

## Interim report January–June 2006

# Growth in network video continues

- *Net sales during the period amounted to SEK 540 M (401).*
- *Operating profit during the period totaled SEK 81 M (55).*
- *Profit before tax during the period amounted to SEK 81 M (55).*
- *Profit after tax during the period totaled SEK 58 M (42).*
- *Earning per share during the period amounted to SEK 0.84 (0.61).*

**About Axis.** Axis increases the value of network solutions. The company is an innovative market leader in network video and print servers. Axis' products and solutions are focused on applications such as security surveillance, remote monitoring and document management. The products are based on in-house developed chip technology, which is also sold to third parties. Axis was founded in 1984 and is listed on the Stockholmsbörsen (XSSE: AXIS) Attract 40-list in Sweden. Axis operates globally with offices in 17 countries and in cooperation with distributors and system integrators in 70 countries. Markets outside Sweden account for more than 95% of sales. Information about Axis can be found at [www.axis.com](http://www.axis.com).



## President's comments

Axis continued to grow in the expanding market for network video products. Growth during the first half of the year was 35 percent for the entire Group and 50 percent for the company's network video products.

Retail and Transportation were two customer segments in which Axis successfully initiated work on extensive network video installations. During the period, the company announced installations of network video cameras in Stockholms Lokaltrafik's (SL) subways, commuter trains and buses. Previously during the year, extensive installations in the US retail sector were announced.

Axis strengthened its local presence during the period through the establishment of an office in Johannesburg, South Africa. This establishment is intended to strengthen Axis' position in the African market.

Ray Mauritsson,  
President

## Sales

Net sales for the period from January to June amounted to SEK 540 M (401), up 35 percent on the same period in the preceding year. Currency effects had a positive impact of SEK 26 M on sales.

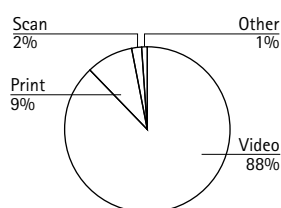
Sales for the second quarter totaled SEK 283 M (226), an increase of 25 percent, compared with the year-earlier period.

Sales in the Video product area amounted to SEK 469 M (313) during the first half of the year, corresponding to sales growth of 50 percent compared with the same period in the preceding year.

For the second quarter, Video reported sales of SEK 249 M (183), an increase of 36 percent. Video products now account for 88 percent of Axis' total sales. Sales in the Print product area during the first six months of the year accounted for 9 percent of total sales.

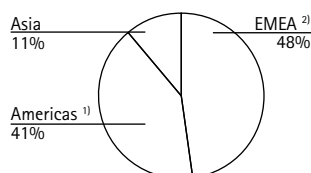
In the regions EMEA and Americas, activity was high during the period. In the Americas region, sales amounted to SEK 117 M (84), while sales in the EMEA region amounted to SEK 134 M (104). The Asia region reported sales of SEK 31 M (38), a decline that was attributable to weak OEM sales in the Print Product area.

### Invoiced sales per product group



Product area Video represents 88 percent of Axis' total sales.

### Invoiced sales per region



<sup>1)</sup> Including North, South and Central America

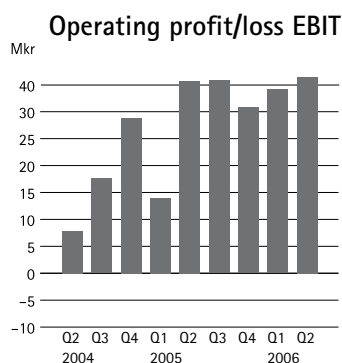
<sup>2)</sup> Including Europe, The Middle East and Africa

Region EMEA is the largest region, followed by Americas and Asia.

