluation
All new suppliers are initially evaluated using a self-assessment questionnaire, before collaboration begins. 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.

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.



UK Modern Slavery Act

Axis has operations in the UK and is thus affected by the UK Modern Slavery Act. Axis works actively to counteract all forms of modern slavery, child labor, forced labor and trafficking in its business, and imposes demands on suppliers that it should not exist in their operations.

Axis' suppliers are expected to demand that modern slavery, child labor, forced labor or trafficking does not exist in their suppliers' operations.

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 Axis total of 15 new suppliers during the year, 6 have a material impact on Axis' operations from a sustainability perspective, and all of them were screened locally and/or via self-assessment questionnaires 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, incidence of child labor or compulsory labor, noise levels, fire safety, waste and chemical management as well as identifying and measuring different types of emissions.

Furthermore, Axis reviews that processes and systems are in place to ensure that the operations are conducted in an ethical way in every respect and that corruption does not occur. 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 suppler will be phased out.

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

Audits during 2017
During an audit of several Chinese suppliers, it was discovered at random inspections that some employees worked more overtime that permitted under Chinese law. Axis has demanded an action plan from the suppliers where breaches of the law have occurred.

At a strategic component supplier in Malaysia, it was discovered that the supplier seized passports from foreign workers, which is regarded as compulsory labor by the UN. This supplier will also make improvements.

If the suppliers do not implement improvements according to Axis' requirements, the suppliers will be phased out and replaced.

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

Apart from the 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.

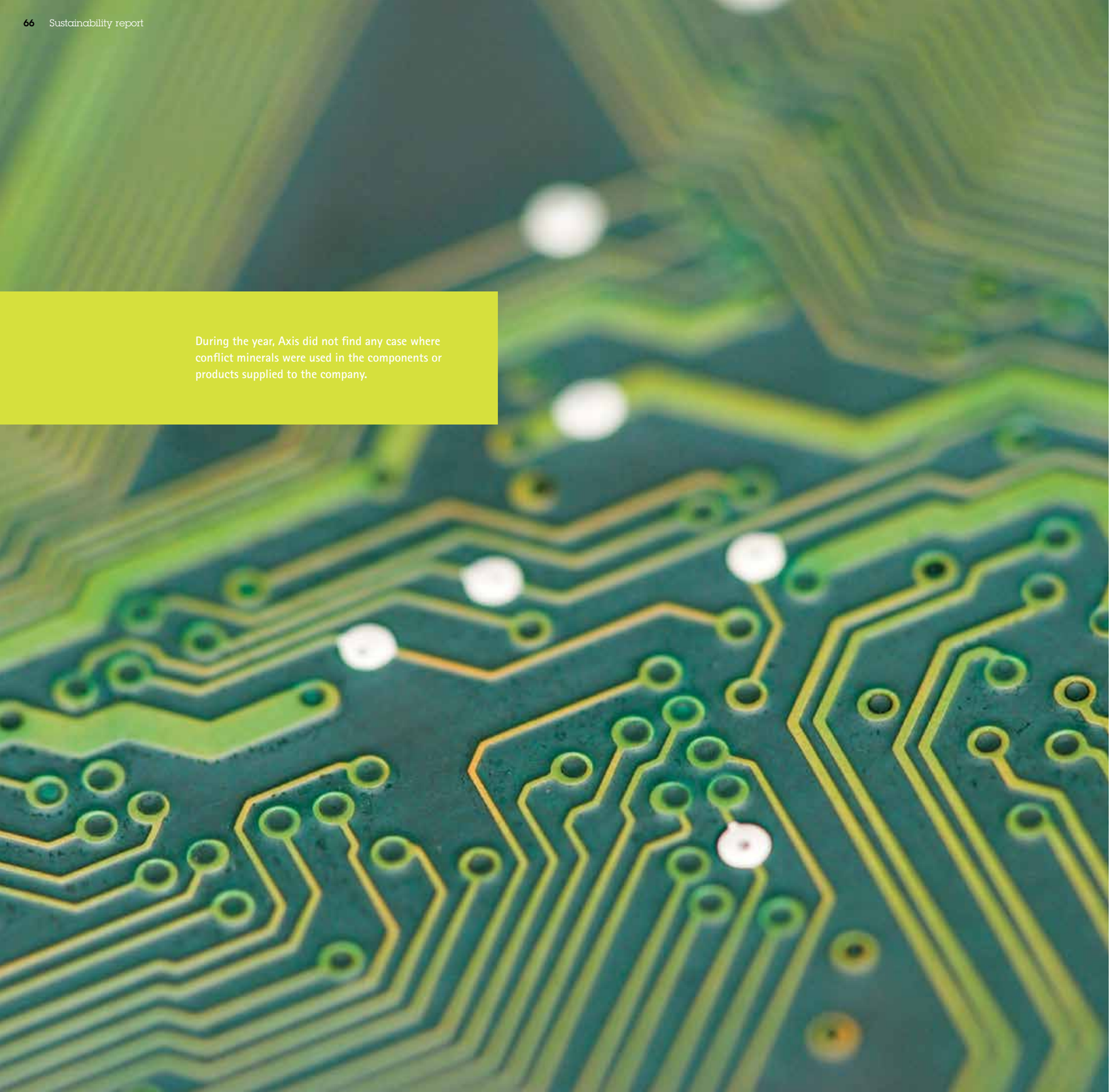
Supplier Academy
Axis Supplier Academy is a program where Axis trains suppliers locally in environmental, working environment and other sustainability matters. The training program aims to increase awareness about and understanding of the requirements Axis imposes and is particularly addressed towards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

During the year, Axis trained two component suppliers in China within the Supplier Academy framework.

Goals
and target fulfilment

> At least 95 percent of new suppliers should be screened in respect of the environment, working conditions and human rights.
  - During the year, all new suppliers were screenedin respect of these criteria.

> During 2017, six suppliers,which are critical from an environmental and sustainability perspective, shall be trained.
  - During the year, two suppliers were trained that are critical from an environmental and sustainability perspective.



During the year, Axis did not find any case where conflict minerals were used in the components or products supplied to the company.

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 any country around the world.

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.

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 the Responsible Business Alliance and the Global e-Sustainability Initiative regarding taking social responsibility in the entire supply chain.

Documented process
Axis has a well-documented 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 have a process in place for mapping their supply chain in order to ensure that conflict minerals are not used.

Suppliers sign "The Confirmation of Agreement Concerning Conflict Minerals", which means that suppliers must investigate their own supply chain and advise Axis if conflict minerals are discovered. Axis also collects further information from contract manufacturers.

Suppliers must report the orgin 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 reporting tool – Conflict Minerals Reporting Template. More than 80 percent of Axis' suppliers have reported via this reporting tool.

During the year, Axis did not find any case where conflict minerals were used in the components or 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 a leading player in network video and has employees in more than 50 countries. The 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 initatives 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.

Attractive employer with motivated employees
Axis should be an attractive, good and safe workplace with a working environment that is defined by an entrepreneurial spirit, openness and taking of responsibility.

Committed and well-qualified employees are important factors behind Axis' successful growth. All employees are expected to be engaged and take responsibility. Motivated employees and strong leadership are also crucial for Axis to reach its goals.

Axis is an attractive employer and offers a safe working environment, where employees are happy and feel pride in their work. 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.

Axis offers interesting work assignments in an industry with leading edge technology.

Careful and continual recruitment in all markets is crucial for Axis' continued growth and position as a leading market player.

During the year, Axis employed 439 people, of whom 29 percent (127) were women and 71 percent (312) were men. The total number of employees at year-end amounted to 2,865 (2,646).

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 and that a good physical and psychosocial working environment leads to greater creativity, more innovation and better results.

Axis works strategically and proactively on continually improving its working environment.

> An occupational health service and health checks are offered at many offices.
> HR managers ensure that all offices respect the working hours and that employees receive marked-related salaries, which follow agreements and local legislation at a minimum.
> Regular safety and fire prevention training is conducted at all offices.
> Annual safety inspections and safety committee meetings are held in Sweden.
> Employees have annual career development discussions. Individual action plans are developed in connection with development discussions.
> All managers in Sweden are offered 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.

The latest employee survey was conducted in 2016 in Sweden The response rate was 89 percent. 91 percent of employees think that Axis is a very good workplace. Axis received very good results in the areas of work environment, equal treatment, pride and wellbeing. Areas for improvement include clarifying goals. The ambition is to conduct the next employee survey in 2018.

Governance
All employees, managers and the board are covered by policies such as the company's working environment policies, alcohol and drugs policy, policy against harassment and policy for safety during trips, where Axis collaborates with International SOS/Control Risks.

Collective agreements and freedom to join a trade union
All employees in Sweden and 61 percent of the total number of employees are covered by collective agreements. All employees have the right to join trade unions and to negotiate collective agreements, in accordance with local legislation and what is applicable in each country.

Good career and development opportunities
Axis offers good career and training opportunities and competitive terms of employment in order to attract and retain committed and skilled employees. The company's bonus program covers all employees. Salaries for all employees are reviewed annually.

As Axis is a globally expanding company, good career development opportunities exist for employees. There is a strong focus on increased internal mobility and internal career paths, and a number of employees changed positions during the year.

Training and development
Axis operates a number of different training and development programs. These include:

> An introduction program at the headquarters in Lund for all new employees, so that they learn about Axis' corporate culture, core values, business strategy and gain an insight into the various operational areas.
> Axis Axchange programs, which include different job rotation programs. These aim to help employees' learn from each other and exchange ideas and experience to become even more effective, gain new perspectives, as well as personal and career development. This includes:
- IP@Axis (Internal Projects at Axis), an international exchange program where employees get the chance to work in another Axis office globally during a limited period, either as part of a project or to learn something specific.
- Live my day, which was launched during the year. This means that one person for a period of up to two weeks accompanies an employee during his/her working day to gain an insight into different kinds of work assignments and/or offices.
- Jobswap, which was also launched in 2017. This means that two people who have similar jobs but in different regions can swap positions with each other during a fixed period of time.

> Axis Win Win Academy, a program for all Key Account Managers and regional sales managers.

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

Always open
Act as one
Think big

Training adapted to individual needs is also offered to employees, in consultation with their respective managers. Axis also has a number of different training programs in order to strengthen leadership, leadership training for managers at the headquarters in Lund and a mentorship program.

During the year, Axis employed two learning and development specialists, one in Global sales and the other in Sweden, for quality assurance of training and staff development.

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

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 leadership. All employees and the board should follow the Code of Conduct and 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.

Important work during the year included implementation of the corporate culture in the three companies acquired in 2016.

Axis works systematically to strengthen the corporate culture; it is of critical importance that the employees share the company's values. This cultural matching during recruitments is 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.

Core values
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, are used as criteria in setting of salaries and as decision data in career development discussions. All employees should understand Axis' goals, vision and values. All the company's policies are based on the core values. A core value toolbox is used by managers. This includes modules containing topics in order to conduct exercises and facilitate discussions with their teams and departments. The toolbox is continually updated and replenished.

Ethics and anti-corruption
Being an ethical company all the way is part of the corporate culture. Axis has a policy of zero tolerance against all types of bribery and other forms of corruption. Almost all employees, apart from those who are not present due to a leave of absence, parental leave or those who have been ill over a long period, have signed an agreement where 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. During the year, these agreements and training courses were updated. Read more about how Axis works to fight corruption on page 44.

Non-discrimination, equality and diversity
Axis' starting point is that all people have equal value, which is something natural in all operational areas. Axis does not tolerate any form of discrimination or harassment whatsoever, based on gender, sexual orientation, ethnicity, national origins, religious belief, age, civil status, functional impairment or other statutory reasons.

The company works actively to promote increased diversity and equality and to fight discrimination. Axis' view is that equality and diversity with regard to background, competencies and other attributes fosters innovation, new thinking and employee wellbeing. This is a competitive advantage and helps employees feel proud of 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. At Axis, more than 50 different languages are spoken, which reflects the diversity of the employees' backgrounds.

It should be just as easy for women and men to make a career. Axis aims to ensure that employees with equal qualifications should have the same salary for equal performance and responsibility.

During the year, several initiatives were implemented in order to promote greater equality and diversity: These included participation in Commitment Skåne and Talent without borders, which work to integrate new arrivals into the community and participation in Pink Programming, which aims to train women in coding (see article on page 73).

Axis has also initiated collaboration with the diversity network MINE (Mentorship, Inspiration, Networking and Education).

MINE is south Sweden's largest network of companies and public organizations that promotes increased diversity and inclusion in working life. Examples of activities conducted by MINE are networking events, mentorship programs as well as advice and support during recruitment processes.

In the Axis Q Network, female employees in Sweden meet to network, get inspired and exchange experience and ideas with other women outside their own department. The network also aims to facilitate career development. Axis is working to increase interest in technology among girls and is engaged for example in Flickor på Teknis, Introducing girls to engineering, Female Engineering Day, Datatjej and Female Engineering Network.

Due to the #metoo initiative – the global movement addressing sexual harassment against women – Axis reviewed its policy against harassment, and carried out a further analysis of the company's employee survey.

Policies and Code of Conduct
During the year, Axis drew up a new global diversity policy. Other policies followed by all employees, managers and the board include the policy against harassment, the equality policy, the policy against victimization and the Code of Conduct. The policies clearly lay down the responsibilities of each person.

New goals
During the year, Axis has drawn up new goals, which Axis shall work according to in 2018. These are:

Non-discrimination of employees
> Ensure that the recruitment process, including advertising, doesn't discriminate.
> One educational action during the year to raise awareness among our managers globally regarding discrimination.

Health and safety at the workplace
> Maintain good overall psychosocial workplace environment for all employees.
> One psychosocial health-enhancing action per country/region during the year.

