

Interim report, January–September 2007

## Strong growth driven by extensive network video projects

- *Net sales during the period amounted to SEK 1,193 M (841).*
- *Operating profit during the period totaled SEK 264 M (150).*
- *Profit before tax during the period amounted to SEK 263 M (149).*
- *Profit after tax during the period totaled SEK 192 M (108).*
- *Earnings per share during the period amounted to SEK 2.76 (1.56).*

*About Axis Communications. Axis is an IT company offering network video solutions for professional installations. The company is the global market leader in network video, driving the ongoing shift from analog to digital video surveillance. Axis products and solutions focus on security surveillance and remote monitoring, and are based on innovative, open technology platforms.*

*Axis is a Swedish-based company, operating worldwide with offices in 18 countries and cooperating with partners in more than 70 countries. Founded in 1984, Axis is listed on the OMX Nordic Exchange, Large Cap and Information Technology. For more information about Axis, please visit our web site at [www.axis.com](http://www.axis.com).*



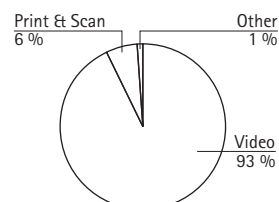
## President's comments

Interest in more comprehensive installations has intensified and supplementary orders relating to projects already received have increased in such customer segments as Transport and Retail. Axis reported net sales of SEK 1,193 M (841) during January–September 2007, up 42 percent compared with the year-earlier period. The Video product area accounted for SEK 1,090 M of the total, corresponding to growth of 48 percent, and represented 93 percent of total sales during the third quarter.

Ray Mauritsson  
President

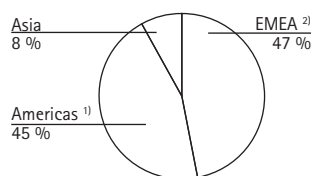
## Sales

### Invoiced sales per product group, Q3 2007



Product area Video represents 93 % of Axis' sales.

### Invoiced sales per region, Q3 2007



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

<sup>2)</sup> Incl Europe, the Middle East and Africa

### January–September period

Axis reported net sales of SEK 1,193 M (841) during January–September 2007, an increase of 42 percent compared with the year-earlier period. The Video product area accounted for SEK 1,090 M of the total, corresponding to growth of 48 percent. Exchange rate differences had a negative impact of SEK 61 M on net sales.

### Third quarter

Net sales during the third quarter of 2007 amounted to SEK 444 M (301), up 47 percent compared with the corresponding quarter in the preceding year. Sales in the Video product area rose 54 percent to SEK 413 M (269), corresponding to 93 percent of Axis' total sales. The Document (Print and Scan) product area reported sales of SEK 25 M (28) during the period and now accounts for 6 percent of total sales.

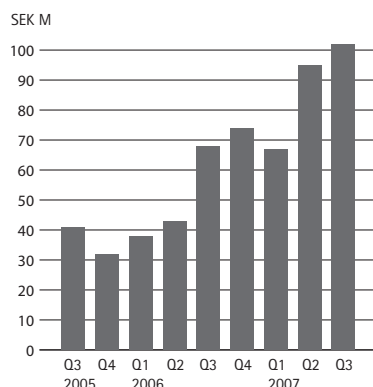
The sales trend was favorable in the EMEA region, where sales of SEK 212 M (140) were reported, equal to growth of 52 percent. This strong growth was attributable to an even flow of order bookings, despite the vacation period. Sales in the Americas region amounted to SEK 198 M (129), corresponding to growth of 53 percent. Growth in the Americas region resulted from an increased presence following the establishment of local offices in the region. Region Asia reported sales of SEK 34 M (32), with the weak growth due to a decline in print sales.

Invoiced sales per product group, SEK 000s	Q3 2007	Q3 2006	Q1–Q3 2007	Q1–Q3 2006	Full year 2006	Q406–Q307 12 months
Video	412 737	268 667	1 090 053	737 518	1 061 610	1 414 145
Print	15 344	20 939	63 708	72 987	95 313	86 034
Scan	9 644	6 946	22 702	17 289	27 000	32 413
Other	6 517	4 767	16 232	13 678	18 568	21 122
TOTAL	444 242	301 319	1 192 695	841 472	1 202 491	1 553 714

Invoiced sales per region, SEK 000s	Q3 2007	Q3 2006	Q1–Q3 2007	Q1–Q3 2006	Full year 2006	Q406–Q307 12 months
EMEA	212 274	139 505	555 276	389 832	581 412	746 856
Americas	198 154	129 422	519 310	355 258	485 202	649 254
Asia	33 814	32 392	118 109	96 382	135 877	157 604
TOTAL	444 242	301 319	1 192 695	841 472	1 202 491	1 553 714

## Operating profit

### Operating profit / EBIT



### January–September period

Operating profit for the January–September period amounted to SEK 264 M (150), corresponding to an operating margin of 22.1 percent (17.8). The gross margin was 55.3 percent (54.6).

