

Interim Report, January–September 2006

Network video continues to show steady growth

- *Net sales during the period totaled SEK 841 M (636).*
- *Operating profit during the period totaled SEK 150 M (96).*
- *Pretax profit for the period totaled SEK 149 M (95).*
- *Profit after tax for the period totaled SEK 108 M (72).*
- *Earnings per share for the period totaled SEK 1.56 (1.04).*

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 Nordic List, Mid Cap, Information Technology. Axis operates globally with offices in 17 countries and in co-operation with distributors and system integrators in 70 countries. Markets outside Sweden account for more than 95 percent of sales. Information about Axis can be found at www.axis.com.*



President's comments

"The first nine months point to continuing steady progress in sales of Axis' network video products. Greater interest in IP-based surveillance solutions made a robust contribution to the sales increase. The technology shift from analog to digital solutions continues to progress at a steady pace.

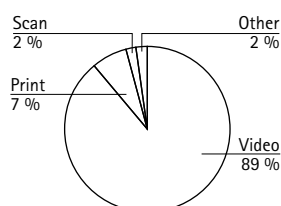
The transport sector continues to show an interest in network video and Axis secured an additional order from Stockholm Transport (SL) for the installation of network cameras. Another interesting cooperative venture is that with the Mexican telecom company, TELMEX, where Axis' network cameras are part of a service aimed at the home market.

With the goal of retaining market leadership, continuing investment is planned in all areas, notably in sales and support, as well as in research and development. This offers us the potential to meet the expanding market for network video."

Ray Mauritsson,
President

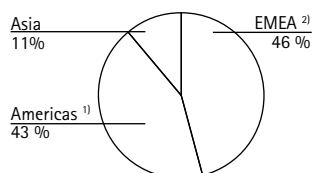
Sales

Invoiced sales per product group



Product area Video represents 89 percent of Axis' total sales.

Invoiced sales per region



¹⁾ Including North, South and Central America
²⁾ Including Europe, the Middle East and Africa

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

January–September

Axis' net sales during January–September 2006 totaled SEK 841 M (636), up 32 percent from the year-earlier period. SEK 738 M was attributable to the video product area, which showed growth of 44 percent during the period. Currency effects had a positive impact on sales of SEK 15 M.

Third quarter

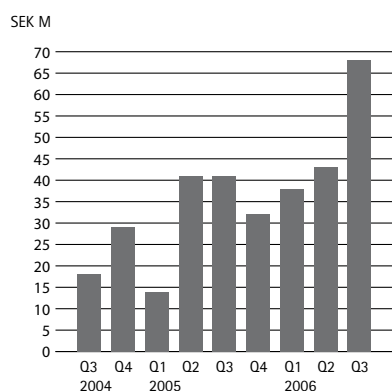
Net sales during the third quarter totaled SEK 301 M (234), up 28 percent compared with the year-earlier period. The Video product area reported sales of SEK 269 M (198) and now represents 89 percent of Axis's total sales. The Print product area's sales totaled SEK 21 M (30) during the period, representing 7 percent of total sales. Currency effects had a negative impact on sales of SEK 11 M.

The sales trend in the EMEA region was positive, with reported sales of SEK 140 M (97) with a growth of 45 percent. The Americas region reported sales of SEK 129 M (100), resulting in growth of 29 percent. The Asia region registered sales of SEK 32 M (38), a decline attributable to falling OEM sales in Japan and overall lower demand of Print products.

Invoiced sales per product group, SEK 000s	Q3 2006	Q3 2005	Q1–Q3 2006	Q1–Q3 2005	Full year 2005	Q405–Q306 12 months
Video	268 667	198 422	737 518	511 760	732 586	958 344
Print	20 939	29 775	72 987	105 159	135 542	103 370
Scan	6 946	2 387	17 289	6 752	11 050	21 587
Other	4 767	4 146	13 678	11 948	15 888	17 618
TOTAL	301 319	234 730	841 472	635 619	895 066	1 100 919

Earnings

Operating profit / EBIT



Cash flow, investments and financial position

Shareholders' equity

Invoiced sales per region, SEK 000s	Q3 2006	Q3 2005	Q1-Q3 2006	Q1-Q3 2005	Full year 2005	Q405-Q306 12 months
EMEA	139 505	96 524	389 832	281 224	410 387	518 995
Americas	129 422	100 331	355 258	237 429	337 162	454 991
Asia	32 392	37 875	96 382	116 966	147 517	126 933
TOTAL	301 319	234 730	841 472	635 619	895 066	1 100 919

January-September

Operating profit for the period January-September totaled SEK 150 M (96), or an operating margin of 17.8 percent (15.1). Gross margin was 54.6 percent (54.3). Pretax profit rose to SEK 149 M (95) and profit after tax totaled SEK 108 M (72). Currency effects had a positive impact on operating profit of SEK 9 M during the period.