Diversity and equal opportunities
> Aim for a more balanced distribution in terms of gender in all teams and functions within Axis.
> Ensure that the recruitment process, including advertising, contribute to increased diversity.

"The way Axis works with its core values is unique. The core values are guiding principles for how we behave in relation to one another but also for how we behave externally.

Everyone is of equal value here at the workplace. It does not matter if you are a man or a woman, for example. Everyone is equal.

It's great how we are fighting corruption and that we have this as a recurring training."

Ilhan Veli
Mechanical Engineer, Axis Communications AB

Goals and target fulfilment

Non-discrimination, equality and diversity

> **Zero tolerance towards discrimination and harassment.**
- During the year, one case of sexual harassment was reported. The case was handled according to Axis' routines and action plans. Measures were taken and the investigation is completed. No such incidents occurred during 2016 or 2015.

> **Advancing the company's position as an employer with regard to equality and diversity.**
- The female network – Axis Q Network has promoted exchange of knowledge and women's careers.
- Sweden and the US carried out a salary survey aimed at identifying unequal salaries.
- Axis participates in initiatives such as Commitment Skåne and Talent without borders.

> **Promoting external initiatives to raise the status of women in technology in society.**
- During the year, Axis helped with financing for and participated in Flickor på Teknis and Datatjej, among other initiatives.

Health and safety

> **Have an absence due to illness rate of 2.2 percent.**
- In 2017, absence due to illness amounted to 2.9 percent in Sweden. In 2016, absence due to illness was 2.5 percent and in 2015 it was 2.4 percent in Sweden.

> **Work even more strategically and proactively with working environment questions.**
- Axis conducts systematic working environment efforts in Sweden, follows up occupational accidents on a global basis, talks about the working environment in career development discussions and performs risk analyses in Sweden.

> **Managers and employees should have a good insight into how Axis handles working environment questions.**
- The company has conducted global information campaigns.

Pink Programming

Axis is participating in initiatives to attract more women to work with IT and technology, such as Pink Programming. Pink Programming is a not-profit association, which is working to increase the number of women that code.

We are focused on women who otherwise would not have dared to try coding, says Katarina Berg, project manager and software developer at Axis in Lund and a volunteer at Pink Programming.

One day each week during working hours, Berg works with Pink Programming, which Axis sponsors.

- We want to inspire more women to start coding. We have created a forum with empathy and a positive atmosphere in focus. It is a welcoming and inclusive environment for women and others who do not feel represented among programmers on account of their gender identity, says Berg.

Pink Programming is located in Stockholm, Gothenburg, Malmö and Oslo. The association arranges training in the form of all-day events, workshops and programming camps, which are often combined with other activities such as climbing or canoeing in summer and skiing in winter.

- It's important to create environments that are inviting and stimulating for the people we want to reach out to. For example, we hold our summer and winter camps in beautiful surroundings in the countryside and we don't just serve hamburgers and coca-cola but also vegetarian food. Everyone should feel welcome, says Berg.

Pink Programming's work targets women who are already working with development as well as women who are thinking about starting training in the technology field.

- Getting more women into the IT sector is not just an important question for Axis but for society in general. A more uniform gender distribution benefits individuals, companies and society. This is also necessary since the labor market is crying out for more manpower, says Berg. I am convinced that the result will be much better if more individuals with additional qualifications and different perspectives contribute to developments.

Berg arranges training camps, communicates with volunteers, handles administration and has worked as an instructor at camps.

- I am passionate about learning and questions like equality and getting more women into the sector. A distorted gender distribution affects both me as an individual and the company negatively, says Berg.

She also emphasizes the importance of the right values in order to attract more women and the importance of female role models. Berg sees a strong interest from the industry in questions such as improved gender distribution:

"Getting more women into the IT sector is not just an important question for Axis but for society in general."

Katarina Berg
project manager and software developer at Axis in Lund and a volunteer at Pink Programming

- We see a strong interest from companies to support initiatives like ours. There is aslo a strong drive on the part of participants and volunteers, which is fantastic. Pink Programming's training activities have delivered results.

- Many people that have attended camps or courses with us started to learn coding and now work with technology. It's great to see, says Berg.

Axis in figures

	2017	Incl. Citilog, 2N and Cognimatics that were acquired in 2016 2016	2015
Number of employees	2,865	2,646	2,139
Proportion women/men, %	27/73	26/74	27/73
Group Management*	2 women, 8 men	2 women, 8 men	2 women, 7 men
Board of Directors	2 women, 8 men, 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 2 men are employee representatives
Employee turnover, %	9.4	8.6	7.3
Workplace accidents	17 of which 0 fatal accidents	17 of which 0 fatal accidents	7 of which 0 fatal accidents
Number of accidents with lost workdays as a result	1	8	N/A
Number of lost workdays	40	61	N/A
Absence due to illness in Sweden, %	2.9	2.5	2.4
Average age	39	39	39
Age distribution, employees, %			
Under 30 years	15	16	14
30-50 years	70	73	76
Over 50 years	15	11	10
Age distribution, Group Management* %			
Under 30 years	0	0	0
30-50 years	40	60	80
Over 50 years	60	40	20
Age distribution, Board of Directors, %			
Under 30 years	0	0	0
30-50 years	30	50	50
Over 50 years	70	50	50
Employees with university education, %	79	79	80

**Malin Ruijsenaars, Axis Chief Personnel Officer, has been on sick leave during the year and has not participated in the management team. The function as Chief Personnel Officer has been maintained by two senior staff at the HR department and Axis' CEO has been responsible for HR issues at management team level.*

Definitions

Employees

Permanent employees and fixed term employees for at least six months. Employees are expressed as head counts as of December 31, 2017. Citilog, 2N and Cognimatics, which were acquired in 2016, are included in the statistics for both 2016 and 2017.

Permanent employees

Permanent employees are expressed as head counts as of December 31, 2017. Substitutes who replace e.g. persons that are on parental leave or on a leave of absence are not included.

Part-time employees

Only part-time employees in Sweden are included in the statistics. Summer substitutes, hourly-paid employees and substitutes are excluded.

Employees who are not employed by Axis (contracted)

These account for a small proportion of the overall workforce and consist of consultants, primarily within research and development, among others.

Data collection

All data is collected in a global system and is compiled centrally.

Absence due to illness

Permanent employees and fixed term employees for at least six months are included.

Injuries

Work-related injuries. Minor injuries, which can be remedied solely with first aid are not included nor are non work-related injuries or illnesses that have occurred at the workplace.

Social responsibility - charity and sponsorship

Axis takes social responsibility through 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 through donations to charitable organizations.

Taking social responsibility and having a social commitment are part of Axis' sustainability 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 here.

Axis participates in Commitment Skane, whose purpose is to facilitate and shorten the time it takes for new arrivals to enter thelabor market and to promote faster integration into society.

Sweden
Axis sponsors sports associations, sporting and cultural events such as the Lundaloppet run and various educational initiatives. Through Svenska Kunskapsförlaget, Axis sponsors educational materials relating to science and the environment for grade 4-6 pupils in Lund. 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 to promote faster integration into society. In 2017 Axis donated money to Médecins Sans Frontières and the Swedish Childhood Cancer Foundation.

USA
Axis contributed to the non-profit organization Mission 500, which helps poor children, among other initiatives. Axis donated rucksacks with food for schools, for pupils in need, in the local area. At the Mission 500 Security Softball sports event, money was raised for the organization. Axis also raised money for a family that was severely affected by hurricane Harvey in Texas.

South Africa
In Johannesburg, South Africa, Axis participated in South Africa's inaugural Xtreme Chair Race. The competitors had a modified non-motorized office chair with at least two wheels, which can also be fitted out with other functions. The aim of the event was to help the QuadPara Association of South Africa, a not-for-profit organization, to raise funds for wheelchairs for paralyzed people. Wheelchairs make it possible for these people to live as normal a life as possible, which includes returning to work and school.

Germany
Axis donated cameras to a school in western Germany. The school faced serious problems with vandalism and drug use in its grounds. Axis and the company's partner Bechtle donated and installed network cameras at the school. Shortly after this, the school noticed improvements and fewer incidents.

Belgium
The organization Ijsedal offers employment to people that may find it difficult to enter the regular labor market, including people with functional impairments. Ijsedal had problems with theft and wanted to improve security. Axis donated seven network cameras to Ijsedal. This has resulted in several improvements. Potential intruders can be captured on video and hopefully the cameras also have a deterrent effect. The cameras will also enable Ijsedal to monitor and analyze daily traffic in the parking area and to make operational improvements.

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

Axis donated horn speakers for both indoor and outdoor use to the not-for-profit organization Dubai Autism Center in the United Arab Emirates.

Dubai
The Ramadan Share Fridge is an initiative to help less advantaged community and building workers to gain access to free food and drinks during the month of Ramadan. The idea began with one fridge in 2016 and has now grown to 150 fridges. Food and drinks are available for fasting and non-fasting persons after a long day. It is a Dubai-based initiative, under the Red Crescent's umbrella and in collaboration with Open Arms UAE, which brings together people from different parts of society to share some time together and show appreciation and respect for one another. This year, Axis contributed five fridges along with fresh fruit, juice, yoghurt, biscuits and water.

Axis also donated horn speakers for both indoor and outdoor use to the not-for-profit organization Dubai Autism Center in the United Arab Emirates. Dubai Autism Center is a non-profit organization that provides information, support, advice and training to working people and parents of autistic children. The center wants to help integrate autistic children into society, and also boost awareness surrounding autism. The children can listen to music with the speakers and they facilitate communication of scheduled information and can also be used for providing warnings in crisis situations.

Axis has built bicycles for school children in Cambodia.

Cambodia
Axis carried out a project where paintings, which were previously created in an event together with children from New Hope Community Services, were auctioned off. Funds raised through the auction went to a project to help young people. Axis also built bicycles for school children in Cambodia, together with the non-profit organization HUSK. It is easier for the childen to get to and from school using the bicycles.

GRI Content Index

GRI Standard	Disclosure Number	Disclosure Title	Page number(s)	Omissions	UN Global Compact Principles
GRI 101: Foundation 2016					
GRI 102: General Disclosures 2016					
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	102-1	Name of the organization	Cover		
	102-2	Activities, brands, products, and services	6, 20-21		
	102-3	Location of headquarters	131		
	102-4	Location of operations	18-19		
	102-5	Ownership and legal form	28-29, 121		
	102-6	Markets served	6-7, 16, 18-19		
	102-7	Scale of the organization	6-7, 88		
	102-8	Information on employees and other workers	74	Data not available. Axis is in the process of implementing a new global IT system with the ambition that further information will be available in the future.	
	102-9	Supply chain	38-39, 62-67		10
	102-10	Significant changes to the organization and its supply chain	28-29, 62-65		
	102-11	Precautionary Principle or approach	53		7
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The UN Global Compact Ten Principles

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

Auditor's report on the statutory sustainability statement
To the general meeting of the shareholders of Axis AB,
corporate identity number 556241-1065

Engagement and responsibility
It is the Board of Directors who is responsible for the statutory sustainability statement for the year 2017 on pages 14, 24-27, 30-79 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 12 The auditor's opinion regarding the statutory sustainability 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 statutory sustainability statement has been prepared.

Lund 20 March 2018
Ernst & Young AB

Johan Thuresson
Authorized Public Accountant

GRI Content Index

GRI Standard	Disclosure Number	Disclosure Title	Page number(s)	Omissions	UN Global Compact Principles
Material Topics					
GRI 200 Economic Standard Series					
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	103-2	The management approach and its components	44-45		
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GRI 205: Anti-corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	44-45		
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GRI 400 Social Standards Series					
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	103-2	The management approach and its components	68-72		
	103-3	Evaluation of the management approach	68-69, 72		
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DIVERSITY AND EQUAL OPPORTUNITY					1, 2, 6
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	68-73		
	103-2	The management approach and its components	68-72		
	103-3	Evaluation of the management approach	68-72		
GRI 405: Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	74		
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	103-2	The management approach and its components	68-72		
	103-3	Evaluation of the management approach	68-72		
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The Board of Directors and President submit the following financial statements and consolidated financial statements for the fiscal year January 1, 2017–December 31, 2017.

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

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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 20, 2018.

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 added value to customers and are distributed via an indirect business model through a global partner network, also see page 14. Axis has long-term relationships with partners and provides them with know-how and groundbreaking network products in existing and new markets.

Axis has more than 2,865 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 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 devices are increasingly 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.

The 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 leading edge with high-tech, innovative and competitive products.

2017 was a year with a large number of releases of innovative products and solutions. Axis introduced a motion detector, which is based on radar technology, among other products. The technology can be used as a complement to traditional surveillance solutions. The Wide Dynamic Range technology was also advanced further. It increases the capability of the camera to capture image details in challenging light conditions, allowing surveillance operators to see forensic levels of detail in both dark and bright areas at the same time. The image compression tool Zipstream was further enhanced in order to support greater data streaming and storage demands of 360-degree panoramic cameras and 4K resolution. In addition, three new explosion-protected camera models were released to meet the need for surveillance of remote, inaccessible, and sensitive areas. In the complementary product areas Network audio, Door stations and access control systems, several new products were released such as network horn speakers, microphones and an IP solution, which enables use of mobile telephony together with Axis access control solutions for secure and easy entry and exit.

Axis' offering is moving increasingly from product offerings to solutions, where the products have a central role, however. Axis' security cameras, encoders, access control products and accessories can be integrated with Axis' proprietary video management system, and also with partners' products and services, and thereby create overall solutions for customers. As the market grows and matures, Axis' investments are continuing in order to strengthen the overall offering and assume greater responsibility.