Pretax profit rose to SEK 263 M (149) and profit after tax to SEK 192 M (108). Exchange rate fluctuations had a negative impact of SEK 13 M on profit.

### Third quarter

Operating profit for the third quarter amounted to SEK 102 M (68), corresponding to an operating margin of 23.1 percent (22.7). The gross margin for the third quarter was 54.5 percent (55.3). Pretax profit amounted to SEK 102 M (68).

Profit after tax amounted to SEK 72 M (50).

Condensed income statement, SEK 000s	Q3 2007	Q3 2006	Q1–Q3 2007	Q1–Q3 2006	Full year 2006	Q406–Q307 12 months
Net sales	444 242	301 319	1 192 695	841 472	1 202 491	1 553 714
Gross profit	242 086	166 772	659 072	459 566	659 007	858 513
Gross margin	54.5 %	55.3 %	55.3 %	54.6 %	54.8 %	55.3 %
Operating profit	102 413	68 332	263 637	149 628	223 156	337 164
Operating margin	23.1 %	22.7 %	22.1 %	17.8 %	18.6 %	21.7 %
Pretax profit	102 236	68 060	263 032	149 063	222 406	336 374

## Cash flow, investments and financial position

Cash flow from current operations during the January–September period was strong, amounting to SEK 213 M. Net investments amounted to SEK 18 M, of which capitalized development costs accounted for SEK 14 M. At the close of the period, Axis had cash and cash equivalents of SEK 306 M and unutilized credit facilities of SEK 60 M. Accordingly, the company had a total of SEK 366 M at its disposal at September 30, 2007.

## Shareholders' equity

Consolidated shareholders' equity amounted to SEK 490 M. The total number of shares at the end of the period was 69,337,500. After full exercise of outstanding warrants, the number of shares totaled 69,535,050. At September 30, 2007, the Group's equity/assets ratio was 59 percent.

(SEK 000s)	Share capital	Other contributed capital	Other reserves	Retained earnings	Total equity
Opening balance at January 1, 2007	692	271 686	17 445	211 246	501 069
Translation differences	-	-	-343	-	-343
Exercise of warrants	1	2 204	-	-	2 205
Dividend	-	-	-	-207 834	-207 834
Profit for the period	-	-	-	191 450	191 450
Closing balance at September 30, 2007	693	273 890	17 102	194 862	486 547

## Business development

The technology shift from analog to digital solutions continues at rapid pace, which benefits Axis as a global market leader in the network video market. During the period, Axis continued to

strengthen its position in the expanding market for network video products and today about 1,000,000 network cameras are installed in security installations in various parts of the market.

#### **Comprehensive network video projects**

Interest in comprehensive security installations featuring network video products has intensified and supplementary orders for already initiated major projects have increased.

#### **Axis at casinos**

During the period, Axis announced that network cameras had been installed at three casinos owned by the Choctaw Nation of Oklahoma in the US. Axis' network cameras are installed at the casinos in Durant, Broken Bow and Pocola for the monitoring of gambling premises, high-stake poker tables and gaming machines. Choctaw Nation selected a network solution because it wanted to be able to manage flows of people in existing and new casinos.

#### **Increased local presence**

In August, Axis opened a sales office in Bangalore, India. With a local presence, Axis will be able to fully capitalize on the fast-growing Indian market. Initially, the focus will be on the transport and retail sectors.

#### **The STS market**

In September, Axis announced that the company's network cameras were to be part of Telia HemKoll, a service offered by Swedish telecom operator company TeliaSonera. The service enables customers to easily maintain an overview of developments at home or in the office, even when they are not in place. This is a variation of the AXIS 207W STS network camera that TeliaSonera customers, through the Telia HemKoll service, are given an opportunity to install in their homes or in smaller companies.

#### **Intensified recruitment**

To satisfy the increasing market interest, Axis has intensified recruitment. New employees have been and will be recruited, primarily within sales and support, but also in development operations. The number of employees at the end of the period was 523.