Third quarter

Operating profit in the third quarter was SEK 68 M (41), or an operating margin of 22.7 percent (17.3). Gross margin for the third quarter was 55.3 percent (54.9). Pretax profit amounted to SEK 68 M (40). Profit after tax totaled SEK 50 M (30).

Condensed income statement, SEK 000s	Q3 2006	Q3 2005	Q1-Q3 2006	Q1-Q3 2005	Full year 2005	Q405-Q306 12 months
Net sales	301 319	234 730	841 472	635 619	895 066	1 100 919
Gross profit	166 772	128 764	459 566	345 167	482 973	597 372
Gross margin	55,3 %	54,9 %	54,6 %	54,3 %	54,0 %	54,3 %
Operating profit	68 332	40 639	149 628	96 021	128 192	181 799
Operating margin	22,7 %	17,3 %	17,8 %	15,1 %	14,3 %	16,5 %
Pretax profit	68 060	40 418	149 063	95 497	127 541	181 107

Cash flow from current operations during the period was robust, totaling SEK 163 M. Net investment amounted to SEK 30 M, of which capitalized development costs were SEK 14 M. At the close of the period, Axis had SEK 256 M in cash and cash equivalents as well as unutilized credit facilities of SEK 60 M. Thus, the Company had a total of SEK 316 M at its disposal at September 30, 2006.

Consolidated shareholders' equity totaled SEK 449 M. The total number of shares at the end of the period was 69,236,400. After full utilization of outstanding warrants, the number of shares totals 69,519,250. The Group's equity/assets ratio at September 30, 2006 was 66.6 percent.

(SEK 000s)	Share capital	Other contributed capital	Other reserves	Retained earnings	Total equity
Opening balance at Jan. 1, 2006	689	-	283 337	123 236	407 262
Translation differences	-	-	1 849	-	1 849
Other adjustments	2	2 667	-1 374	-	1 295
Dividend	-	-	-	-68 968	-68 968
Profit for the period	-	-	-	107 657	107 657
Closing balance at Sept. 30, 2006	691	2 667	283 812	161 925	449 095

The technology shift from analog to digital solutions is continuing at a steady pace, which favors Axis as a global market leader in network video. During the period January–September, Axis continued to strengthen its position in the expanding market for network video products. Axis' growth in product area Video was 44 percent during the same period.

To meet higher market interest, Axis has accelerated its recruitment. More than 60 employees have been recruited during the last year. New recruits were primarily in sales and support, as well as in research and development.

Interest in network video in the transport sector

Interest in network video in the transport sector is increasing. Stockholm Transport (SL) has submitted a supplementary order for 1,200 network cameras for installation in Stockholm's subway and commuter train stations. The Canadian company, Visual Defense, has overall responsibility for the installation of the security program at SL. Visual Defence is a partner of Axis and is a highly reputed company in security solutions and camera surveillance. The cameras to be installed are the AXIS 225FD and AXIS 212 PTZ, both of which were launched in 2006. The AXIS 212 PTZ's unique features permit the user to zoom in on an object of interest in the image by means of a simple click. The AXIS 225FD is vandal-proof and is most appropriate for outdoor use, making it ideal for subway and commuter train stations and other locations that impose heavy demands on the camera.

Home and office markets in Mexico

In August 2006, Axis announced that the company's network cameras are included in a service supplied by the Mexican telecom company, TELMEX. The service means that broadband customers are offered distance surveillance of homes and offices via Internet as well as the storage of images and messaging via e-mail and mobile telephone should any incidents occur. Initial sales of Axis network cameras amounted to USD 440,000.

World's smallest wireless mega-pixel network camera

In September 2006 Axis launched the world's smallest wireless mega-pixel camera, the AXIS 207MW. This highly compact camera is simple to install and offers high image quality, as well as featuring one-way sound.

Major interest at trade fairs

Axis is continuing to focus on educating the market in the transition from analog to digital technology to facilitate the technology

shift. The company's stand proved extremely popular at trade fairs in the U.S. (ASIS), Sweden (Skydd/Security) and China (Global Digital Surveillance). Axis products have also been very favorably presented in a number of exhibits at Axis partners, raising the level of attention gained by the Axis network video products.