Axis' growth strategy is primarily to grow organically but also to work with acquisitions as a complement. During 2016, we made three strategic acquisitions aimed at broadening our overall offering. All acquisitions performed well during 2017 and delivered strong growth and profitability. The office network was expanded

with two new offices in the US (Texas and Florida) and a number of upgrades and extensions of existing offices occurred.

Our geographical markets, EMEA, Americas and Asia, showed a stable performance during the year but with some variations. Sales growth in local currencies amounted to about 15 percent in all three regions. Asia is a region, which is dominated by intense local competition and strong price pressure. In the mature markets in Europe and the US, products for smaller and medium-sized installations were in special focus. In growth countries, the market is still primarily concentrated on larger clients.

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, hospitals and within the transportation sector. The close collaboration with partners, distributors, resellers and application developers continued during 2017. Within the partnership programs, the members were trained in the benefits of network video in general and Axis' product range in particular. At year-end, over 90,000 companies were part of the various partner programs.

Axis' delivery capacity is impacted by the generally strained electronics components market. Long lead times and deferred deliveries of essential incoming electronics components resulted in minor disruptions in delivery precision to some of our customers. However, effective work in the production and logistics functions, helped to minimize the negative effects.

The positive development of the Internet of things and powerful online services is occurring while IT security has naturally emerged as a high-priority area. These threats are being countered in various ways in different parts of the world. Within the EU, implementation of two comprehensive regulations, GDPR and NIS was approved. These aim to protect the privacy of individual citizens and consumers, and to improve the protection of critical functions, such as energy supplies and infrastructure in relation to cybersecurity.

The new regulations and stricter demands are basically positive for Axis' business but they are making great demands on the organization. The inherent conflict between society's need for security and companies' legitimate need to understand their customers' behavior on the one hand, and the abuse that is enabled by the rise of digital interfaces on the other, must be handled.

For Axis, it is therefore crucial to earn customers' trust that our products and solutions are safe through open and transparent communication. This is achieved by having an in-depth understanding of the security needs of our customers and partners combined with public requirements for privacy and security.

Sustainability

Sustainability is an important and natural part of Axis' operations. Axis takes environmental, social and economic responsibility. Axis shall always act in an ethical and transparent way in all its business relationships.

Axis has high ambitions of its own 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. This report has been prepared in accordance with the GRI Standards: Core option.

Axis implemented a number of measures during the year. These included drawing up new environmental goals, development of several new PVC free camera models, improvement work concerning energy consumption during operation of the products was initiated and Axis participated in carbon offsetting projects in Africa. Almost all employees apart from those who were not present at work due to a leave of absence, parental leave or because they are on long-term sick leave, signed an agreement to comply with Axis' anti-corruption policy and participate in training in what the anti-corruption policy implies. In the work on promoting diversity, a new diversity policy was developed and goals for non-discrimination, health and increased equality were established. Axis trains suppliers and conducts audits to ensure that they meet Axis' strict requirements relating to environmental impacts, working conditions, human rights and fighting corruption. During 2017, new goals for this work were drawn up.

In accordance with the Chapter 6, Section 11 of the Annual Accounts Act, the company has chosen to prepare the statutory sustainability report as a separate report from the annual report. The sustainability report was submitted to the auditor simultaneously with the annual report. The sustainability report is presented on pages 30-79 in this printed document. Risk management is described on pages 24-27. The company's business model can be found on page 14, sustainability governance on page 32, ethics and anti-corruption on pages 42-47, environmental topics on pages 50-61, supply chain on pages 62-67 and social topics including working conditions and human rights on pages 68-77.

Research and development

During 2017, 18.2 percent (17.7) of the group's sales were invested in research and development within both hardware and software. Research and development expenditure increased by SEK 253 M (247) compared to the preceding year and amounted to SEK 1,486 M (1,233). Expenditure on development work totaling SEK 79 M (77) 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 2017.

Axis conducts an active patent strategy in order to safeguard investments in core technology and intellectual capital. During the year, applications for 9 new design families and 59 new patent families were filed, chiefly related to camera technology. During 2017, 167 national patents and a number of registered designs were granted. Axis currently holds 396 active patent and registered design families.

During 2017, Axis improved its innovation process in order to be quicker and more efficient. Product development at Axis is divided into hardware development and software development. Within hardware development, extensive innovation occurs in relation to how new technologies will be applied and how Axis can solve customer problems in an innovative way. Within the software organization, development occurs of the software found in existing products, but also of the applications that connect the solutions into complete systems. Within the framework of its R&D operations, Axis collaborates extensively with universities and colleges in Sweden and within a number of different product areas

Personnel

The recruitment rate was relatively high during 2017. At year-end, the number of employees totaled 2,865, which represents a net increase of 219 people since December 31, 2016. Most of the increase occurred in sales and marketing as well as in research and development. Of the employees, 1,639 (1,495) people are employed in Sweden and 1,226 (1,151) in other countries.

Financing and cash flow

Axis had total cash and cash equivalents of SEK 1,537 M at its disposal on December 31, 2017. Consequently, Axis is in a very strong financial position approaching 2018. Cash flow from operating activities amounted to SEK 1,364 M (721). The strong cash flow was mainly due to the strong operating profit. Working capital improved by SEK 380 M (-51), which was largely due to lower inventory levels. Net investments during the year amounted to SEK 620 M (832) driven by the construction of the new office building in Lund. Total cash flow amounted to SEK 679 M (-157) after dividends paid of SEK 64 M (44).

Investments

Investments in property, plant and equipment amounted to SEK 399 M (215), and in intangible assets to SEK 91 M (82). Net investments for the year according to the consolidated cash flow statement amounted to SEK 620 M (832).

Change of control clause

There are 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

The board of directors of Axis revised the group's two long-term financial goals during the year. The long-term ambition is to maximize long-term growth with an operating margin that exceeds 10 percent. The annual ambition for growth is 15 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 8,603 M (7,386), which represented growth of 16 percent compared to the preceding year. Foreign currency effects impacted sales positively by SEK 137 M. The Video product area, which corresponds to more than 94 percent of sales, increased by 14 percent from SEK 7,068 M to SEK 8,075 M, while other sales increased to SEK 528 M. Gross margin increased from 50.2 percent to 51.8 percent.

The group's operating profit amounted to SEK 1,014 M (885), which was an increase of SEK 129 M compared to the preceding year. Operating margin amounted to 11.8 percent compared to 12.0 percent in 2016. Foreign currency effects had a positive impact on operating profit of SEK 17 M. Profit before tax amounted to SEK 1,011 M (884), which represented an increase of SEK 127 M compared to the preceding year.

The Group's financial position is strong. Cash balances increased during the year from SEK 858 M to SEK 1,538. The equity ratio amounted to 61.4 percent (58.7).

Condensed income statement

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	TOTAL 2017
Net sales, SEK M	2,027	2,119	2,253	2,204	8,603
Gross profit, SEK M	1,034	1,087	1,186	1,152	4,459
Gross margin, %	51.0	51.3	52.7	52.3	51.8
Operating profit, SEK M	234	209	365	206	1,014
Operating margin, %	11.6	9.9	16.2	9.3	11.8
Profit before tax, SEK M	234	208	364	205	1,011
Profit margin, %	11.5	9.8	16.1	9.3	11.8

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 principles shall apply to employment contracts entered into after the general meeting's resolution on the principles, and in cases where changes are made in existing terms and conditions after the general meeting's resolution. With the exception of what is stated below regarding long-term variable remuneration, the principles essentially correspond to the principles that have been applied up to date. For information regarding terms of remuneration for 2017, please refer to Note 20, Personnel.

Remuneration to the President and the other members of the company management (i.e. the persons who together with the President comprise the group management) ("senior executives") may consist of basic salary, short- and long-term variable remunerations and pension. Other benefits and other remuneration shall be received on the same basis as for other employees.

The objective for the company's remuneration policy for senior executives shall be to offer compensation that increases the company's possibility to retain and recruit qualified expertise. 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.

Short-term variable remuneration (bonus) to the President and the 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. Short-term variable remuneration may, as regards the President, amount to a maximum of 240 percent of the annual salary and, as regards the other senior executives, amount to a maximum of 80 percent of the annual salary.

The Board of Directors has, subject to a resolution by the general meeting on principles according to this proposal, resolved to implement a long-term bonus program for senior executives in the company ("LTI 2018/2021"), mainly based on the following principles. Senior executives who are offered to participate in the program may, provided that (i) certain performance criteria being met during the period 1 January 2018 – 31 December 2021 (the "four-year period"), (ii) he/she is employed by a group company throughout (or, under certain circumstances, during the majority of) the four-year period and (iii) he/she is still employed by such company, and has not received nor given notice of termination, at the date of payment in March 2022, receive a long-term remuneration (bonus) amounting to a maximum 388 percent of the annual salary. The performance criteria are based on revenue growth in local currencies and earnings before interests and taxes ("EBIT") at group level – revenue growth 12-18 percent and EBIT 6-12 percent. Maximum bonus is paid where revenue growth is equal to or exceeds 18 percent at the same time as EBIT is equal to or exceeds 12 percent all four years. Deviation from the requirement of employment throughout (or, in some cases, the majority of) the four-year period, and payment in advance, may occur in in certain "good leaver" situations. Long-term remuneration (bonus) may be paid to senior executives under a bonus program based on the above main principles and within the said frames. Senior executives who are resident in countries where participation in such bonus program is not suitable, may be offered an alternative incentive solution instead, which, as far as practically possible, shall be designed using comparable conditions.

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. Persons who are resident outside 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 senior executives 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.

Material risks and uncertainties

Axis is an international group with operations and customers all over the world and is thus exposed to many different risks. For further information regarding risks see pages 21–24 in the printed annual report. The group's risk management aims to minimize the risks but also to ensure that opportunities are utilized in the best way, in order to facilitate continued strong growth and business expansion.

During 2017, Axis took the decision to formalize its risk management work. In 2018, a risk assessment will be performed in relevant parts of the organization. The risk framework's connection with the internal control and its follow up was clarified. Axis has already implemented an internal control framework based on COSO (Committee of Sponsoring Organizations of the Treadway Commission) with well-documented controls, which are tested annually.

Risks for Axis' operations are identified based on the group's overriding strategy, which incorporates both a business and sustainability perspective. The risks are divided into external, strategic, business-related and financial risks.

External risks are those arising from events in the company's external environment and which are beyond the company's influence or control. Axis is impacted by global macroeconomic trends, like most multinational companies. Although the global economy performed well generally during 2017, macroeconomic challenges remain in several of the regions where Axis conducts operations. Macroeconomic uncertainty indirectly affects customers' willingness to invest, investment capability and financing possibilities. Terrorism and political turbulence in many countries can also 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 skeptical view of camera surveillance. As a leading player, Axis is constantly exposed to competition from other companies. The market is undergoing a consolidation phase where credibility with customers, transparency and high quality are crucial for how well a company can increase or maintain market shares. Among the external risks are risks of natural disasters and accidents, which can lead to various disruptions in the product supply chain.

Strategic risks are defined as risks that can prevent Axis from reaching the company's strategic goals or that prevent the company from working towards these goals. Axis' strategy to broaden the customer offering with new products and overall solutions and thus partly to enter new markets is resulting in increased requirements for adaptation and development. As a leading player, the group's continued success depends on customers being satisfied with the products, solutions and service. In this context, it is therefore important that Axis is perceived as a reliable business partner and employer. In a large multinational business, there is a risk that employees, suppliers or partners do not act ethically and sustainably in all respects.

Business-related risks are those that may result in losses due to inadequate or failed internal processes, human errors or defective systems. In all manufacturing, some environmental impacts occur, which may include energy consumption, various emissions and hazardous waste, among other things. The risk of overutilization of finite resources is affected by the design and choice of material. IT security in products and solutions is crucial in protecting customer privacy in the event of incidents. An important risk area in the business-related risks is that Axis manages to maintain and advance its unique corporate culture. All employees are culture bearers, and thus it is of the greatest importance to continue identifying, recruiting and retaining employees with the right competencies and with values aligned to the corporate culture.

Financial risks are mainly defined as financing, foreign exchange and credit risk. Interest risk is assessed as being limited. For further information refer to Note 2 to the financial statements. 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.

The work on identifying, handling, following up and evaluating the risk exposure that the group is subject to is continually ongoing, at a group, regional and local level. External and strategic risks are mainly handled at group management and board level. Business-related risks are primarily handled at 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, 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.

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.

Axis AB, corporate identity number 556241-1065

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 131 M (119). Purchasing from group companies has not taken place. Operating profit amounted to SEK 63 M (58).

Proposed appropriation of profits in the Parent Company

At the disposal of the annual general meeting:

Accumulated profit and other non-restricted reserves	SEK 1,212,878,277
Net profit for the year	SEK 774,157,107
TOTAL	**SEK 1,987,035,384**

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 1,987,035,384
TOTAL	**SEK 1,987,035,384**

Axis' majority owner Canon Inc has informed the company's board of directors that Canon Inc at the 2018 Annual General Meeting (AGM) will vote that no dividend should be paid to the shareholders. Based on this information, Axis' board of directors and the President have decided not to propose any declaration of dividend at the Annual General Meeting 2018 and that the profits at the disposal of the Annual General Meeting shall be carried forward.

