

## Interim report January–March 2006

# Strong trend for network video continues

- *Net sales during the period amounted to SEK 257 M (175).*
- *Operating profit during the period amounted to SEK 38 M (14).*
- *Profit before tax during the period amounted to SEK 38 M (14).*
- *Profit after tax during the period amounted to SEK 27 M (12).*
- *Earnings per share during the period amounted to SEK 0.39 (0.18).*

*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. Axis operates globally with offices in 16 countries and in cooperation with distributors, system integrators and OEM partners 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

The first quarter showed that the strong sales trend for network video products continues. Growth for the Group as a whole amounted to 47 percent for the first quarter and to 69 percent for video products.

Of particular interest was that the retail segment gained pace. Axis received orders for two major installations in US retail chains. In addition, we also noted an increase in demand in the transport sector.

Axis continues its aggressive market expansion through both partnerships and recruitment. Recruitment is primarily within the sales organization, but also in research and development.

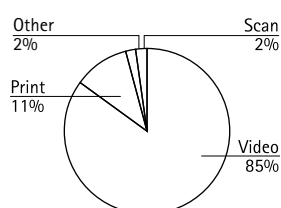
*Ray Mauritsson, President*

## Sales

Net sales for the period from January to March amounted to SEK 257 M (175), an increase of 47 percent compared with the corresponding period in the preceding year. Currency effects had a positive impact of SEK 20 M on sales.

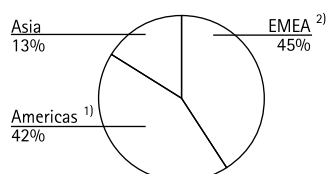
The strong trend for the Video product area continued. Video sales amounted to SEK 220 M (130) during the first quarter, corresponding to sales growth of 69 percent, compared with the year-earlier period. Video products now account for 85 percent of Axis' total sales. Growth within the Print product area accounted for 11 percent of total sales. The EMEA and Americas regions reported strong sales. For the Americas region, sales amounted to SEK 109 M (53), while the EMEA region had sales of SEK 116 M (80). The Asia region reported sales of SEK 33 M (41), a decline that was in part attributable to weak OEM sales within Print.

### Invoiced sales per product group



Product area Video represents 85 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

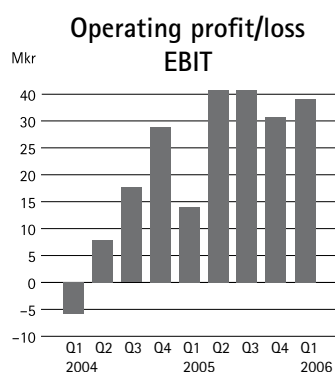
Region EMEA is the largest region, followed by Americas and Asia.

Invoiced sales per product group, SEK 000s	Q1 2006	Q1 2005	Q2 2005	Q3 2005	Q4 2005
Video	219 598	130 231	183 107	198 422	220 766
Print	27 856	39 143	36 241	29 775	30 383
Scan	4 113	2 038	2 327	2 387	4 298
Other	5 514	3 359	4 444	4 146	4 000
<b>TOTAL</b>	<b>257 081</b>	<b>174 771</b>	<b>226 119</b>	<b>234 730</b>	<b>259 447</b>

Invoiced sales per region, SEK 000s	Q1 2006	Q1 2005	Q2 2005	Q3 2005	Q4 2005
EMEA	115 880	80 459	104 242	96 524	129 163
Americas	108 590	52 934	84 164	100 331	99 733
Asia	32 611	41 378	37 713	37 875	30 551
<b>TOTAL</b>	<b>257 081</b>	<b>174 771</b>	<b>226 119</b>	<b>234 730</b>	<b>259 447</b>

## Earnings



Operating profit increased to SEK 38 M (14), corresponding to an operating margin of 14.8 percent (8.0) for the first quarter. The gross margin remained stable, amounting to 53.8 percent (52.4). Profit before tax rose to SEK 38 M (14), while profit after tax was SEK 27 M (12). Currency effects had a positive effect of SEK 8 M on earnings.