Successful partner program

Axis continues to strengthen its market presence through co-operation with partners and is continuing its efforts to add partners to the company's partner program. The program involves training programs for partners to raise their insight into the benefits of network video, a knowledge that is subsequently deployed in discussions with end customers. Axis had 8,800 partners at the close of the period.

Development during the remainder of 2006

Axis' overall goal is to retain, further strengthen and develop the company's market-leading position as a supplier of network video solutions on a rapidly growing market. To retain this leading position and market shares as well as to meet increasing competition in the market, Axis will continue its focused strategy. This strategy involves the launch of innovative network video products, further development of partnerships as well as expansion and recruitment.

The Axis share

Axis was listed on the Stockholm Stock Exchange's O List, among the Attract 40 companies through September 30, 2006. Average share trading during the period January 1 through September 30, 2006 totaled SEK 8.0 M/day. The average number of shares traded during the same period totaled 137 438 per day. The average share price for the period was SEK 58.05. The total number of shares in the company at the end of the period was 69 236 400.

Following the introduction of the Nordic List on October 2, 2006 Axis was placed in the Mid-Cap segment in Information Technology.

Accounting policy

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.

Nominating Committee

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

Parent Company

The Parent Company's operations focus primarily on Group-wide administration. The Parent Company has no employees. Operating profit totaled SEK -2 M (6). Cash and cash equivalents amounted to SEK 183 M (106 at the beginning of the year) and borrowing was SEK 0 M (0 at the beginning of the year). Investments during the period totaled SEK 0 M (0).

Reporting dates

The year-end report (Jan. 1, 2006–Dec. 31, 2006) will be presented on February 9, 2007.

Annual General Meeting

The Annual General Meeting of Axis AB will be held at Edison Park, Lund, on Thursday April 18, 2007 at 5 p.m.

Lund, October 19, 2006

Ray Mauritsson
President

Income statement

(SEK 000s)	Q3 2006	Q3 2005	Q1-Q3 2006	Q1-Q3 2005	Full year 2005	Q405-Q306 12 months
Net sales	301 319	234 730	841 472	635 619	895 066	1 100 919
Cost of sold products and services	-134 547	-105 966	-381 906	-290 452	-412 093	-503 547
Gross profit	166 772	128 764	459 566	345 167	482 973	597 372
Other revenues and changes in value	2 155	482	774	1 526	-2 718	-3 470
Selling and marketing costs	-50 266	-45 261	-158 987	-127 218	-176 289	-208 058
Administrative costs	-11 732	-11 888	-38 553	-36 349	-53 274	-55 478
Research and development costs	-38 597	-31 458	-113 172	-87 105	-122 500	-148 567
Operating profit	68 332	40 639	149 628	96 021	128 192	181 799
Financial expenses	-272	-221	-565	-524	-651	-692
Pretax profit	68 060	40 418	149 063	95 497	127 541	181 107
Tax	-18 279	-10 512	-41 406	-23 777	-36 454	-54 083
Net profit for the period	49 781	29 906	107 657	71 720	91 087	127 024
Earnings per share before dilution, SEK	0,72	0,43	1,56	1,04	1,32	1,84
Earnings per share after dilution, SEK	0,72	0,43	1,56	1,04	1,32	1,84
Average number of shares before dilution, thousands	69 041	68 903	69 041	68 903	68 906	69 011
Average number of shares after dilution, thousands	69 144	69 040	69 144	69 040	69 121	69 114

Cash-flow statement

(SEK 000s)	Q3 2006	Q3 2005	Q1-Q3 2006	Q1-Q3 2005	Full year 2005	Q405-Q306 12 months
Cash flow from operating activities						
before change in working capital	67 403	46 414	161 177	100 610	145 678	206 245
Change in working capital	-21 768	4 604	1 836	1 140	-15 149	-14 453
Cash flow from operating activities	45 635	51 018	163 013	101 750	130 529	191 792
Cash flow from investment activities	-13 446	-6 861	-30 263	-20 818	-29 921	-39 366
Cash flow from financing activities	3 019	54	-64 139	-34 396	-34 406	-64 149
Cash flow for the period	35 208	44 211	68 611	46 536	66 202	88 277
Cash and cash equivalents, beginning of period	220 628	123 348	187 225	121 023	121 023	167 559
Cash and cash equivalents, end of period	255 836	167 559	255 836	167 559	187 225	255 836

Balance sheet

(SEK 000s)	Sept 30, 2006	Sept 30, 2005	Dec 31, 2005
Fixed assets	83 602	111 088	107 204
Inventories	118 037	112 329	117 811
Accounts receivable and other receivables	216 519	172 530	167 983
Cash and cash equivalents	255 836	167 559	187 225
Total	673 994	563 506	580 223
Shareholders' equity	449 095	385 728	407 262
Long-term liabilities	13 644	8 595	10 774
Current liabilities	211 255	169 183	162 187
Total	673 994	563 506	580 223