Consolidated statement of comprehensive income

(SEK M)

	Note	2017	2016
Net sales	3	8,602.6	7,385.7
Cost of goods and services sold		-4,143.8	-3,678.9
Gross profit		**4,458.8**	**3,706.8**
Selling and marketing expenses		-1,547.1	-1,353.0
Administrative expenses		-351.7	-298.9
Research and development expenses		-1,486.4	-1,233.4
Other income and changes in value	8	-59.7	63.5
Operating profit	4.5.6.7	1,013.9	**885.0**
Financial income		2.7	1.7
Financial expenses		-5.6	-2.5
Financial items – net		**-2.9**	**-0.8**
Profit before tax		**1,011.0**	**884.2**
Income tax	10	-275.2	-245.5
NET PROFIT FOR THE YEAR		**735.8**	**638.7**
Other comprehensive income*			
Items that will not be transferred to the income statement		**-**	**-**
		-	-
Items that later could be transferred to the income statement			
Exchange differences		51.3	16.6
Other comprehensive income for the year, net after tax		**51.3**	**16.6**
Total comprehensive income for the year		**787.1**	**655.3**
Net profit for the year attributable to:			
The parent company's shareholders		**735.8**	**638.7**
Total comprehensive income attributable to:			
The parent company's shareholders		**787.1**	**655.3**
Earnings per share before and after dilution, SEK	11	10.59	9.20
Number of shares before and 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, 2017	Dec 31, 2016
Non-current assets			
Property, plant and equipment	4	850.6	791.4
Intangible assets	5	618.2	319.6
Deferred tax assets	12	44.3	48.5
Other financial assets	2.15	49.0	8.4
Total non-current assets		**1,562.1**	**1,167.9**
Current assets			
Inventories	13	803.3	1,106.5
Trade receivables and other receivables	14	1,019.9	876.7
Current investments	2	89.2	-
Cash and cash equivalents	16	1,537.5	858.3
Total current assets		**3,449.9**	**2,841.5**
TOTAL ASSETS		**5,012.0**	**4,009.4**

EQUITY & LIABILITIES	Note	Dec 31, 2017	Dec 31, 2016
Equity			
Capital and reserves			
Share capital		0.7	0.7
Other paid-up capital		279.2	279.2
Other reserves	18	66.1	14.8
Retained earnings		2,729.5	2,057.6
Total equity		**3,075.5**	**2,352.3**
Liabilities			
Non-current liabilities			
Borrowing	19	0.9	1.9
Retirement benefit obligations	20	13.1	10.8
Deferred tax liabilities	12	251.5	282.5
Other provisions	21	92.2	76.2
Other non-current liabilities		-	19.6
Total non-current liabilities		**357.7**	**391.0**
Current liabilities			
Borrowing	19	1.2	1.2
Trade payables and other liabilities	22	1,530.5	1,251.8
Current tax liabilities		47.1	13.1
Total current liabilities		**1,578.8**	**1,266.1**
Total liabilities		**1,936.5**	**1,657.1**
TOTAL EQUITY AND LIABILITIES		**5,012.0**	**4,009.4**

Consolidated statement of changes in equity
(SEK M)

	Share capital	Other paid-in capital	Other reserves	Retained earnings	Total equity
Opening balance at January 1, 2016	**0.7**	**279.2**	**-1.8**	**1,463.4**	**1,741.5**
Comprehensive income					
Net profit for the year	-	-	-	638.7	638.7
Other comprehensive income					
Exchange differences	-	-	16.6	-	16.6
Total other comprehensive income	-	-	16.6	-	16.6
Total comprehensive income	**-**	**-**	**16.6**	**638.7**	**655.3**
Transactions with owners					
Dividend	-	-	-	-44.5	-44.5
Total transactions with owners	**-**	**-**	**-**	**-44.5**	**-44.5**
Closing balance at December 31, 2016	**0.7**	**279.2**	**14.8**	**2,057.6**	**2,352.3**
Opening balance at January 1, 2017	**0.7**	**279.2**	**14.8**	**2,057.6**	**2,352.3**
Comprehensive income					
Net profit for the year	-	-	-	735.8	735.8
Other comprehensive income					
Exchange differences	-	-	51.3	-	51.3
Total other comprehensive income	-	-	51.3	-	51.3
Total comprehensive income	**-**	**-**	**51.3**	**735.8**	**787.1**
Transactions with owners					
Dividend	-	-	-	-63.9	-63.9
Total transactions with owners	**-**	**-**	**-**	**-63.9**	**-63.9**
Closing balance at December 31, 2017	**0.7**	**279.2**	**66.1**	**2,729.5**	**3,075.5**

Consolidated cash flow statement
(SEK M)

	Note	2017	2016
Operating activities			
Cash flow from operations	28	1,639.9	931.6
Interest paid		-5.6	-2.5
Interest received		2.7	1.7
Income taxes paid		-273.0	-209.4
Cash flow from operating activities		**1,364.0**	**721.4**
Investing activities			
Acquisition of subsidiaries, less acquired cash and cash equivalents	31	-	-534.9
Purchase of intangible assets	4	-90.9	-82.3
Purchase of property, plant and equipment	5	-399.3	-214.7
Purchase of current investments		-129.7	0.3
Cash flow from investing activities		**-619.9**	**-831.6**
Financing activities			
Dividend paid		-63.9	-44.5
Amortization of loans	19	-1.0	-2.7
Cash flow from financing activities		**-64.9**	**-47.2**
Cash flow for the year		**679.2**	**-157.4**
Cash and cash equivalents at the beginning of the year		858.3	1,015.8
Change in cash and cash equivalents		679.2	-157.4
Cash and cash equivalents at the end of the year	16	1,537.5	858.3

Parent company income statement
(SEK M)

	Note	2017	2016
Net sales	3	131.3	118.6
Gross profit		**131.3**	**118.6**
Administrative expenses		-68.6	-60.6
Operating profit	4	**62.7**	**58.0**
Financial income	23	31.8	0.9
Financial expenses	24	-5.5	-29.0
Financial items – net		26.3	-28.1
Profit/loss after financial items		**89.0**	**29.9**
Appropriations	25	904.5	542.2
Profit before tax		993.5	572.1
Income tax	10	-219.3	-126.7
Net profit for the year		**774.2**	**445.4**

Parent company statement of comprehensive income
(SEK M)

	Note	2017	2016
Net profit for the year		774.2	445.4
Other comprehensive income for the year		0	0
Total comprehensive income for the year		774.2	445.4

Parent company balance sheet
(SEK M)

ASSETS	Note	Dec 31, 2017	Dec 31, 2016
Non-current assets			
Intangible assets			
Patents and other rights	4	8.9	4.8
Total intangible assets		8.9	4.8
Financial assets			
Participations in subsidiaries	26	39.6	39.6
Receivables from group companies	29	26.6	27.0
Other financial assets	2	44.3	-
Total financial assets		110.5	66.6
Total non-current assets		**119.4**	**71.4**
Current assets			
Receivables			
Receivables from group companies	29	1,695.5	1,902.7
Prepaid expenses and accrued income		2.4	1.3
Total receivables		1,697.9	1,904.0
Current investments			
Other current investments	2	89.3	-
Total current investments		89.3	-
Cash and bank balances			
Cash and bank balances	16	959.3	312.1
Total cash and bank balances		959.3	312.1
Total current assets		**2,746.5**	**2,216.1**
TOTAL ASSETS		**2,865.9**	**2,287.5**

EQUITY & LIABILITIES	Note	Dec 31, 2017	Dec 31, 2016
Equity	17		
Restricted equity			
Share capital		0.7	0.7
Total restricted equity		0.7	0.7
Non-restricted equity			
Capital surplus		4.1	4.1
Accumulated profit		1,208.7	827.3
Net profit for the year		774.2	445.4
Total non-restricted equity		1,987.0	1,276.8
Total equity		**1,987.7**	**1,277.5**
Untaxed reserves			
Tax allocation reserve	30	775.8	973.0
Accumulated additional depreciation		2.1	3.0
Total untaxed reserves		**777.9**	**976.0**
Liabilities			
Current liabilities			
Liabilities to group companies	29	3.3	2.3
Tax liabilities		83.2	13.8
Other liabilities		6.2	6.6
Accrued expenses and deferred income		7.6	11.3
Total current liabilities		100.3	34.0
Total liabilities		**100.3**	**34.0**
TOTAL EQUITY AND LIABILITIES		**2,865.9**	**2,287.5**

Parent company statement of changes in equity
(SEK M)

	Share capital	Share premium-reserve	Accumulated profit	Total equity
Opening balance at January 1, 2016	**0.7**	**4.1**	**871.8**	**876.6**
Net profit for the year	-	-	445.4	445.4
Total comprehensive income	**-**	**-**	**445.4**	**445.4**
Other comprehensive income	**-**	**-**	**-**	**-**
Transactions with owners				
Dividend	-	-	-44.5	-44.5
Total transactions with owners	**-**	**-**	**-44.5**	**-44.5**
Closing balance at December 31, 2016	**0.7**	**4.1**	**1,272.7**	**1,277.5**
Opening balance at January 1, 2017	0.7	4.1	1,272.7	1,277.5
Net profit for the year	-	-	774.2	774.2
Total comprehensive income	**-**	**-**	**774.2**	**774.2**
Other comprehensive income	**-**	**-**	**-**	**-**
Transactions with owners				
Dividend	-	-	-63.9	-63.9
Total transactions with owners	**-**	**-**	**-63.9**	**-63.9**
Closing balance at December 31, 2017	**0.7**	**4.1**	**1,982.9**	**1,987.7**

Number of shares at December 31, 2017 totaled 69,461,250. The quota value was SEK 0.01 per share. At the Annual General Meeting on April 18, 2018, the board of directors will propose that no dividend should be paid in respect of the 2017 fiscal year. During 2017, SEK 0.92 per share was paid in respect of the fiscal year 2016

Parent company cash flow statement
(SEK M)

	Note	2017	2016
Operating activities			
Cash flow from operations	28	61.3	69.3
Financial expenses paid		-5.8	-29.0
Financial income received		31.8	0.9
Income taxes paid		-149.9	-136.5
Cash flow from operating activities		**-62.6**	**-95.3**
Investing activities			
Acquisition of subsidiaries, less acquired cash and cash equivalents		-	-38.8
Purchase of intangible assets	4	-7.9	-2.5
Purchase of current investments		-133.4	-
Cash flow from investing activities		**-141.3**	**-41.3**
Financing activities			
Dividend paid		-63.9	-44.5
Group contributions received	25	707.9	676.1
Group contributions paid	25	-1.5	-1.4
Change in receivables, group companies		207.6	-760.9
Change in liabilities, group companies		1.0	1.3
Cash flow from financing activities		**851.1**	**-129.4**
Cash flow for the year		**647.2**	**-266.1**
Cash and cash equivalents at the beginning of the year		312.1	578.2
Change in cash and cash equivalents		647.2	-266.1
Cash and cash equivalents at the end of the year	**16**	**959.3**	**312.1**

Notes

Note 1 Accounting policies

Axis AB is a public Swedish stock corporation based in Lund. 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 20, 2018. 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 added value to customers and are distributed via an indirect business model through a global partner network.

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 the process of applying the group's accounting policies. Areas which involve a high degree of judgment, which are complex or areas where assumptions and estimates are of considerable significance for the consolidated financial statements, are specified in 1.20.

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.

Differences between the group and parent company accounting policies are described below. The accounting policies described below for the parent company have been applied consistently for all periods presented in the parent company's financial statements, unless otherwise stated.

Subsidiaries
Participations in subsidiaries are recognised in the parent company in accordance with the cost method. This means that transaction costs are included in the carrying amount of holdings in subsidiaries. Should the fair value be lower than the carrying amount, the participations are written down to the fair value if the decline in value can be assumed to be permanent.

Financial assets and liabilities
Due to the relationship between accounting and taxation, the rules on financial instruments are not applied in accordance with IAS 39 in the parent company as a legal entity, but the parent company applies the cost method in accordance with the Annual Accounts Act. In the parent company, financial assets are therefore measured at cost less any impairment and financial current assets according to the lower of cost or market rule.

Shareholders' contributions and group contributions
Shareholders' contributions are carried directly in equity in the case of the receiver and capitalised in shares and participations by the grantor, to the extent that impairment is not required. Both group contributions received and paid are recognized as appropriations in accordance with the alternative rule.

Untaxed reserves
In the parent company, untaxed reserves are recognized including deferred tax liability. In the consolidated financial statements, on the other hand, untaxed reserves are divided into deferred tax liability and equity.

Property, plant and equipment
In addition to the depreciation described in the "property, plant and equipment" section in the group, the parent company recognizes appropriations in the income statement for tax depreciation in accordance with Swedish tax legislation. These items are carried as untaxed reserves in the balance sheet.

1.1.1 Changes in accounting policies and disclosures
(a) New and amended standards adopted by the group as of January 1, 2017
IAS 7 Statement of Cash Flows has been implemented but has not had a material impact on the consolidated financing statements.

(b) New and amended standards adopted by the parent company as of January 1, 2017
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, 2018 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 has chosen not to early adopt the standard. During 2017, the group evaluated the effects of introducing IFRS 9. 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. Axis will apply the simplified approach, which will result in earlier recognition of credit losses, but the effect is expected to be insignificant as the group historically has had 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. 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 retrospective" adoption 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 2017, Axis continued its work on mapping the effects that IFRS 15 is expected to have on the consolidated financial statements. 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 continued assessment is that 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 sold goods, 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. Axis has diverse forms of variable consideration (including partner and project discounts). These are taken into account through provisions. Our final 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. The work involving the increased disclosure requirements has continued and will be presented in the interim report for Q1 2018.

IFRS 16 Leases replaces IAS 17 Leases and the 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 essentially be unchanged. The standard will be applied for annual periods beginning on or after January 1, 2019, but early adoption is permitted. The group will not 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. The group will perform a detailed analysis during the coming year in order to evaluate the effects of the new standard.