Condensed income statement, SEK 000s	Q1 2006	Q1 2005	Q2 2005	Q3 2005	Q4 2005
Net sales	257 081	174 771	226 119	234 730	259 447
Gross profit	138 222	91 659	124 744	128 764	137 806
Gross margin	53.8 %	52.4 %	55.2 %	54.9 %	53.1 %
<b>Operating profit</b>	<b>38 000</b>	<b>13 932</b>	<b>41 449</b>	<b>40 639</b>	<b>32 171</b>
Operating margin	14.8 %	8.0 %	18.3 %	17.3 %	12.4 %
Pretax profit	37 898	13 772	41 306	40 418	32 044

## Cash flow and financial position

Cash flow from current operations amounted to SEK 49 M. Net investments amounted to SEK 7 M, of which capitalized development costs during the period amounted to SEK 5 M. Axis has cash and cash equivalents amounting to SEK 229 M, as well as unutilized credit facilities of SEK 80 M. The company thus had disposable funds amounting to SEK 309 M at March 31, 2006.

## Shareholders' equity

Consolidated shareholders' equity amounted to SEK 433 M. The total number of shares on the closing date was 68,968,000. After full exercise of outstanding warrants, the number of shares will amount to 69,551,050. The consolidated equity/assets ratio was 71.8 percent at March 31, 2006.

SEK 000s	Share capital	Other contributed capital	Other reserves	Retained earnings	Total shareholders' equity
<b>Opening balance at Jan. 1, 2006</b>	<b>689</b>		<b>283 337</b>	<b>123 236</b>	<b>407 262</b>
Translation differences	-	-	-1 353	-	-1 353
Other adjustments	-	92	-55	-	37
Profit for the period	-	-	-	26 948	26 948
<b>Closing balance at March 31, 2006</b>	<b>689</b>	<b>92</b>	<b>281 929</b>	<b>150 184</b>	<b>432 894</b>

## Significant events during the first quarter

The strong trend for network video continued and the established strategy with a focus on video during the first three months of the year produced excellent results. Axis continued its efforts to drive the shift from analog to network video solutions. During the period, Axis started research partnerships with Securitas Systems, ASSA Abloy and Lund University for work that over time is expected to result in increased knowledge and insight in the area of security.

The rapid pace of product launches continued. Products launched during the period included the AXIS 207W and AXIS 214PTZ network cameras, as well as various accessories. The AXIS 207W is a cost-effective camera for indoor use with wire-

less transfer. The AXIS 214PTZ is equipped with an automatic night-and-day function that adjusts the image according to lighting, can zoom the lens and provides support for audio processing.

Retail stores emerged as the fastest growing segment for security installations. During the period, Axis announced two major installations within the Retail customer segment. A nationwide US retail chain installed Axis network cameras for monitoring some 200 of the chain's more than 1,000 stores. The contract included more than 1,000 network cameras, with orders for an additional 9,000 units expected over the coming years. Another US retail chain has installed network video products for surveillance of all of the chain's 210 hypermarkets.

The transport sector is another important customer segment in which Axis products were successful. Logan Airport in Boston, Massachusetts installed Axis video servers for surveillance of security areas at the airport. The video servers are part of an integrated security system that monitors security, baggage, ticket sales and gate areas in one of the airport's terminals.

Growth of the AXIS ADP (Application Development Platform) continued at the same intensive pace as previously, with the 300th application partner being registered during the first quarter. ADP partners work together with Axis to offer total solutions that are matched to customer requirements.

AXIS' wholly owned North American subsidiary, Axis Communications Inc., was sued for patent infringement in a US federal court during the first quarter. The suit was filed by Elbex Video Ltd., which has filed several patent suits against several other companies in the US regarding the same patents.