#### **Network cameras released during the period**

During the period July to September, Axis announced the release of network solutions that generated considerable interest in the market. The AXIS 209FD and AXIS 209MFD are refinements of the previously released AXIS 209FD-R. The most recently released

network cameras have been developed for installation in indoor environments, where discreet surveillance is desirable, such as in stores, receptions and offices. These network cameras are only four centimeters high and are easy to install on walls or in the ceiling.

The AXIS 211W, which was launched during the period, is a wireless network camera that is ideal for security surveillance within the retail sector, offices, hotels and university areas.

#### **Intense market activity**

Axis continues to focus on training the market in the transition from analog to digital technology in order to hasten the technology shift. During the period, Axis participated in a number of fairs in France, the US, Argentina, Denmark, Australia and Vietnam.

#### **Successful partnership program**

Axis sells its products through an indirect business model and the company is continuing to strengthen its presence in the market by training partners in a proprietary-developed partnership program. Under the program, partners receive training in the benefits offered by network video in general and by Axis products in particular, knowledge that will be of value in discussions with end customers. The partnership program also includes a consultancy program, whereby consultants receive training in the benefits offered by network video. Axis currently has more than 400 registered consultants, with their main geographical focus on North America.

## *Trends during the remainder of 2007*

---

Axis overall objectives remain unchanged. The company's goal is to maintain and strengthen its position as the market-leading supplier of network based video solutions. To maintain market shares and this leading position, and to counter the increasing competition in the market, Axis will continue to pursue its focused strategy. This strategy involves the launch of innovative network video products, the further development of partnerships, expansion and recruitment.

## *The Axis share*

---

The company's share is listed on OMX Nordic Exchange Stockholm AB. Share trading during the period from January 1 through September 30, 2007 averaged SEK 18 M per day. On average, 132,751 shares per day were traded during the same period. The average share price during the period was SEK 131.98. The total number of shares in the company at the end of the period was 69,337,500.

## *Nomination committee*

---

Axis' Nomination Committee comprises representatives from the three largest shareholders: Therese Karlsson (LMK Industri AB), Christer Brandberg (Inter Indu S.P.R.L) and Martin Gren (AB

Grens specialisten). Christer Brandberg is Chairman and convener. Proposals and viewpoints from shareholders regarding the composition of the Board may be presented either in writing to the address: Axis AB, Attention: Adrienne Jakobsson, Emdalavägen 14, SE-223 69 Lund, or by telephone to +46 (0)46 272 18 00.

## *Accounting principles*

---

This interim report was prepared in accordance with the Annual Accounts Act and IAS 34, Interim Financial Reporting. For information on the accounting principles applied, see the 2006 Annual Report. The accounting principles are unchanged compared with those applied in 2006.

## *Risks and uncertainty factors*

---

Axis' operations entail a number of risks and uncertainty factors, which are described in the 2006 Annual Report. As of September 30, we assess that no new significant risks or uncertainty factors have arisen.

## *Parent Company*

---

The Parent Company's operations focus primarily on Group-wide administration. The Parent Company has no employees. Net sales amounted to SEK -1 M (-1). Cash and cash equivalents on the Group's account amounted to SEK -104 M (Jan. 1: 253) and borrowing was SEK 0 M (Jan. 1: 0). Investments during the period amounted to SEK 0 M (0).

## *Reporting dates*

---

The year-end report for Axis AB will be presented on January 31, 2008.

## *Annual General Meeting*

---

The Annual General Meeting of Axis AB will be held in Lund at April 17, 2008 at 5:00 p.m. Venue will be reported.