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 liablities, which are a result of an agreement on contingent consideration.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at 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 Classification

Non-current assets and non-current liabilities including related provisions consist of amounts that are expected to be recovered or paid more than 12 months from closing day. Current assets and current liabilities including related provisions consist of amounts that are expected to be recovered or paid within 12 months from closing day. Deviations from this principle are described in Notes to the relevant items.

1.4 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.

1.5 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 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

1.6 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.

1.7 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.

1.8 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.

1.9 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 on a straight-line basis 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.

1.10 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 loss is recognized 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.

1.11 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.

1.12 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 instruments 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 direct 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).

(c) Short-term investments
Short-term investments are continuously valued as the lowest of purchase value and net realizable value.

(d) Long-term liabilities
Long-term liabilities are reported at accrued purchase value, which corresponds to the present value of future payments discounted by the effective interest rate calculated at the time of purchase..

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.

1.13 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.

1.14 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. 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 and their carrying amounts. Tax relating to items in other comprehensive income is recognized in other comprehensive income.

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.

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

1.15 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.

1.16 Leasing
Leases are classified as either finance or operating leases. Leases where substantially all of the economic risks and rewards, which are associated with ownership have been transferred to the lessee are classified as finance leases. In other cases, the lease is an operating lease. The group has no signifcant financial leasing and therefore all leases are recognized as operating leases and the lease payment is allocated on a straight-line basis over the leasing period. The group mainly holds leases for rent. For further information about minimum lease payments refer to Note 9.

1.17 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.

1.18 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.

1.19 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 a 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 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 2017, 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.

1.20 Important assumptions and estimates

Warranties
The group offers a three-year warranty on all its network products, with the possibility of purchasing a further two-year warranty. 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 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 loss is recognized for 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 4 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 to. Management makes an estimate of the provision required for accrued discounts based on information regarding historical discount levels and expected outcomes.

Acquisitions
Acquisitions require 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
meansurement model.

Deferred tax assets
Deferred tax assets relating to deductible temporary differences and loss carryforwards are only recognised to the extent that it is probable that they will be utilised. Significant assessments are required to estimate future tax surpluses and when these will occur in time.

Loss carryforwards amounting to SEK 87.9 M are attributable to a subsidiary, where group management estimates that the deficit does not give rise to a deferred tax asset. See Note 12.

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.

(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 2017.

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 2017, the group had short-term interest-bearing liabilities of SEK 1 M (1).

Group	2017		2016	
Financial assets	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Other non-current securities*	49.0	49.0	8.4	8.4
Other current securities*	89.2	89.2	-	-
	138.2	**138.2**	**8.4**	**8.4**
Financial liabilities				
Interest-bearing liabilities, non-current	0.9	0.9	1.9	1.9
Interest-bearing liabilities, current	1.2	1.2	1.2	1.2
	2.1	**2.1**	**3.1**	**3.1**

Parent company	2017		2016	
Financial assets	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Other non-current securities*	44.3	44.3	-	-
Other current securities*	89.3	89.3	-	-
	133.6	**133.6**	**-**	**-**
Financial liabilities				
Interest-bearing liabilities, non-current	-	-	-	-
Interest-bearing liabilities, current	-	-	-	-
	-	**-**	**-**	**-**

* Refers to corporate bonds

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, 2017, SEK 137 M (2016: 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 2017. 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	+/- 92
Currency. SEK/EUR	+/-5	+/- 68
Purchasing	+/-5	+/- 156
Personnel	+/-5	+/- 124

(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.

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 access to SEK 200 M in cash and cash equivalents or unutilized credit facilities. At December 31, 2017, Axis had SEK 1,538 M (858) in cash and cash equivalents and unutilized credit facilities of SEK 0 M (50).

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.

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 profit or loss (Other income and changes in value). Changes in the hedging reserve in equity are shown in Note 18

(a) Fair value hedge
At December 31, 2017, (2016) Axis had no derivative instruments that were used for fair value hedges.

(b) Cash flow hedge
At December 31, 2017 (2016), 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 measurement 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 reservations, is assumed to equal their fair value. 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 2017 (2016), 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 goal as regards the capital structure is to secure the group's ability to continue its operations, so that it can continue to generate a return to shareholders and value for other stakeholders and to maintain an optimal capital structure for reducing 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.

Axis holds a AA rating according to Bureau van Dijk.

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 in network video. Continuous global sales forecasts are compiled by 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 partners currently identified by Axis amounts to over 90,000 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 just that 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.

The acquisitions made during 2016 did not lead to any change in reporting routines.

Net sales per geographical market	2017	2016
EMEA (Europe. Middle East. Africa)	3,087.3	2,645.7
Americas	4,495.4	3,855.7
Asia	1,019.9	884.3
Total	**8,602.6**	**7,385.7**

Revenues per country	2017	2016
Sweden	10.3	15.0
USA	4,235.7	3,561.7
Other countries	4,356.6	3,809.0
Total	**8,602.6**	**7,385.7**

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

Non-current assets by country	2017	2016
Sweden	901.7	562.4
Czech Republic	445.8	426.4
Other countries	121.3	122.1
Total	**1,468.8**	**1,111.0**

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.

The parent company's sales refer entirely to sales to group companies.

Note 4 Intangible assets

Group

2017	Goodwill	Capitalized development work	Patents, trademarks and other rights	Customer contracts	Total
Opening acquisition value	353.1	552.4	102.6	28.6	1,036.8
Investments	-	79.0	11.9	-	90.9
Acquisition of business (Note 31)	-	-	-	-	-
Sales/disposals	-	-	-0.6	-	-0.6
Reclassifications	-8.9	6.0	1.0	6.1	4.2
Translation differences	23.4	8.1	6.8	2.0	40.3
Closing acquisition value	**367.6**	**645.5**	**121.7**	**36.7**	**1,171.6**
Opening accumulated amortization	-	-208.4	-33.9	-3.0	-245.3
Amortization for the year	-	-60.8	-7.3	-5.6	-73.7
Sales/disposals	-	-	-	-	-
Reclassifications	-	-	-	-	-
Translation differences	-	-0.6	-1.1	-0.3	-2.0
Closing accumulated amortization	**-**	**-269.8**	**-42.3**	**-8.9**	**-321.0**
Carrying amount	**367.6**	**375.7**	**79.4**	**27.8**	**850.6**

In the income statement, depreciation/amortization is included in cost of goods sold of SEK 0.8 M (0.6), in selling and marketing expenses of SEK 2.0 M (0.6), in administrative expenses of SEK 4.8 M (2.9) and in and research and development expenses of SEK 66.1 M (43.8).

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 31)	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
Closing acquisition value	**353.1**	**552.4**	**102.6**	**28.6**	**1,036.8**
Opening accumulated amortization	-	-169.0	-30.8	-	-199.8
Depreciation 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
Closing accumulated amortization	**-**	**-208.4**	**-33.9**	**-3.0**	**-245.3**
Carrying amount	**353.1**	**344.0**	**68.6**	**25.7**	**791.4**

Impairment testing of goodwill

The Group examines each year if any impairment need for goodwill exists. Goodwill and intangible assets with indefinite period of use have been allocated to a respective cash-generating unit (CGU) (see below). The cash-generating units are thus included in the same segment (Video) as other Axis operations. Recovery values for the cash-generating unit have been determined by calculation of value in use, which requires that certain assumptions must be made. In these assumptions, discounted forecasted future cash flows have been calculated by taking an average weighted capital cost before tax into account. When calculating average weighted capital cost, risk free interest, market risk premium, size of acquisitions, company-specific capital structure and current tax rate in each country for the acquisition have been taken into account.

In the calculations for the first five years, the management has estimated that sales will grow with an average of 13.1% (17.1%) and that the gross margin is estimated to be 64.3% (78.3%). As the companies operate in a volatile growth industry with high growth during the first years, an estimation for the next five-year period, based on a normalization of business operations, before assumptions about terminal value and long-term market, is made. For these five years, sales has been estimated to increase by an average of 5.3% (5.7%) and the gross margin is estimated to be 64.7% (78.3%) on average. The cash flow after this ten-year period is extrapolated with the growth rate of two percent as an assumption of long-term market growth. The estimated use value has then been compared with the carrying amount and this comparison shows that no impairment requirement exists.

	2017		2016	
Acquisitions	Average weighted capital cost before tax	Long-term market growth	Average weighted capital cost before tax	Long-term market growth
2N	11.80%	2%	11.10%	2%
Citilog	12.80%	2%	13.80%	2%
Cognimatics	12.50%	2%	13.70%	2%

An impairment test has been carried out in which the normalized long-term market growth is reduced by one percentage point, at the same time as the average weighted capital cost is increased by one percentage point and EBIT for the whole forecast period is decreased by one percentage point. The result of the test shows a surplus and therefore there is no impairment loss of goodwill.

Parent company

2017	Patents and other rights	Total
Opening acquisition value	22.2	22.2
Investments	7.9	7.9
Closing acquisition value	**30.1**	**30.1**
Opening accumulated amortization	-17.5	-17.5
Amortization for the year	-3.7	-3.7
Closing accumulated amortization	**-21.2**	**-21.2**
Carrying amount	**8.9**	**8.9**

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

Note 5 Property, plant and equipment

Group

2017	Land	Equipment & fittings	Improvement measures in leased properties	Constructions in progress	Total
Opening acquisition value	50.6	489.4	105.1	55.1	700.1
Investments		90.7	16.1	292.5	399.3
Acquisition of business (Note 31)	-	-	-	-	-
Sales/disposals	-	-46.2	-	-	-46.2
Reclassifications	-	2.2	13.2	-7.7	7.7
Translation differences	-	-2.0	-4.6	-0.3	-6.9
Closing acquisition value	**50.6**	**534.0**	**129.8**	**339.6**	**1,054.0**
Opening accumulated depreciation	-	-332.2	-48.4	-	-380.5
Depreciation for the year	-	-82.1	-20.1	-	-102.2
Sales/disposals	-	42.5	-	-	42.5
Reclassifications	-	2.5	-2.5	-	-
Translation differences	-	2.3	2.2	-	4.4
Closing accumulated depreciation	**-**	**-367.0**	**-68.8**	**-**	**-435.8**
Carrying amount	**50.6**	**167.0**	**61.0**	**339.6**	**618.2**

In the income statement, depreciation/amortization is included in cost of goods sold of SEK 13.9 M (10.8), in selling and marketing expenses of SEK 28.9 M (22.1), in administrative expenses of SEK 0.5 M (1.1) and in research and development expenses of SEK 58.9 M (53.9)

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 31)	-	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
Closing acquisition value	**50.6**	**489.4**	**105.1**	**55.1**	**700.1**
Opening accumulated depreciation	-	-280.4	-31.2	-	-311.6
Depreciation/amortization 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
Closing accumulated depreciation	**-**	**-332.2**	**-48.4**	**-**	**-380.5**
Carrying amount	**50.6**	**157.2**	**56.7**	**55.1**	**319.6**

Note 6 Costs allocated per type of cost

	2017	2016
Depreciation and impairment losses	-175.9	-135.8
Expenses for remuneration to employees	-2,201.0	-1,779.8
Cost of purchasing and handling goods for resale	-4,143.8	-3,678.9
Other external expenses	-1,008.3	-969.7
	-7,529.0	**-6,564.2**

Note 7 Audit fees

The 2017 AGM resolved to elect Ernst & Young AB as the group's auditors for the period until the next AGM.

	Group	
	2017	2016
EY		
The audit assignment	3.1	1.9
Audit work apart from the audit assignment	0.3	0.3
Tax consultancy	-	-
Other services	-	-
	3.4	2.2
PwC		
The audit assignment	0.1	0.4
Audit work apart from the audit assignment	-	3.0
Tax consultancy	-	0.6
Other services	-	0.3
	0.1	4.3
Grant Thornton (minority auditor)		
The audit assignment	0.6	1.7
Other auditors		
The audit assignment	2.8	2.9
Audit work apart from the audit assignment	-	-
Tax consultancy	0.3	0.8
Other services	0.2	0.6
	3.3	4.3
Group total	**7.4**	**12.5**

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	
	2017	2016
Exchange differences	-61.3	61.0
Other items	1.6	2.5
	-59.7	**63.5**

Note 9 Lease obligations*

Leasing costs for the year amounted to SEK 181.9 M (165,8) 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	
	2017	2016
	Minimum lease payments	Minimum lease payments
Leasing within 1 year	157.4	154.9
Leasing between 1 and 5 years	286.9	306.8
Leasing more than 5 years	74.4	35.1
	518.7	**496.8**

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	
	2017	2016	2017	2016
Current tax	-307.0	-200.2	-219.3	-126.7
Deferred tax	31.8	-45.3	-	-
	-275.2	**-245.5**	**-219.3**	**-126.7**

Reconciliation between theoretical tax expense and recognized income tax

	Group		Parent Company	
	2017	2016	2017	2016
Tax according to current tax rate in the parent company	-222.4	-194.5	-218.6	-125.9
Tax effect relating to non-deductible items	-31.9	-24.3	-0.7	-0.8
Tax effect relating to non-taxable items	10.0	4.2	-	-
Differences in foreign tax rates	-30.9	-30.9	-	-
Recognized income tax	**-275.2**	**-245.5**	**-219.3**	**-126.7**

*The current tax rate for 2017 is 22.0 percent (22.0).