Invoicing by product group, SEK 000s	Q2 2006	Q2 2005	Q1-Q2 2006	Q1-Q2 2005	Full year 2005	Q305-Q206 12 months
Video	249 253	183 107	468 851	313 338	732 586	888 099
Print	24 192	36 241	52 048	75 384	135 542	112 206
Scan	6 230	2 327	10 343	4 365	11 050	17 028
Other	3 397	4 444	8 911	7 802	15 888	16 997
<b>TOTAL</b>	<b>283 072</b>	<b>226 119</b>	<b>540 153</b>	<b>400 889</b>	<b>895 066</b>	<b>1 034 330</b>

Invoicing by region, SEK 000s	Q2 2006	Q2 2005	Q1-Q2 2006	Q1-Q2 2005	Full year 2005	Q305-Q206 12 months
EMEA	134 447	104 242	250 327	184 700	410 387	476 014
Americas	117 246	84 164	225 836	137 098	337 162	425 900
Asia	31 379	37 713	63 990	79 091	147 517	132 416
<b>TOTAL</b>	<b>283 072</b>	<b>226 119</b>	<b>540 153</b>	<b>400 889</b>	<b>895 066</b>	<b>1 034 330</b>

## Earnings



Operating profit increased to SEK 81 M (55), corresponding to an operating margin of 15.1 percent (13.8) for the period from January to June. The gross margin remained stable, amounting to 54.2 percent (54.0). Profit before tax rose to SEK 81 M (55), while profit after tax was SEK 58 M (42). Currency effects had a positive effect of SEK 6 M on earnings.

For the second quarter, operating profit amounted to SEK 43 M (41), corresponding to an operating margin of 15.3 (18.3) percent. Profit before tax was SEK 31 M (29). The gross margin remained stable, amounting to 54.6 (55.2) percent.

Condensed income statement, SEK 000s	Q2 2006	Q2 2005	Q1-Q2 2006	Q1-Q2 2005	Full year 2005	Q305-Q206 12 months
Net sales	283 072	226 119	540 153	400 889	895 066	1 034 330
Gross profit	154 573	124 744	292 794	216 403	482 973	559 364
Gross margin	54.6%	55.2%	54.2%	54.0%	54.0%	54.1%
<b>Operating profit</b>	<b>43 297</b>	<b>41 449</b>	<b>81 296</b>	<b>55 382</b>	<b>128 192</b>	<b>154 106</b>
Operating margin	15.3%	18.3%	15.1%	13.8%	14.3%	14.9%
Profit before tax	43 106	41 306	81 003	55 079	127 541	153 465

## Cash flow and financial position

Cash flow from current operations amounted to SEK 117 M. Net investments totaled SEK 17 M, of which capitalized development costs during the period accounted for SEK 10.7 M. During the half-year period, SEK 69 M was distributed to the shareholders. Axis has cash and cash equivalents amounting to SEK 221 M, and unutilized credit facilities of SEK 60 M. The company thus had disposable funds amounting to SEK 281 M at June 30, 2006.

## Shareholders' equity

Consolidated shareholders' equity amounted to SEK 399 M. The total number of shares on the closing date was 69,072,100. After full exercise of outstanding warrants, the number of shares will amount to 69,545,050. The consolidated equity/assets ratio was 68 percent at June 30, 2006.

(SEK 000s)	Share capital	Other contributed capital	Other reserves	Profit brought forward	Total equity capital
<b>Opening balance at Jan. 1, 2006</b>	<b>689</b>	<b>-</b>	<b>283 337</b>	<b>123 236</b>	<b>407 262</b>
Exchange-rate effects	-	-	890	-	890
Other adjustments	2	1808	-200	-	1 610
Dividend	-	-	-	-68 968	-68 968
Net profit for the period	-	-	-	57 876	57 876
<b>Closing balance at June 30, 2006</b>	<b>691</b>	<b>1808</b>	<b>284 027</b>	<b>112 144</b>	<b>398 670</b>

## *Significant events during the last three months*

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Axis continued its successful sales of network video products in a growing market, and the company retained its position as the global market leader in network video products.

Axis market leading position was confirmed during the period when it received the award Market Penetration Leadership from the US analysis company Frost & Sullivan. This award is given annually to the company that has the best strategy for product innovation, marketing and sales.