During the first three months of the year, Axis participated in several international trade shows around the world focused on the security market. Axis products and systems generated considerable interest at such shows as IIPsec in the UK, InterSec in Dubai, Security & Safety Technologies in Moscow, Security Show in Japan, Secutech Expo in Taiwan, SICUREZZA in Italy and SICUR in Spain. At several exhibitions, Axis participated together with partners, and total network video solutions were presented to interested show participants.

## *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 video solutions. Going forward into 2006, Axis foresees a video market that will continue to develop at a rapid pace. To retain market shares and its leading position, as well as to meet 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 O List of the Stockholm Stock Exchange, among the Attract 40 companies. The average turnover per day during the period January 1 through March 31, 2005 was SEK 9.2 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 54.25. The total number of shares in the Company on the closing date was 68,969,000.

## *Accounting policy*

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This interim report has been drawn up in accordance with IAS 34, Interim Financial Reporting. For information on the accounting policy applied, please refer to the annual report for 2005. The accounting policy is unchanged from that applied in 2005.

## *Parent Company*

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The Parent Company's operations focus primarily on Groupwide administration. The Parent Company has no employees. Operating profit amounted to SEK 0 M (loss: 1) was reported. Cash and cash equivalents amounted to SEK 108 M (37), while borrowing was SEK 0 M (0 at January 1).

## *Reporting dates*

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The interim report for the second quarter of 2006 (January 1, 2006 to June 30, 2006) will be presented on July 10, 2006.

## *Annual General Meeting*

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The Annual General Meeting of Axis AB will be held at Edison Park in Lund, Emdalavägen 14, Sweden on April 20, 2006 at 5:00 p.m. The Board of Directors proposes a dividend of SEK 1.00 for the 2005 fiscal, of which an extraordinary dividend of SEK 0.50 against the background of the company's strong financial position.

Lund, April 19, 2006

Ray Mauritsson  
*President*

## Income statement

SEK 000s	Q1 2006	Q1 2005	Full year 2005	Q2 05-Q1 06 12 months
Net sales	257 081	174 771	895 066	977 376
Cost of sold products and services	-118 859	-83 112	-412 093	-447 840
Gross profit	138 222	91 659	482 973	529 536
Other revenues and changes in value	842	643	-2 718	-2 519
Selling and marketing costs	-50 376	-39 222	-176 289	-187 443
Administrative costs	-14 536	-10 907	-53 274	-56 903
Research and development costs	-36 152	-28 241	-122 500	-130 411
Operating profit	38 000	13 932	128 192	152 260
Financial expense	-102	-160	-651	-593
Pretax profit	37 898	13 772	127 541	151 667
Tax	-10 950	-1 428	-36 454	-45 976
Net profit for the period	26 948	12 344	91 087	105 691
Earnings per share before dilution, SEK	0.39	0.18	1.32	1.53
Earnings per share after dilution, SEK	0.39	0.18	1.32	1.53
Average number of shares before dilution, thousands	68 964	68 900	68 906	68 922
Average number of shares after dilution, thousands	69 240	68 912	69 121	69 198

## Cash-flow statement

SEK 000s	Q1 2006	Q1 2005	Full year 2005	Q2 05-Q1 06 12 months
Cash flow from operating activities before change in working capital	38 740	14 631	145 678	169 787
Change in working capital	10 285	16 854	-15 149	-21 718
Cash flow from operating activities	49 025	31 485	130 529	148 069
Cash flow from investment activities	-6 887	-5 283	-29 921	-31 525
Cash flow from financing activities	93	-1 586	-34 406	-32 727
Cash flow for the period	42 231	24 616	66 202	83 817
Cash and cash equivalents, beginning of period	187 225	121 023	121 023	145 639
Cash and cash equivalents, end of period	229 456	145 639	187 225	229 456