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

	2017			2016		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Exchange differences	51.3	-	51.3	16.6	-	16.6
	51.3	**-**	**51.3**	**16.6**	**-**	**16.6**

Note 11 Earnings per share

	2017	2016
Earnings attributable to the parent company's shareholders	735.8	638.7
Weighted average number of outstanding ordinary shares, thousands	69,461	69 461
Earnings per share before and after dilution, SEK	10.59	9.20

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, 2017	Dec 31, 2016
Deferred tax receivables		
Property, plant and equipment and intangible assets	6.5	4.1
Loss carryforwards	23.2	22.5
Financial instruments	2.7	2.7
Inventories	6.6	8.9
Accrued discounts	9.1	13.0
Other accrued expenses	15.7	23.4
Other items	1.8	1.1
Total deferred tax assets	**65.6**	**75.7**
Amounts offset against deferred tax liabilities	-21.3	-27.2
Net deferred tax assets	**44.3**	**48.5**
Deferred tax liabilities		
Tax allocation reserve	170.7	214.1
Property, plant and equipment and intangible assets	101.9	93.4
Other items	0.2	2.2
Total deferred tax liabilities	**272.8**	**309.7**
Amounts offset against deferred tax assets	-21.3	-27.2
Net deferred tax liabilities	**251.5**	**282.5**

	Group	
	Dec 31, 2017	Dec 31, 2016
Opening deferred tax assets/tax liabilities*	-234.0	-178.5
Change during the year in:		
– property, plant and equipment and intangible assets	-6.1	-42.2
- loss carryforwards	0.7	22.5
– inventories	-2.3	-3.4
– accrued discounts	-3.9	-0.2
– other accrued expenses	-7.7	-
– other items	2.7	-2.6
– tax allocation reserve	43.4	-29.6
Closing deferred tax assets/tax liabilities	**-207.2**	**-234.0**

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

Loss carryforwards	2017	2016
Unutilized loss carryforwards for which no deferred tax assets has been recognized	87,9	88.9
Potential tax benefits	29,9	30.2

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, 2017	Dec 31, 2016
Goods for resale	803.3	1,106.5
	803.3	**1,106.5**

Write-down of inventories to net realizable value amounted to SEK 72 M (112). The impairment was recognized in the income statement as cost of goods sold.

Note 14 Trade receivables and other receivables

	Group	
	Dec 31, 2017	Dec 31, 2016
Trade receivables	792.9	672.7
Provision for doubtful trade receivables	-12.2	-16.2
Trade receivables-net*	780.7	656.5
Advance payments to suppliers	33,7	52,3
Other receivables	90,3	81,6
Prepaid expenses and accrued income	115.2	86.3
	1,019.9	**876.7**

*The amount includes contract manufacturers of SEK 13.3 M (1.9). Contract manufacturers 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, 2017, the effect of this net accounting, is a reduction in trade receivables of SEK 384 (382).

Changes in the provision for uncertain receivables are as follows:

	Group	
	Dec 31, 2017	Dec 31, 2016
Opening balance	**-16.2**	**-7.2**
Provision for doubtful receivables	-1.5	-10.0
Receivables written off during the year that are not recoverable	0.3	0.7
Reversed unutilized amount	5.2	0.3
Closing balance	**-12.2**	**-16.2**

Age distribution of trade receivables

	Group	
	Dec 31, 2017	Dec 31, 2016
Not due	736.4	630.3
Due for up to 3 months	53.1	42.3
Due over 3 months	3.4	0.1
Total trade receivables	792.9	672.7
Provision for doubtful receivables	-12.2	-16.2
Recognized trade receivables	**780.7**	**656.5**

The recovered customer losses during 2017 amounted to SEK 4.5 M (confirmed customer loss -1.6).

Credit rating, customers (according to Bureau van Dijk)

	Group	
Risk range	Dec 31, 2017	Dec 31, 2016
Lowest risk	45.9	180.5
Low risk	183.6	65.0
Medium risk	336.8	284.3
High risk	207.1	14.8
Highest risk	19.5	8.9
Unclassified	-	119.1
No Bureau van Dijk data	-	-
Total	**792.9**	**672.7**

Note 15 Other financial assets

	Group	
	Dec 31, 2017	Dec 31, 2016
Depositions	3.4	3.7
Corporate bonds	44.1	-
Other	1.5	4.7
	49,0	**8,4**

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, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
Cash and bank balances	1,533.5	858.3	955.3	312.1
Short-term investments	4.0	-	4.0	-
	1,537.5	**858.3**	**959.3**	**312.1**

Credit rating of cash and cash equivalents

	Group			
	Dec 31, 2017	Rating 2017	Dec 31, 2016	Rating 2016
HSBC	196.7	AA-	190.4	AA-
Nordea	1,251.2	AA-	622.8	AA-
Others	85.6	-	45.1	-
	1,533.5		**858.3**	

As of December 31, 2017, Axis has SEK 4 M (0) in short-term investments. Axis has during the year terminated its unutilized credit facility of SEK 50 M (50). The credit facility was valid until December 31, 2017 and is subject to special requirements from the bank. There have been no violations of these requirements during 2017.

Note 17 Share capital

The company's share capital consists of 69,461,250 (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, 2016	-8.5	6.7	-1.8
Translation differences	-	16.6	16.6
Closing balance, December 31, 2016	**-8.5**	**23.3**	**14.8**
Opening balance, January 1, 2017	**-8.5**	**23.3**	**14.8**
Translation differences	-	51.2	51.2
Closing balance, December 31, 2017	**-8.5**	**74.5**	**66.0**

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 (0).

Note 19 Borrowing

	Koncernen	
	2017-12-31	2016-12-31
Opening balance	3.1	-
Borrowing	-	5.8
Amoritization	-1.0	-2.7
Closing balance	**2.1**	**3.1**

Non-current	0.9	1.9
Current	1.2	1.2
	2.1	**3.1**
Opening balance	3.1	
Cash flows	-1.0	
Non-affecting cash flow changes		
Exchange differences	-	
	2.1	

Note 20 Personnel

Average number of employees

	2017	Of whom men	2016	Of whom men
Parent Company	-	-	-	-
Argentina	2	1	2	1
Australia	18	13	16	13
Brazil	21	14	22	15
Canada	24	17	24	15
Chile	4	4	5	5
China	77	50	75	49
Colombia	4	2	3	2
Croatia	1	1	1	1
Czech Republic	266	198	146	111
Finland	1	1	2	2
France	60	42	53	38
Germany	47	30	43	27
Hong Kong	26	15	29	15
India	18	15	18	14
Italy	21	17	20	16
Japan	33	18	34	17
Kenya	2	2	2	2
Korea	12	8	11	7
Malaysia	6	3	6	4
Mexico	24	16	20	12
Nederlands	23	20	21	17
Norway	1	1	1	1
New Zealand	3	3	4	4
Poland	9	7	6	4
Qatar	2	2	1	1
Russia	26	16	27	17
Singapore	44	23	43	22
South Africa	15	9	19	11
Spain	18	14	15	12
Sweden	1 576	1 185	1 398	1 052
Taiwan	12	4	11	4
Thailand	7	3	8	3
Turkey	5	2	4	2
UK	40	30	35	27
United Arab Emirates	31	24	31	24
USA	304	227	258	199
Group total	**2 783**	**2 037**	**2 414**	**1 766**

Gender distribution among senior executives

	2017		2016	
	Number at the balance sheet date	Women	Number at the balance sheet date	Women
Board of Directors	8	13 %	8	25 %
Group Management*	10	20 %	10	20 %

*Malin Ruijsenaars, Axis Chief Personnel Officer, has been on sick leave during the year and has not participated in the management team. The function as Chief Personnel Officer has been maintained by two senior staff at the HR department and Axis' CEO has been responsible for HR issues at management team level.

Salaries and other remuneration allocated among senior executives and others

	Board of Directors, President and other senior executives		Others		Total	
	2017	2016	2017	2016	2017	2016
Parent Company	-	-	-	-	-	-
Subsidiaries	39.7	32.3	1 655.1	1 333.8	1 693.0	1 365.1
Group total	**39.7**	**32.3**	**1 655.1**	**1 333.8**	**1 693.0**	**1 365.1**

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 remuneration		Social security contributions		(of which pension expenses)	
	2017	2016	2017	2016	2017	2016
Parent Company	-	-	-	-	-	-
Subsidiaries	1,693.0	1,365.1	508.0	414.7	132.9	106.5
Group total	**1,693.0**	**1,365.1**	**508.0**	**414.7**	**132.9**	**106.5**

Remuneration to the board of directors

	Group	
	2017	2016
Directors' fees	2.0	2.0
	2.0	**2.0**

Remuneration to the Board and other senior executives
The board received directors' fees for 2017 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. The remuneration to the 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 senior executives shall be to offer compensation that helps to recruit skills and expertise and to retain it in the company.

The basic salary for the senior executives should be determined on the basis that it should be competitive. The absolute level depends 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 shall be 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 in connection with Canon Inc's public offer approved "stay on board" remuneration to the 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 paid on June 30, 2016 and the other half on June 30, 2017. This remuneration is not pension-qualifying.

The results for the 2017 fiscal year have been charged with SEK 6.6 M (2.6) in bonus for the President and CEO and SEK 8.6 M (6.6) 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.

2016	Basic salary/fees*	Bonus	Other benefits	Pension expense	Other remuneration	Total
Board of Directors						
Biörn Riese (Chairman)	0.8	-	-	-	-	0.8
Toshizo Tanaka	-	-	-	-	-	-
Håkan Kirstein	0.4	-	-	-	-	0.4
Bert Nordberg	0.4	-	-	-	-	0.4
Martin Gren (employed by Axis)	1.0**	-	-	0.3	-	1.3
Group Management						
Ray Mauritsson (President & CEO)	3.3	2.6	-	1.4	0.3	7.6
Others persons in the Group Management (9)	18.3	6	0.2	4.8	0.2	30.1
	24.2	**9.2**	**0.2**	**6.5**	**0.5**	**40.6**

2017	Basic salary/fees*	Bonus	Other benefits	Pension expense	Other remuneration	Total
Board of Directors						
Biörn Riese (Chairman)	0.8	-	-	-	-	0.8
Toshizo Tanaka	-	-	-	-	-	-
Håkan Kirstein	0.4	-	-	-	-	0.4
Bert Nordberg	0.4					0.4
Martin Gren (employed by Axis)	1.0**	0.1	-	0.3	-	1.4
Group Management*						
Ray Mauritsson (President & CEO)	3.5	6.6	-	1.4	0.3	11.8
Others persons in the Group Management (9)	19.2	8.2	0.3	4.8	0.8	33,3
	25.3	**14.9**	**0.3**	**6.5**	**1.1**	**48.1**

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 the nine members of the group management. Bonus for fiscal year 2017 will be disbursed during 2018. Bonus of SEK 4.0 M (1.6) for the fiscal year 2016 was disbursed during 2017 to the President and CEO and a total of SEK 10.2 M (7.1) to the other senior executives. Of this sum, SEK 0.8 M represented "stay on board" remuneration to the President and "stay on board" remuneration of SEK 3.4 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.
*** Malin Ruijsenaars, Axis Chief Personnel Officer, has been on sick leave during the year and has not participated in the management team. The function as Chief Personnel Officer has been maintained by two senior staff at the HR department and Axis' CEO has been responsible for HR issues at management team level.

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 pension. 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 2017, 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 2 insurance with Alecta amounted to SEK 38 M in 2017 (30.0). Expected fees for the next fiscal year amount to SEK 45 M. The group's share of the combined fees to the plan is negligible. At year-end 2017, Alecta's surplus in the form of the collective consolidation level was 154 percent[1)] (148). The collective consolidation level is defined as the market value of Alecta's assets as a percentage of the insurance commitments calculated according to Alecta's actuarial calculation assumptions, which do not correspond to IAS 19.

[1)] Preliminary number.

The retirement age for the President and CEO 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 basis 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 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 are 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 up to twelve cash monthly salaries may 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 20, 2017, the board established a remuneration committee composed of Biörn Riese and Bert Nordberg. During the period between the AGMs on April 13, 2016 and April 20, 2017, 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 2017 AGM resolved to adopt the board's proposal for guidelines regarding determination of salary and other remuneration to the President and CEO and other members of the company management.

During the period after the AGM 2017, 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 21 Other provisions

	Group	
	Dec 31. 2017	Dec 31. 2016
Warranty provision	146.2	119.6
Of which short-term portion*	-54.0	-43.4
	92.2	**76.2**

	Group	
	2017	2016
Provisions brought forward	76.2	61.2
Changes during the year, warranty provision	16.0	15.0
Provisions carried forward	**92.2**	**76.2**

* 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 22.

Note 22 Trade payables and other liabilities

	Group	
	2017-12-31	2016-12-31
Trade payables	633.2	621.3
Other liabilities	99.4	80.0
Short-term portion of warranty provision	54.0	43.4
Accrued salaries and holiday salaries	347.5	227.2
Social security contributions and other taxes	171.0	102.3
Deferred income	31.7	23.0
Accrued expenses	**193.7**	**154.6**
	1,530.5	**1,251.8**

Note 23 Financial income

	Parent Company	
	2017	2016
Interest income, internal	0.1	-
Interest income, external	1.5	0.4
Exchange differences	30.2	0.5
	31.8	**0.9**

Note 24 Financial expenses

	Parent Company	
	2017	2016
Interest expenses, external	-4.3	-1.8
Exchange differences	-1.0	-27.0
Other financial expenses	-0.2	-0.2
	-5.5	**-29.0**

Note 25 Appropriations

	Parent Company	
	2017	2016
Additional depreciation	0.9	1.7
Provision to tax allocation reserve	-	-192.0
Reversal from tax allocation reserve	197.2	57.8
Group contributions received	707.9	676.1
Group contributions paid	-1.5	-1.4
	904.5	**542.2**

Note 26 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, 2017	Carrying amount Dec 31, 2016
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	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 (tidigare Axis Beta AB)	Sweden, Lund	556599-4588	100.0%	500	0.1	0.1	0.1
Axis Communications de Argentina SA	Argentine		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	0.0
						39.6	**39.6**

* 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 Aktiebolag	Sweden, Lund	556644-9996	100.0%
Axis Communications de Argentina SA	Argentine		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 SAS	France		100.0%
Citilog SAS	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%
Axernet Communications SA	Spain		100.0%
Axis Communications SA Pty Ltd	South Africa		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 27 Contingent liabilities

	Group		Parent Company	
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
Customs bond	6.0	6.0	-	-
	6.0	**6.0**	**-**	**-**

Note 28 Cash flow from operations

	Group		Parent company	
	2017	2016	2017	2016
Net profit/loss for the period before financial items	1,013.9	885.0	62.7	58.0
Adjusted for:				
– depreciation of property, plant and equipment	102.2	87.9	-	-
– amortization of intangible assets	73.7	47.9	3.8	2.5
– other items not affecting cash flow*	69.8	-38.5	-	-
Change in working capital				
– inventories	303.2	-25.4	-	-
– trade receivables and other receivables	-143.2	-261.2	-1.1	1.0
– trade payables and other liabilities	220.3	235.9	-4.1	7.8
Cash flow from operations	**1,639.9**	**931.6**	**61.3**	**69.3**

* This item includes foreign currency translation effects.