Sales of network video products were favorable in all customer segments, but particularly in Transportation and Retail. Within Retail, several extensive contracts in the US market were announced at the beginning of the year.

During the period, Stockholms Lokaltrafik (SL) announced that Axis will install the vandal-proof AXIS 225FD network camera as part of SL's major initiative to ensure safety in the city's subway and commuter rail stations. The Canadian company Visual Defence is a partner and the system integrator in the project. At the end of the period, Axis announced a further expansion of the partnership with the Canadian company through a contract for the installation of network cameras in 2,500 buses. Installation is planned to start during 2007.

As part of its ambition to operate locally in a global market, Axis opened an office in Johannesburg, South Africa, on May 19. Establishment took place through the takeover of the previous distributor SCS Distribution. The acquisition cost is estimated at SEK 9 M and pertains mainly to the acquisition of intangible assets. These operations had no significant effect on sales or profit during the quarter. The establishment of the office in Johannesburg is intended to strengthen Axis' presence on the African continent.

Axis' revolutionary network camera, the AXIS 212 PTZ, which offers unique features, was introduced during the period. With a simple click, the user can zoom in on an object of interest in the image and view close-ups of the object with retained image quality and without wear on the camera's moving parts. AXIS 212 PTZ is compact, discreet and ideal for monitoring areas up to 150 square meters, such as stores and reception areas.

An important success factor for Axis is partnership with sales channel partners and distributors, as well as application development partners (ADP). At June 30, the company had 7,300 sales channel partners and over 300 Application Development Partners.

During the period, Axis participated in the international exhibitions ISC West in the US and IFSEC in the UK, where visitors showed great interest in Axis' latest products, such as the AXIS 225FD and the AXIS 212 PTZ.

## *Prospects for 2006*

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Axis' overall objective is to retain, further strengthen and enhance the company's position as the market-leading supplier of network-based video solutions.

Going forward into the second half of 2006, Axis foresees a video market that will continue to develop at a rapid pace. To retain market shares and its leading position, while meeting increasing competition in the market, Axis will continue to pursue its focused strategy during the year. This strategy entails launching intelligent and innovative network video products, enhancing partnerships, expansion and recruitment.

## *The Axis share*

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The Company's share is listed on the Stockholm Stock Exchange's O List, among the Attract 40 companies. The average turnover per day during the period January 1 through June 30, 2005 was SEK 9.1 M. The average number of shares sold during the same period was 169,395 shares per day. The average share price during the period was SEK 54.01. The total number of shares in the Company on the closing date was 69,072,100.

## *Accounting policy*

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This interim report was prepared in accordance with IAS 34 Interim Reporting. For information about the accounting principles applied, refer to the 2005 Annual Report. The accounting principles are unchanged compared with those used in 2005.

## *Corporate Governance*

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The Swedish code for corporate governance was published in December 2004. The code, which is based on self-regulation on the "observe or explain" principle, deals primarily with the organization and work of the annual general meeting, the Board of Directors and the company management, and the inter-relationship among them. Axis complies with to the code as from July 1 2006, by the principle follow or explain and will implement it gradually until the Annual General meeting in 2007.

## *Parent Company*

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The Parent Company's operations focus primarily on Group-wide administration. The Parent Company has no employees. An operating loss of SEK 1 M (loss: 1) was reported. Cash and cash equivalents amounted to SEK 103 M (0), while borrowing was SEK 0 M (0). No investments were completed during the interim-report period.

## *Reporting dates*

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The interim report for the third quarter of 2006 (January 1, 2006 to September 30, 2006) will be presented on October 19, 2006.