## Balance sheet

SEK 000s	March 31, 2006	March 31, 2005	Dec. 31, 2005
Fixed assets	96 299	121 634	107 204
Inventories	96 927	85 460	117 811
Accounts receivable and other receivables	179 962	144 361	167 983
Cash and cash equivalents	229 456	145 639	187 225
<b>Total</b>	<b>602 644</b>	<b>497 094</b>	<b>580 223</b>
Shareholders' equity	432 894	357 208	407 262
Long-term liabilities	7 064	8 325	10 774
Current liabilities	162 686	131 561	162 187
<b>Total</b>	<b>602 644</b>	<b>497 094</b>	<b>580 223</b>

## Key figures

	Q1 2006	Q1 2005	Full year 2005
Net sales growth (%)	47.1	14.9	29.4
Gross margin (%)	53.8	52.4	54.0
Operating margin (%)	14.8	8.0	14.3
Profit margin (%)	14.7	7.9	14.2
Depreciation (SEK M)	18	10	13
Shareholders' equity (SEK M)	433	357	407
Capital employed (SEK M)	440	365	412
Interest-bearing liabilities (SEK M)	7	8	7
Net interest-bearing liabilities (SEK M)	-222	-137	-180
Total assets (SEK M)	603	497	580
Return on capital employed (%)	35.7	15.4	33.6
Return on total capital (%)	25.7	11.5	24.4
Return on equity (%)	26.0	11.4	24.6
Interest-coverage ratio (times)	372.5	192.3	196.9
Net debt/equity ratio (times)	-0.5	-0.4	-0.4
Equity/assets ratio (%)	71.8	71.9	70.2
Share of risk-bearing capital (%)	72.0	72.1	70.2
Capital turnover ratio (times)	2.4	2.0	2.3
Number of employees (average for period)	400	351	361
Sales per employee (SEK M)	2.6	2.0	2.5
Operating profit per employee (SEK M)	0.4	0.2	0.4

The key figures have been recalculated as full-year values where required.

## Per share data

	March 31, 2006	March 31, 2005	Dec. 31, 2005
Share price at end of period, SEK	54.75	26.50	58.25
Dividend, SEK	-	-	0.50
P/E multiple	35	37	44
Earnings per share before dilution, SEK	0.39	0.18	1.32
Earnings per share after dilution, SEK	0.39	0.18	1.32
Average number of shares before dilution, thousands	68 964	68 900	68 906
Average number of shares after dilution, thousands	69 240	68 912	69 121
Number of shares outstanding (thousands)	68 968	68 900	68 925

## Quarterly data

Invoiced sales per product	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006
Video	96 744	115 193	117 576	144 563	130 231	183 107	198 422	220 766	219 598
Print	43 053	45 832	39 010	41 154	39 143	36 241	29 775	30 383	27 856
Scan	1 871	935	5 824	2 932	2 038	2 327	2 387	4 298	4 113
Other	10 401	5 614	10 088	10 691	3 359	4 444	4 146	4 000	5 514
<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>

Invoiced sales per region	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006
EMEA	78 058	81 019	83 022	108 038	80 459	104 242	96 524	129 163	115 880
Americas	39 713	55 127	56 530	55 241	52 934	84 164	100 331	99 733	108 590
Asia	34 298	31 428	32 946	36 061	41 378	37 713	37 875	30 551	32 611
<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>

## *Report on review*

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We have reviewed the accompanying balance sheet of Axis AB (publ) as of March 31, 2006 and the related statements of income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with 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 International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information 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 International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not, in all material aspects, give a true and fair view of the financial position of the entity as at March 31, 2006, and of its financial performance and its cash flows for the three-month period then ended in accordance with IAS 34.

Lund, April 19, 2006

Öhrlings PricewaterhouseCoopers AB

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



## *For further information*

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You are welcome to participate in Axis' telephone conference for the media and financial analysts today, April 19, at 11:00 a.m. A presentation is available at [www.axis.com/corporate/investor/](http://www.axis.com/corporate/investor/)

Time: Thursday, April 19, 11:00 a.m.

Telephone no: +46 8 50 52 01 10

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, Fredrik Sjöstrand, CFO or Margareta Lantz, Manager IR & Corporate Communications tel +46 46 272 18 00.

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