Note 29 Related parties

On December 31, 2017, the parent company's non-current receivables from group companies amounted to SEK 27 M (27) and current receivables from group companies amounted to SEK 1,695 M (1,903). Current liabilities to group companies amounted to SEK 3 M (2). Related party transactions are priced on market-related terms.

All group companies are described in Note 26 Participations in subsidiaries. Information about board members and members of the group management and remuneration of these members is reported in Note 20 Personnel.

Apart from the remuneration to board members and the group management that is described in Note 20, no transactions with related physical persons have taken place. The group has not provided loans, provided indemnities or issued guarantees for any of the members of the board or other senior executives. Axis financial transactions with the majority owner Canon Inc or its subsidiaries have during the year amounted to SEK 42.5 million. Certain Axis group companies, from the time before Canon Inc's offer, lease business equipment from subsidiaries to Canon Inc. During the year, Axis and Canon have initiated a cooperation regarding manufacturing of Axis products in Canon's factories, and Axis is since before reseller of Canon's network video products in EMEA and the Americas.

Axis continually has a number pilot studies and collobaration 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. Prior to Canon Inc's offer, Axis already 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 20 megapixels 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.

Not 30 Tax allocation reserves

	2017	2016
Tax allocation reserve income year 2011	0.0	197.2
Tax allocation reserve income year 2012	124.9	124.9
Tax allocation reserve income year 2013	126.8	126.8
Tax allocation reserve income year 2014	127.5	127.5
Tax allocation reserve income year 2015	204.6	204.6
Tax allocation reserve income year 2016	192.0	192.0
	775.8	**973.0**

Note 31 Acquisitions

No business acquisitions were carried out during 2017. During 2016, three significant business acquisitions were completed, consisting of Citilog SAS, 2N Telekommunikace a.s. and Cognimatics AB.

31.1 Citilog SAS

On January 31, 2016, Axis Communications AB acquired 100 percent of the shares in Citilog SAS, 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
Net outflow of cash and cash equivalents – investing activities	**63.1**

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
Total assets	**101.8**
Non-current liabilities	6.6
Deferred tax liabilities	8.7
Trade payables	3.9
Other current liabilities	8.3
Total liabilities	**27.5**
Total identifiable net assets at fair value	**74.3**
Goodwill	**16.8**

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.

31.2 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
Net outflow of cash and cash equivalents – investing activities	**417.3**

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
Total assets	**278.4**
Deferred tax liabilities	27.5
Trade payables	29.3
Other current liabilities	18.1
Total liabilities	**74.9**
Total identifiable net assets at fair value	**203.5**
Goodwill	**272.4**

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.

31.3 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 purcahse price amounted to SEK 61.7 M which was paid in cash.

Initial cash purchase price	61.7
Less: acquired cash balances	-7.2
Net outflow of cash and cash equivalents – investing activities	**54.5**

Fair value of identifiable assets and liabilities on the acquisition date	
Intangible assets: trademarks	0.2
Intangible assets: contracts with customers	6.1
Intangible assets: technology	8.9
Trade receivables	2.4
Other current receivables	0.3
Cash and cash equivalents	7.2
Total assets	**25.1**
Deferred tax liabilities	7.1
Trade payables	0.8
Other current liabilities	1.2
Total liabilities	**9.1**
Total identifiable net assets at fair value	**16.0**
Goodwill	**45.7**

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.

Axis AB, corporate identity number 556241-1065

Note 32 Post-balance sheet events

There are no significant events to report.

Not 33 Appropriation of profits

(Amounts in SEK)
Suggested appropriation of profits in the parent company

At the disposal of the annual general meeting:

	2017	2016
Accumulated profit and other non-restricted reserves	1,212,878,278	831,431,161
Net profit for the year	774,157,107	445,351,467
Total	**1,987,035,385**	**1,276,782,628**

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	1,987,035,385	1,276,782,628
Total	1,987,035,385	1,276,782,628

Signatures

The board of directors approved these financial statements and consolidated financial statements, including the sustainability report for publication on March 20, 2018. The income statements and balance sheets of the parent company and the group will be submitted to the Annual General Meeting on April 18, 2018 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 annual accounts 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 other companies in the group.

Axis Aktiebolag (publ), 556241-1065, Lund, March 20, 2018

Biörn Riese
Chairman

Ray Mauritsson
President and CEO

Martin Gren
Board member

Toshizo Tanaka
Board member

Bert Nordberg
Board member

Håkan Kirstein
Board member

Mats Friberg
Board member, Employee representative

Eva Svensson
Board member, Employee representative

Malte Lennerstedt
Board member, Employee representative

Our audit report was submitted on March 20, 2018.

Ernst & Young AB

Johan Thuresson
Authorized Public Accountant

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 2017. The annual accounts and consolidated accounts of the company are included on pages 81-111 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 31 December 2017 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 31 December 2017 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 balance sheet for group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

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. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Goodwill

Description
Goodwill amounted SEK 367.6 million in the consolidated accounts as of 31 December 2017 and corresponds to 7.3 % of the group's assets. The company annually or at indication tests that the recognized goodwill amount does not exceed the recoverable amount. The recoverable amount is determined by calculating the present value of future cash flows. Future cash flows are based upon management's forecasts and includes a number of assumptions such as development in earnings, growth, investment needs and discount rate.

Changes in assumptions result in a large impact on the calculation of the recoverable amount and the assumptions applied by the company and will thus have large bearing on the assessment as to whether impairment exists. We have thus determined the accounting of goodwill to be a key audit matter.

A description of the impairment test is included in note 4 and the section Important assumptions and estimates in note 1.20.

How our audit addressed this key audit matter
In our audit we assessed and tested management's processes for preparing the impairment test for example by assessing the accuracy of previously applied forecasts and assumptions. We have also made comparisons towards other businesses in order to assess the reasonableness of the future cash flows and growth assumptions and through support of our valuation specialists challenged the applied discount rate and assumptions of long-term growth. We have also audited the company's model and methodology of conducting the impairment test and evaluated the company's sensitivity analyses. We have furthermore assessed the appropriateness of the disclosures in the annual report.

Revenue recognition

Description
The revenues amounted SEK 8,603 M in 2017. The revenue recognition principles are described in note 1.17 and 3. 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 1.20. 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.

How our audit addressed this key audit matter
During our audit we have evaluated 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 also evaluated the disclosures in 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 1-80, 116-119 and 127-132. 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.

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 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated (loss be dealt with) 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 the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of Axis AB by the general meeting of the shareholders on the 20 April 2017 and has been the company's auditor since 13 April 2016.

Lund March 20 2018
Ernst & Young AB

Johan Thuresson
Authorized Public Accountant

Axis AB, corporate identity number 556241-1065

Multi-year summary

INCOME STATEMENT (SEK M)	2013	2014	2015	2016	2017
Net sales	4,716.8	5,449.7	6,634.7	7,385.7	8,602.6
Cost of goods and services sold	-2,286.6	-2,627.7	-3,262.2	-3,678.9	-4,143.8
Gross profit	**2,430.2**	**2,822.0**	**3,372.5**	**3,706.8**	**4,458.8**
Selling and marketing expenses	-864.4	-1,019.6	-1,180.8	-1,353.0	-1,547.1
Administrative expenses	-208.9	-226.7	-292.2	-298.9	-351.7
Research and development expenses	-708.6	-858.7	-985.7	-1,233.4	-1,486.4
Other income and changes in value	-8.0	-1.6	-32.6	63.5	-59.7
Operating profit	**640.3**	**715.4**	**881.2**	**885.0**	**1,013.9**
Net financial items	-3.1	-1.5	-0.7	-0.8	-2.9
Profit after financial items	**637.2**	**713.9**	**880.5**	**884.2**	**1,011.0**
Tax on net profit	-158.3	-174.6	-228.4	-245.5	-275.2
Net profit for the year	**478.9**	**539.3**	**652.1**	**638.7**	**735.8**

BALANCE SHEET (SEK M)	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017
Non-current assets	270.5	338.3	452.9	1,167.9	1,562.1
Inventories	636.8	722.3	1,022.2	1,106.5	803.3
Trade receivables and other receivables	697.9	731.5	547.4	876.6	1,019.9
Short-term investments	-	-	-	-	89.2
Cash and cash equivalents	337.7	414.6	1,015.8	858.3	1,537.5
Total	**1,942.9**	**2,206.7**	**3,038.3**	**4,009.4**	**5,012.0**
Equity	936.9	1,097.1	1,741.5	2,352.3	3,075.5
Non-current liabilities	159.3	187.4	282.2	391.0	357.7
Current liabilities	846.7	922.2	1,014.6	1,266.1	1,578.8
Total	**1,942.9**	**2,206.7**	**3,038.3**	**4,009.4**	**5,012.0**

CASH FLOW STATEMENT (SEK M)	2013	2014	2015	2016	2017
Cash flow from operating activities before change in working capital	567.6	689.2	860.1	772.1	983.7
Change in working capital	-90.1	-88.7	-56.9	-50.7	380.3
Cash flow from operating activities	477.5	600.5	803.2	721.4	1,364.0
Cash flow from investing activities	-117.0	-141.6	-180.5	-831.6	-619.9
Cash flow from financing activities	-487.3	-382.0	-21.5	-47.2	-64.9
Cash flow for the period	**-126.8**	**76.9**	**601.2**	**-157.4**	**679.2**
Cash and cash equivalents at the beginning of the period	464.5	337.7	414.6	1,015.8	858.3
Cash and cash equivalents at the end of the period	337.7	414.6	1,015.8	858.3	1,537.5

OPERATING CASH FLOW (SEK M)	2013	2014	2015	2016	2017
Profit after financial items	637.2	713.9	880.5	884.2	1,011.0
Depreciation/amortization	55.4	72.1	103.6	135.8	175.9
Taxes	-128.2	-103.8	-191.5	-209.4	-273.0
Total	**564.4**	**682.2**	**792.6**	**810.6**	**913.9**
Change in working capital	-90.1	-88.7	-56.9	-50.7	380.3
Net investments	-117.0	-141.6	-180.5	-831.6	-619.9
Operating cash flow	**357.3**	**451.9**	**555.2**	**-71.7**	**,674.3**

KEY RATIOS	2013	2014	2015	2016	2017
Net sales growth, %	12.7	15.5	21.7	11.3	16.5
Gross margin, %	51.5	51.8	50.8	50.2	51.8
Operating margin, %	13.6	13.1	13.3	12.0	11.8
Profit margin, %	13.5	13.1	13.3	12.0	11.8
Depreciation/amortization, SEK M	55.4	72.0	103.6	135.8	175.9
Equity, SEK M	937	1,097	1,742	2,352	3,075
Equity/assets ratio, %	48.2	49.7	57.3	58.7	61.4
Balance sheet total, SEK M	1,943	2,207	3,038	4,009	5,012
Interest-bearing liabilities, SEK M	-	-	-	3	2
Net debt, SEK M	338	415	1,016	855	1,535
Capital employed, SEK M	937	1,097	1,742	2,355	3,078
Return on capital employed, %	67.9	70.5	62.1	43.3	37.4
Return on equity, %	56.9	54.8	48.4	33.7	29.1
Number of employees (average for the period)	1,532	1,797	2,065	2,414.0	2,783
Sales per employee, SEK M	3.1	3.0	3.2	3.1	3.1
Operating profit per employee, SEK M	0.4	0.4	0.4	0.4	0.4

PER-SHARE DATA	2013	2014	2015	2016	2017
Profit after financial items, SEK	9.17	10.28	12.67	12.73	14.55
Cash flow, SEK per share	–1.83	1.11	8.65	-2.27	9.78
Equity, SEK per share	13.49	15.79	25.06	33.87	44.28
Share price at end of the period	223.80	199.60	343.40	340.60	339.90
Price/equity, percent per share	1,659	1,264	1,370	1,006	767,6
Dividend paid	5.00	5.50	0.31	0.64	0.92
P/E ratio	32	26	37	37	32
Earnings per share before and after dilution, SEK	6.89	7.76	9.39	9.20	10.59
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

Axis AB, corporate identity number 556241-1065

Quarterly data

Invoiced sales per product group (SEK M)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Full year 2017
Video	1,546.9	1,714.9	1,864.1	1,941.8	1,901.4	1,998.1	2,116.5	2,058.7	8,074.7
Other	20.1	47.8	133.1	117.0	125.3	120.7	136.6	145.3	527.9
Total	**1,567.0**	**1,762.7**	**1,997.2**	**2,058.8**	**2,026.7**	**2,118.8**	**2,253.1**	**2,204.0**	**8,602.6**

Invoiced sales per region (SEK M)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Full year 2017
EMEA	585.7	565.2	671.0	823.8	732.4	695.6	793.6	865.8	3,087.3
Americas	810.0	984.1	1,068.9	992.7	1,039.7	1,179.7	1,189.7	1,086.2	4,495.4
Asia	171.3	213.4	257.3	242.3	254.6	243.5	269.8	252.0	1,019.9
Total	**1,567.0**	**1,762.7**	**1,997.2**	**2,058.8**	**2,026.7**	**2,118.8**	**2,253.1**	**2,204.0**	**8,602.6**

Income statement (SEK M)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Full year 2017
Net sales	1,567.0	1,762.7	1,997.2	2,058.8	2,026.7	2,118.8	2,253.1	2,204.0	8,602.6
Gross profit	785.5	876.0	989.4	1,056.0	1,034.0	1,086.5	1,186.3	1,152.0	4,458.8
Gross margin %	50.1	49.7	49.5	51.3	51.0	51.3	52.7	52.3	51.8
Operating profit	**153.1**	**166.8**	**312.2**	**252.9**	**234.3**	**209.0**	**364.7**	**205.9**	**1,013.9**
Operating margin %	9.8	9.5	15.6	12.3	11.6	9.9	16.2	9.3	11.8
Profit after financial items	**153.2**	**166.2**	**312.0**	**252.8**	**233.8**	**208.5**	**363.8**	**204.9**	**1,011.0**

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 including minority interest 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 sales.