Key figures

	Q3 2006	Q3 2005	Q1-Q3 2006	Q1-Q3 2005	Full year 2005
Net sales growth (%)	28.4	36.1	32.4	29.2	29.4
Gross margin (%)	55.3	54.9	54.6	54.3	54.0
Operating margin (%)	22.7	17.3	17.8	15.1	14.3
Profit margin (%)	22.6	17.2	17.7	15.0	14.2
Depreciation (SEK M)	22	15	20	11	13
Shareholders' equity (SEK M)	449	386	449	386	407
Capital employed (SEK M)	463	393	463	393	412
Interest-bearing liabilities (SEK M)	6	9	6	9	7
Net interest-bearing liabilities (SEK M)	-250	-159	-250	-159	-180
Total assets (SEK M)	674	564	674	564	580
Return on capital employed (%)	62.5	43.7	45.6	34.4	33.6
Return on total capital (%)	43.6	31.5	31.8	24.8	24.4
Return on equity (%)	45.8	32.1	33.4	25.3	24.6
Interest-coverage ratio (times)	251.2	183.9	264.8	183.2	196.9
Net debt/equity ratio (times)	-0.6	-0.4	-0.6	-0.4	-0.4
Equity/assets ratio (%)	66.6	68.5	66.6	68.5	70.2
Share of risk-bearing capital (%)	69.9	68.7	69.9	68.7	70.2
Capital turnover ratio (times)	2.8	2.5	2.6	2.3	2.3
Number of employees (average for the period)	422	360	409	354	361
Sales per employee (SEK M)	2.9	2.6	2.7	2.4	2.5
Operating profit per employee (SEK M)	0.6	0.5	0.5	0.4	0.4

The key figures have been restated as full-year values when required.

Per share data

	Sept. 30, 2006	Sept. 30, 2005	Dec. 31, 2005
Share price at end of period, SEK	64.50	43.60	58.25
Dividend, SEK	1.00	0.50	0.50
P/E multiple	31	31	44
Earnings per share before dilution, SEK	1.56	1.04	1.32
Earnings per share after dilution, SEK	1.56	1.04	1.32
Average number of shares before dilution, thousands	69 041	68 903	68 906
Average number of shares after dilution, thousands	69 144	69 040	69 121
Number of shares outstanding (thousands)	69 236	68 903	68 925

Quarterly data

Invoiced sales 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	Q3 2006
Video	96 744	115 193	117 576	144 563	130 231	183 107	198 422	220 766	219 598	249 253	268 667
Print	43 053	45 832	39 010	41 154	39 143	36 241	29 775	30 383	27 856	24 192	20 939
Scan	1 871	935	5 824	2 932	2 038	2 327	2 387	4 298	4 113	6 230	6 946
Other	10 401	5 614	10 088	10 691	3 359	4 444	4 146	4 000	5 514	3 397	4 767
TOTAL	152 069	167 574	172 498	199 340	174 771	226 119	234 730	259 447	257 081	283 072	301 319

Invoiced sales per region (SEK 000s)	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006
EMEA	78 058	81 019	83 022	108 038	80 459	104 242	96 524	129 163	115 880	134 447	139 505
Americas	39 713	55 127	56 530	55 241	52 934	84 164	100 331	99 733	108 590	117 246	129 422
Asia	34 298	31 428	32 946	36 061	41 378	37 713	37 875	30 551	32 611	31 379	32 392
TOTAL	152 069	167 574	172 498	199 340	174 771	226 119	234 730	259 447	257 081	283 072	301 319

Report on Review of Interim Financial Information

We have reviewed the interim report of Axis AB (publ) for the period of January 1 to September 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 International 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, October 19, 2006

Öhrlings PricewaterhouseCoopers AB

Anders Lundin

Authorized Public Accountant

Auditor in charge

*For further
information*

You are welcome to participate in Axis' telephone conference for the media and financial analysts on October 19, at 11 a.m. A presentation is available at: www.axis.com/corporate/investor/

Time: Thursday, October 19, 11 a.m.

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Specify Axis Communications.

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The Annual Report for 2005 is available on Axis' web site,
www.axis.com/corporate/investor/financial_reports.htm

Further information is available from the President, Ray Mauritsson,
Fredrik Sjöstrand, CFO or Margareta Lantz, Manager Investor Relations &
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