Lund, October 19, 2007

Ray Mauritsson  
*President*

## Consolidated income statement

(SEK 000s)	Q3 2007	Q3 2006	Q1–Q3 2007	Q1–Q3 2006	Full year 2006	Q406–Q307 12 months
Net sales	444 242	301 319	1 192 695	841 472	1 202 491	1 553 714
Cost of sold products and services	-202 156	-134 547	-533 623	-381 906	-543 484	-695 201
<b>Gross profit</b>	<b>242 086</b>	<b>166 772</b>	<b>659 072</b>	<b>459 566</b>	<b>659 007</b>	<b>858 513</b>
Other revenues and changes in value	-620	2 155	3 607	774	2 534	5 367
Selling and marketing costs	-79 902	-50 266	-222 073	-158 987	-226 732	-289 819
Administrative costs	-14 525	-11 732	-44 762	-38 553	-53 485	-59 694
Research and development costs	-44 626	-38 597	-132 207	-113 172	-158 168	-177 203
<b>Operating profit</b>	<b>102 413</b>	<b>68 332</b>	<b>263 637</b>	<b>149 628</b>	<b>223 156</b>	<b>337 164</b>
Financial expenses	-177	-272	-605	-565	-750	-790
<b>Pretax profit</b>	<b>102 236</b>	<b>68 060</b>	<b>263 032</b>	<b>149 063</b>	<b>222 406</b>	<b>336 374</b>
Tax	-30 662	-18 279	-71 582	-41 406	-65 025	-95 201
<b>Net profit for the period</b>	<b>71 574</b>	<b>49 781</b>	<b>191 450</b>	<b>107 657</b>	<b>157 381</b>	<b>241 173</b>
Earnings per share before dilution, SEK	1.03	0.72	2.76	1.56	2.28	3.48
Earnings per share after dilution, SEK	1.03	0.72	2.76	1.56	2.27	3.47
Average number of shares before dilution, thousands	69 322	69 041	69 296	69 041	69 084	69 284
Average number of shares after dilution, thousands	69 419	69 144	69 419	69 144	69 220	69 419

## Cash-flow statement

(SEK 000s)	Q3 2007	Q3 2006	Q1–Q3 2007	Q1–Q3 2006	Full year 2006	Q406–Q307 12 months
Cash flow from operating activities before change in working capital	88 477	67 403	217 271	161 177	247 423	303 517
Change in working capital	34 607	-21 768	-1 769	1 836	-20 490	-24 095
<b>Cash flow from operating activities</b>	<b>123 084</b>	<b>45 635</b>	<b>215 502</b>	<b>163 013</b>	<b>226 933</b>	<b>279 422</b>
Cash flow from investment activities	-2 176	-13 446	-17 718	-30 263	-37 992	-25 447
Cash flow from financing activities	1 022	3 019	-205 629	-64 139	-62 700	-204 190
<b>Cash flow for the period</b>	<b>121 930</b>	<b>35 208</b>	<b>-7 845</b>	<b>68 611</b>	<b>126 241</b>	<b>49 785</b>
Cash and cash equivalents, beginning of period	183 691	220 628	313 466	187 225	187 225	255 836
Cash and cash equivalents, end of period	305 621	255 836	305 621	255 836	313 466	305 621

## Consolidated balance sheet

(SEK 000s)	Sept. 30, 2007	Sept. 30, 2006	Dec. 31, 2006
Fixed assets	91 130	83 602	85 563
Inventories	142 309	118 037	151 690
Accounts receivable and other receivables	290 474	216 519	238 586
Cash and cash equivalents	305 621	255 836	313 466
<b>Total</b>	<b>829 534</b>	<b>673 994</b>	<b>789 305</b>
Shareholders' equity	486 547	449 095	501 069
Long-term liabilities	7 698	13 644	15 732
Current liabilities	335 289	211 255	272 504
<b>Total</b>	<b>829 534</b>	<b>673 994</b>	<b>789 305</b>

## Key figures

	Q3 2007	Q3 2006	Q1–Q3 2007	Q1–Q3 2006	Full year 2006
Net sales growth (%)	47.4	28.4	41.7	32.4	34.3
Gross margin (%)	54.5	55.3	55.3	54.6	54.8
Operating margin (%)	23.1	22.7	22.1	17.8	18.6
Profit margin (%)	23.0	22.6	22.1	17.7	18.5
Depreciation/amortization (SEK M)	22	22	19.5	20	20
Shareholders' equity (SEK M)	487	449	487	449	501
Capital employed (SEK M)	494	463	494	463	517
Interest-bearing liabilities (SEK M)	6	6	6	6	6
Net interest-bearing liabilities (SEK M)	-300	-250	-300	-250	-302
Total assets (SEK M)	830	674	830	674	789
Return on capital employed (%)	81.0	62.5	69.5	45.6	48.1
Return on total capital (%)	50.6	43.6	43.4	31.8	32.6
Return on equity (%)	59.6	45.8	51.1	33.4	35.3
Interest-coverage ratio (times)	578.6	251.2	435.8	264.8	297.5
Net debt/equity ratio (times)	-0.6	-0.6	-0.6	-0.6	-0.6
Equity/assets ratio (%)	58.7	66.6	58.7	66.6	63.5
Share of risk-bearing capital (%)	68.0	69.9	68.0	69.9	64.1
Capital turnover ratio (times)	3.5	2.8	3.1	2.6	2.6
Number of employees (average for the period)	513	422	491	409	427
Sales per employee (SEK M)	3.5	2.9	3.2	2.7	2.8
Operating profit per employee (SEK M)	0.8	0.6	0.7	0.5	0.5

The key figures have been, where applicable, restated in full-year figures.