Lund, July 10, 2006

Ray Mauritsson, *President*

## Income statement

(SEK 000s)	Q2 2006	Q2 2005	Q1-Q2 2006	Q1-Q2 2005	Full year 2005	Q305-Q206 12 months
Net sales	283 072	226 119	540 153	400 889	895 066	1 034 330
Cost of sold products and services	-128 499	-101 375	-247 359	-184 486	-412 093	-474 966
Gross profit	154 573	124 744	292 794	216 403	482 973	559 364
Other revenues and changes in value	-2 223	401	-1 381	1 044	-2 718	-5 143
Selling and marketing costs	-58 345	-42 735	-108 721	-81 957	-176 289	-203 053
Administrative costs	-12 285	-13 555	-26 821	-24 461	-53 274	-55 634
Research and development costs	-38 423	-27 406	-74 575	-55 647	-122 500	-141 428
Operating profit	43 297	41 449	81 296	55 382	128 192	154 106
Financial expense	-191	-143	-293	-303	-651	-641
Pretax profit	43 106	41 306	81 003	55 079	127 541	153 465
Tax	-12 177	-11 837	-23 127	-13 265	-36 454	-49 807
Net profit for the period	30 929	29 469	57 876	41 814	91 087	103 658
Earnings per share before dilution, SEK	0.45	0.43	0.84	0.61	1.32	1.50
Earnings per share after dilution, SEK	0.45	0.43	0.84	0.61	1.32	1.50
Average number of shares before dilution, thousands	68 953	68 900	68 953	68 900	68 906	68 953
Average number of shares after dilution, thousands	69 178	68 956	69 178	68 956	69 121	69 178

## Cash flow statement

(SEK 000s)	Q2 2006	Q2 2005	Q1-Q2 2006	Q1-Q2 2005	Full year 2005	Q305-Q206 12 months
Cash flow from operating activities before change in working capital	55 034	39 565	93 774	54 196	145 678	185 256
Change in working capital	13 319	-20 318	23 604	-3 464	-15 149	11 919
Cash flow from operating activities	68 353	19 247	117 378	50 732	130 529	197 175
Cash flow from investment activities	-9 930	-8 674	-16 817	-13 957	-29 921	-32 781
Cash flow from financing activities	-67 251	-32 864	-67 158	-34 450	-34 406	-67 114
Cash flow for the period	-8 828	-22 291	33 403	2 325	66 202	97 280
Cash and cash equivalents, beginning of period	229 456	145 639	187 225	121 023	121 023	123 348
Cash and cash equivalents, end of period	220 628	123 348	220 628	123 348	187 225	220 628

## Balance sheet

(SEK 000s)	June 30, 2006	June 30, 2005	Dec. 31, 2005
Fixed assets	97 114	120 036	107 204
Inventories	83 456	84 537	117 811
Accounts receivable and other receivables	184 875	185 781	167 983
Cash and cash equivalents	220 628	123 348	187 225
<b>Total</b>	<b>586 073</b>	<b>513 702</b>	<b>580 223</b>
Shareholders' equity	398 670	354 848	407 262
Long-term liabilities	12 081	8 820	10 774
Current liabilities	175 322	150 034	162 187
<b>Total</b>	<b>586 073</b>	<b>513 702</b>	<b>580 223</b>

## Key figures

	Q2 2006	Q2 2005	Q1-Q2 2006	Q1-Q2 2005	Full year 2005
Net sales growth (%)	25.2	34.9	34.7	25.4	29.4
Gross margin (%)	54.6	55.2	54.2	54.0	54.0
Operating margin (%)	15.3	18.3	15.1	13.8	14.3
Profit margin (%)	15.2	18.3	15.0	13.7	14.2
Depreciation (SEK M)	19	9	19	9	13
Shareholders' equity (SEK M)	399	355	399	355	407
Capital employed (SEK M)	408	363	408	363	412
Interest-bearing liabilities (SEK M)	7	9	7	9	7
Net interest-bearing liabilities (SEK M)	-214	-115	-214	-115	-180
Total assets (SEK M)	586	514	586	514	580
Return on capital employed (%)	42.3	46.4	39.7	31.0	33.6
Return on total capital (%)	29.7	33.7	27.9	16.9	24.4
Return on equity (%)	30.8	34.2	29.0	22.8	24.6
Interest-coverage ratio (times)	226.7	289.9	277.5	182.8	196.9
Net debt/equity ratio (times)	-0.5	-0.3	-0.5	-0.3	-0.4
Equity/assets ratio (%)	68.0	69.1	68.0	69.1	70.2
Share of risk-bearing capital (%)	68.6	69.1	68.6	69.1	70.2
Capital turnover ratio (times)	2.8	2.5	2.6	2.2	2.3
Number of employees (average for period)	410	352	403	352	361
Sales per employee (SEK M)	2.8	2.6	2.7	2.3	2.5
Operating profit per employee (SEK M)	0.4	0.5	0.4	0.3	0.4