Return on equity
Profit after financial items and tax divided by average equity.

P/E
Market value divided by profit after full tax.

Profit margin
Profit after financial items as a percentage of 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.

Sales per employee
Sales divided by the average number of full-time employees.

Axis AB, corporate identity number 556241-1065

Corporate governance report 2017

Axis Aktiebolag's (publ) (hereafter "Axis") Corporate Governance Report for 2017 is presented below. 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.

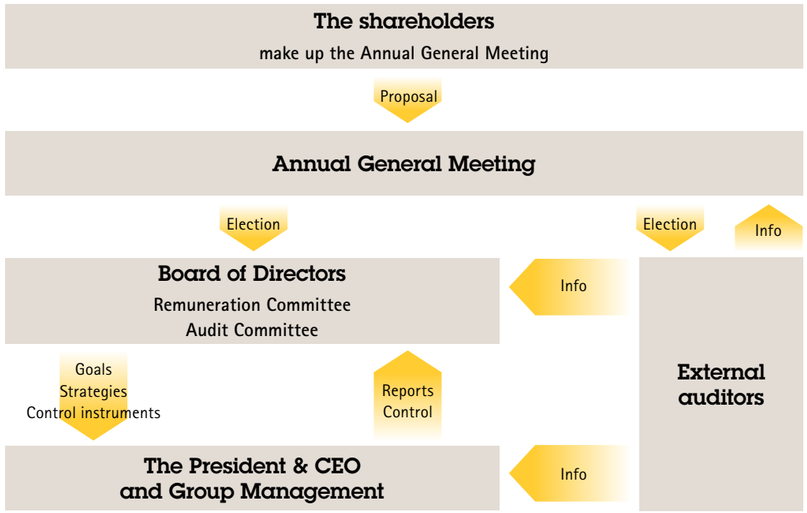
Deviations from the Code

In light of the ownership structure in Axis where Canon Inc. for some time owns 86.6 percent of the shares and votes, the 2017 Annual General Meeting (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 1,835 shareholders at the end of 2017 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 28-29 in the printed annual report. The company's share capital totaled SEK 23,610 M at year-end. At December 31, 2017, 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.

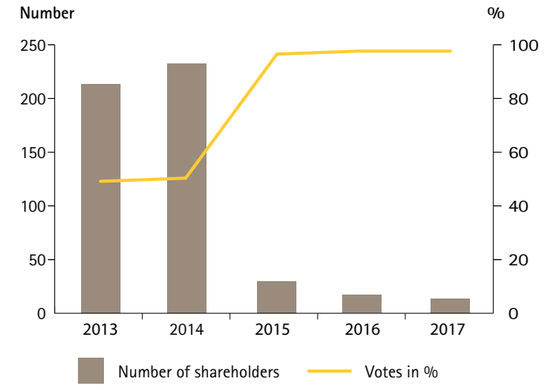
Control model



Principal owners

	Number of shares	Share of equity and votes
Canon Inc.	60,175,282	86.6 %
BNYMSANV RE GCLB RE BARCLAYS CAPITA	2,521,868	3.6 %
RAIFFEISEN BANK INTERNATIONAL AG	2,396,000	3.4 %
BARCLAYS CAPITAL SECURITIES LTD	961,805	1.4 %
SSB CLIENT OMNIBUS AC OMO7	859,250	1.2 %
Other	2,547,045	3,8 %
Total	**69,461,250**	**100.0 %**

Attendance Annual General Meetings 2013-2017



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.

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 20 April 2017

The AGM, which was held in Lund on April 20, 2017 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 (unchanged) 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 2017 AGM.

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

Board of Directors

During the period between AGMs, the board of directors of Axis constitutes the highest decision-making body in the company. The duties of the board are governed by the Swedish Companies Act and by the articles of association. The current articles of association were adopted at the AGM 2015 and are available in their entirety on www.axis.com. According to the company's articles of association, the board of directors shall consist of a minimum of three and a maximum of seven members, with a maximum of three deputy board members.

The board members Bert Nordberg, Biörn Riese, Håkan Kirstein and Martin Gren were present at the AGM on April 20, 2017. 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 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 20, Personnel. Other information about the board members may be found on page 127 of the printed annual report. Information about the shareholdings of board members may be found on page 127 of the printed annual report and on the company's website.

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 2017

The board has reviewed Axis' compliance with the Swedish Corporate Governance Code. The annual evaluation of the board's work has been carried out. The evaluation was carried out by the chairman without the involvement of an external party as decided by the board. As a basis for a discussion, each member of the board answered a questionnaire and expressed his or hers view on issues like how the work within the board has been conducted, what measures that can be taken to improve the work and what issues that should be given more or less attention.

According to the formal work plan of the board at least five ordinary meetings shall be held annually in addition to the statutory meeting. Apart from this, the board may convene when circumstances so require. During 2017, the board held 10 board meetings including the statutory meeting. See table on page 122 in the printed annual report for meeting attendance.

Axis has during the year adopted a new global diversity policy, which applies to all employees including management and, with effect from 2018, board members. In view of the company's operations, phase of development and conditions in general, the board has a suitable composition with respect to the directors' competence, experience and backgrounds. The gender balance for the board members appointed by the AGM is adjusted by the two female employee representatives.

A presentation of the board may be found on page 127 in the printed annual report.

Composition of the Board of Directors

				Attendance		
Name	Year elected	Independent	Total fees	Remuneration Committee	Board meetings	Committee meetings
Biörn Riese (Chairman of the Board)	2015	Yes	800,000	X	10 (10)	2
Bert Nordberg	2015	Yes	400,000	X	10 (10)	2
Håkan Kirstein	2015	Yes	400,000	-	8 (10)	-
Martin Gren	1984	No	400,000	-	10 (10)	-
Toshizo Tanaka	2015	No	–	-	9 (10)	-
Cristian Ionescu-Idbohrn (employee representative for SACO, deputy)				-	2 (10) *	
Eva Svensson (employee representative for IF Metall)	2017	-	–	-	1 (10) **	-
Farzin Akbar Zadeh (employee representative for SACO, deputy)	2017	-	–	-	4 (10) ***	-
Haris Mustafic (employee representative for IF Metall)				-	3 (10) ****	
Madhavi Kagganti (employee representative for SACO)				-	4 (10) *	
Malte Lennerstedt (employee representative for SACO)	2017	-	–	-	6 (10) ***	-
Marie Nässlind (employee representative for Unionen, deputy)	2015	-	–	-	7 (10)	-
Mats Friberg (employee representative for Unionen)	2015	-	–	-	10 (10)	-

* Left the board 20/04/2017 ** Member of the board since 19/10/2017 *** Member of the board since 20/04/2017 **** Left the board 08/09/2017

Committees

Remuneration Committee

Questions relating to decisions and guidelines regarding salary and other terms of employment for the company management (including the President and CEO) and other employees are prepared by a special remuneration committee. The remuneration committee reports to the board that adopts the necessary resolutions The remuneration 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 and secretarial capacity.

The board follows and evaluates the application of the guidelines for determination of salaries and other remuneration to the President and CEO and the other members of the company management as adopted by the AGM. Further, during 2017 the board has followed the program for variable remuneration to the company management adopted by the AGM. Based upon the input from the remuneration committee, 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.

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 127-128 of the printed annual report and the company's website.

** Malin Ruijsenaars, Axis Chief Personnel Officer, has been on sick leave during the year and has not participated in the management team. The function as Chief Personnel Officer has been maintained by two senior staff at the HR department and Axis' CEO has been responsible for HR issues at management team level.*

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 fourteen formal and a number of informal meetings during the year. Four 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 20, 2017. 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 are payable according to approved invoice, pursuant to the resolution of the AGM on April 20, 2017.

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 20, 2017. 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 complied 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 would occur in two parts, on June 30, 2016 and on June 30, 2017, provided that the conditions for continued employment were met.

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 2017 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 the board for one year at a time.

Audit

Axis' auditors are elected by the AGM. At the AGM 2017, 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.

The company's report on internal control over financial reporting 2017

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 watchwords – "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 a company-wide 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. Axis also has an anti-corruption policy and an internal channel for questions about ethical business decisions or reporting of violations of business ethics. 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 internal control in the group. This involves proactive efforts focused on the control environment as well as examining the design and operational effectiveness of the internal control framework.

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 overall 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 the valuation of assets, liabilities, revenue and expenses. The risk assessment also includes risks of e.g. fraud and favouritism to another party at the company's expense.

Control activities

The risks identified are handled e.g.by developing the control environment's various policies and training material, 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 2017, the internal control function made nine (five) visits to subsidiaries and to regional offices. The focus has been on performing management testing, i.e. ensuring that critical controls for the financial reporting are performed in accordance with existing documentation. This work will continue during 2018.

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.

Read more about Axis' corporate governance

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

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

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

Axis' sustainability report for 2017 may be found on pages 30-79 of the printed annual report. On Axis's website you can read more about the company's sustainability work.

Axis AB, corporate identity number 556241-1065

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 organization 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 the work performed by the Internal Control function, a good control environment, external audits by auditors, the decision regarding and a special examiner, 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 STATEMENT REGARDING THE CORPORATE GOVERNANCE REPORT

To the Annual 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 2017 on pages 120-126 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 20, 2018
Ernst & Young AB

Johan Thuresson
Authorized Public Accountant

Board of directors and auditors

Biörn Riese
Chairman of the Board since 2015

Born: 1953
Board member since: 2015
Board member of: Jurie Advokat AB
Education: Master of Laws (LL.M) 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 and lawyer, Jurie Advokat AB
Shares in Axis: 0

Martin Gren

Born: 1962
Board member since: 1984
Chairman of: Aktiebolag Grenspecialisten
Board member of: Askero Sagoboks Förlag 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: Comapnies 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, 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:

Mats Friberg
Board member since: 2015
Employee representative for Unionen
Shares in Axis: 0

Malte Lennerstedt
Board member since: 2017
Employee representative for SACO
Shares in Axis: 0

Eva Svensson
Board member since: 2017
Employee representative for IF Metall
Shares in Axis: 0

Marie Nässlind
Board member since: 2015
Employee representative for Unionen (deputy)
Shares in Axis: 0

Farzin Akbar Zadeh
Board member since: 2017
Employee representative for SACO (deputy)
Shares in Axis: 0

Auditors:

Ernst & Young AB.
Auditor in charge: Johan Thuresson, born 1964. Authorized Public Accountant. Assigned to Axis since 2016.

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 of Technology, 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

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

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

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

Malin Ruijsenaars has been on sick leave during the year and has not participated in the management team. The function as Chief Personnel Officer has been maintained by two senior staff at the HR department and Axis' CEO has been responsible for HR issues at management team level.

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: Auranest Holding AB and RU Konsult
Shares in Axis: 0

Peter Lindström
Vice President, 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

Axis AB, corporate identity number 556241-1065

Invitation to annual general meeting

The annual general meeting will be held at the company's premises at Edison Park, Emdalavägen 14, Lund, on Wednesday, April 18, 2018 at 3.00 p.m. The notification of participation must be received by Axis AB no later than 4.00 p.m. on Thursday April 12, 2018. 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 Thursday April 12, 2018. 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 Thursday, April 12, 2018. Such registration may be temporary.

The notice is available on 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.

The final day for trading in the company's shares including right to dividend is Wednesday, April 18, 2018.

Financial information 2018

Annual General Meeting: Wednesday April 18 april 2018
Interim report, January-March: Thursday April 19
Interim report, January-June: Thursday July 12
Interim report, January-September: Thursday October 18

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

Financial information is available in Swedish and English on Axis' website: 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

Advisor & Copywriter, Sustainability report: Lof Group Sustainability and Communications
Copywriter, Annual report: Aspekta
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Axis Communications in perspective

Axis enables a smarter and safer world by creating network solutions that provide insights for improving security and optimizing business performance. As the industry leader in network video, Axis offers products and services for video surveillance, access control and audio systems, as well as video analytics.

Axis has more than 2,800 dedicated employees in over 50 countries and collaborates with partners worldwide to deliver customer solutions. Founded in 1984, Axis is a Sweden-based company listed on the NASDAQ Stockholm under the ticker AXIS.

For more information about Axis, please visit our website www.axis.com.

Corporate identity number 556241-1065
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