## Data per share

	Sept. 30, 2007	Sept. 30, 2006	Dec. 31, 2006
Share price at end of period, SEK	139.00	64.50	91.75
Dividend, SEK	3.00	1.00	1.00
P/E multiple	38	31	40
Earnings per share before dilution, SEK	2.76	1.56	2.28
Earnings per share after dilution, SEK	2.76	1.56	2.27
Average number of shares before dilution, thousands	69 296	69 041	69 084
Average number of shares after dilution, thousands	69 419	69 144	69 220
Number of shares outstanding (thousands)	69 338	69 236	69 253

## Quarterly data

Invoiced sales per product group (SEK 000s)	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	2005	2005	2006	2006	2006	2006	2007	2007	2007
Video	198 422	220 766	219 598	249 253	268 667	324 092	309 160	368 156	412 737
Print	29 775	30 383	27 856	24 192	20 939	22 326	18 734	29 630	15 344
Scan	2 387	4 298	4 113	6 230	6 946	9 711	4 599	8 459	9 644
Other	4 146	4 000	5 514	3 397	4 767	4 890	5 672	4 043	6 517
TOTAL	234 730	259 447	257 081	283 072	301 319	361 019	338 165	410 288	444 242

Invoiced sales per region	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	2005	2005	2006	2006	2006	2006	2007	2007	2007
EMEA	96 524	129 163	115 880	134 447	139 505	191 580	161 332	181 670	212 274
Americas	100 331	99 733	108 590	117 246	129 422	129 944	141 869	179 287	198 154
Asia	37 875	30 551	32 611	31 379	32 392	39 495	34 964	49 331	33 814
TOTAL	234 730	259 447	257 081	283 072	301 319	361 019	338 165	410 288	444 242

## Parent Company income statement

(SEK 000s)	Q1-Q3 2007	Q1-Q3 2006
Net sales	8 451	6 083
Gross profit	8 451	6 083
Administrative costs	-9 668	-7 626
Operating profit	-1 217	-1 543
Financial income	20 500	18 894
Financial expenses	-7 644	-4 691
Profit for the period	11 639	12 660

## Parent Company balance sheet

(SEK 000s)	Sept. 30, 2007	Sept. 30, 2006
Fixed assets	2 342	2 342
Receivables from Group companies	403 888	297 600
Accounts receivable and other receivables	2 427	8 520
Tax receivables	31 129	-
Cash and cash equivalents	-	253 263
Total	439 785	561 725
Shareholders' equity	309 832	504 674
Untaxed reserves	24 135	24 135
Liabilities to Group companies	-	8 208
Group's account	104 200	-
Current liabilities	1 618	24 708
Total	439 785	561 725

## *Auditor's review report*

---

We have reviewed the interim report of Axis AB (publ) for the period of January 1 to September 30, 2007. The board of directors and the managing director are 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*. 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, October 19, 2007

Öhrlings PricewaterhouseCoopers AB

Bertil Johanson  
*Authorized Public Accountant*  
*Auditor in charge*

*For further  
information*

---

Axis will hold a telephone conference for media and financial analysts today, October 19, at 10:00 a.m. A presentation will be available at

[http://www.axis.com/corporate/investor/interim\\_report.htm](http://www.axis.com/corporate/investor/interim_report.htm)

Time: October 19, at 10:00 a.m.

Tel: +46 (0)8 5052 0110

Specify Axis Communications.

Or contact:

Margareta Lantz

Manager, Investor Relations & Corporate Communications

[ir@axis.com](mailto:ir@axis.com)

Tel: +46 (0)46 272 18 00

The Annual Report for 2006 is available on Axis' web site,  
[www.axis.com/corporate/investor/index.htm](http://www.axis.com/corporate/investor/index.htm)

Further information is available from the President, Ray Mauritsson,  
Fredrik Sjöstrand, CFO or Margareta Lantz, Manager Investor Relations &  
Corporate Communications, telephone +46 46 272 18 00.

Axis AB Emdalavägen 14, 223 69 Lund, Sweden, [www.axis.com](http://www.axis.com), Corp Reg No: 556241-1065