The key figures are based on IFRS-adjusted balance sheets and income statements and have been recalculated as full-year values where required.

## Per share data

	June 30, 2006	June 30, 2005	Dec. 31, 2005
Share price at end of period, SEK	59.50	28.10	58.25
Dividend, SEK	1.00	0.50	0.50
P/E multiple	35	23	44
Earnings per share before dilution, SEK	0.84	0.61	1.32
Earnings per share after dilution, SEK	0.84	0.61	1.32
Average number of shares before dilution, thousands	68 953	68 900	68 906
Average number of shares after dilution, thousands	69 178	68 956	69 121
Number of shares outstanding (thousands)	69 072	68 902	68 925

## Quarterly data

Invoicing per product group (SEK 000s)	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006
Video	96 744	115 193	117 576	144 563	130 231	183 107	198 422	220 766	219 598	249 253
Print	43 053	45 832	39 010	41 154	39 143	36 241	29 775	30 383	27 856	24 192
Scan	1 871	935	5 824	2 932	2 038	2 327	2 387	4 298	4 113	6 230
Other	10 401	5 614	10 088	10 691	3 359	4 444	4 146	4 000	5 514	3 397
<b>TOTAL</b>	<b>152 069</b>	<b>167 574</b>	<b>172 498</b>	<b>199 340</b>	<b>174 771</b>	<b>226 119</b>	<b>234 730</b>	<b>259 447</b>	<b>257 081</b>	<b>283 072</b>

Invoicing per region	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006
EMEA	78 058	81 019	83 022	108 038	80 459	104 242	96 524	129 163	115 880	134 447
Americas	39 713	55 127	56 530	55 241	52 934	84 164	100 331	99 733	108 590	117 246
Asia	34 298	31 428	32 946	36 061	41 378	37 713	37 875	30 551	32 611	31 379
<b>TOTAL</b>	<b>152 069</b>	<b>167 574</b>	<b>172 498</b>	<b>199 340</b>	<b>174 771</b>	<b>226 119</b>	<b>234 730</b>	<b>259 447</b>	<b>257 081</b>	<b>283 072</b>

## *Report on review*

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We have reviewed the interim report of Axis AB (publ) for the period of January 1 to June 30, 2006. Management is responsible for the preparation and presentation of this interim report in accordance with the Annual Accounts Act and IAS 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

We conducted our review in accordance with Standard on Review Engagements (SÖG) 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by FAR. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing in Sweden (RS) and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that we would become aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not, in all essential respects, prepared in accordance with the Annual Accounts Act and IAS 34.

Lund, July 10, 2006

Öhrlings PricewaterhouseCoopers AB

Anders Lundin,  
*Authorized Public Accountant*  
*Auditor in charge*

*For further  
information*

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Welcome to participate in Axis' telephone conference for the media and financial analysts today, June 10, at 11:00 a.m. A presentation is available at:

[www.axis.com/corporate/investor/eng](http://www.axis.com/corporate/investor/eng)

Time: Monday, June 10, 11:00 a.m.

Tel: +46 8 5052 0110

Specify Axis Communications.

Or contact:

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The Annual Report for 2005 is available on Axis' web site,  
[www.axis.com/corporate/investor/financial\\_reports.htm](http://www.axis.com/corporate/investor/financial_reports.htm)

Further information is available from the President, Ray Mauritsson,  
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