

## Year-end Report 2006

# Continued leadership in rapidly growing market

- *Net sales during the year totaled SEK 1,202 M (895).*
- *Operating profit for the year totaled SEK 223 M (128).*
- *Profit before tax for the year totaled SEK 222 M (128).*
- *Profit after tax for the year totaled SEK 157 M (91).*
- *Earnings per share after tax for the year totaled SEK 2.28 (1.32).*
- *The Board of Directors proposes a dividend of SEK 3.00 (1.00) per share, of which SEK 2.25 (0.50) is an extraordinary dividend.*

**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 cooperation 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](http://www.axis.com).*



## President's comments

"I am pleased to note that Axis' strategy with a focus on partners and continuous launches of innovative products allowed us to retain our strong market-leading position. Total sales increased to SEK 1,202 M, compared with SEK 895 M in 2005, corresponding to growth of 34 percent.

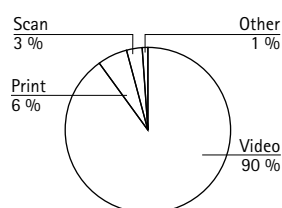
The pace of growth in the Video product area were very positive during the year and amounted to SEK 1,061 M, corresponding to growth of 45 percent.

At the beginning of the year, strong sales were noted in the US market, and at the end of the year, the European market showed relatively stronger growth. Interest for network video was also strong in the Asian market, although results for the region were held back by the decline in sales in the Print product area."

Ray Mauritsson,  
President

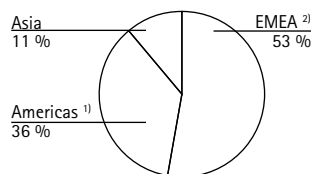
## Sales

### Invoiced sales per product group Q4 2006



Product area Video represents 90 percent of Axis' total sales.

### Invoiced sales per region Q4 2006



<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.

Net sales during January–December 2006 totaled SEK 1,202 M (895), up 34 percent from the year-earlier period. SEK 1,061 M was attributable to the Video product area, which showed growth of 45 percent compared with the previous year. Exchange rate differences had a negative impact on sales of SEK 10 M.

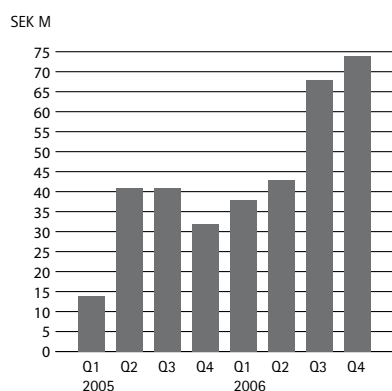
Net sales during the fourth quarter amounted to SEK 361 M (259), which was a 39 percent increase, compared with the year-earlier period. Sales in the Video product area amounted to SEK 324 M (221) and now account for 90 percent of Axis' total sales. Sales in the Print product are continued to decline and corresponded to 6 percent of total sales during the period.

The EMEA, Americas and Asia regions all reported positive growth during the fourth quarter. The EMEA region reported sales of SEK 192 M (129), corresponding to growth of 48 percent. Sales in the Americas amounted to SEK 130 M (100), corresponding to growth of 30 percent. The Asia region reported sales of SEK 39 M (31), a growth of 29 percent that was attributable to increasing interest in network video in the region.

Invoiced sales per product group, SEK 000s	Q4 2006	Q4 2005	Q1–Q4 2006	Q1–Q4 2005
Video	324 092	220 766	1 061 610	732 586
Print	22 326	30 383	95 313	135 542
Scan	9 711	4 298	27 000	11 050
Other	4 890	4 000	18 568	15 888
<b>TOTAL</b>	<b>361 019</b>	<b>259 447</b>	<b>1 202 491</b>	<b>895 066</b>

## Earnings

### Operating profit / EBIT



## Cash flow, investments and financial position

## Shareholders' equity

Invoiced sales per region, SEK 000s	Q4 2006	Q4 2005	Q1-Q4 2006	Q1-Q4 2005
EMEA	191 580	129 163	581 412	410 387
Americas	129 944	99 733	485 202	337 162
Asia	39 495	30 551	135 877	147 517
<b>TOTAL</b>	<b>361 019</b>	<b>259 447</b>	<b>1 202 491</b>	<b>895 066</b>

Operating profit for the period January–December amounted to SEK 223 M (128), corresponding to an operating margin of 18.6 percent (14.3). The gross margin was 54.8 percent (54.0). Pretax profit rose to SEK 222 M (128), and profit after tax was SEK 157 M (91). Currency effects had no significant impact on operating profit.

During the fourth quarter, operating profit amounted to SEK 74 M (32), corresponding to an operating margin of 20.4 percent (12.4). Pretax profit was SEK 73 M (32), while profit after tax amounted to SEK 50 M (19).

Condensed income statement, SEK 000s	Q4 2006	Q4 2005	Q1-Q4 2006	Q1-Q4 2005
Net sales	361 019	259 447	1 202 491	895 066
Gross profit	199 441	137 806	659 007	482 973
Gross margin	55.2 %	53.1 %	54.8 %	54.0 %
Operating profit	73 527	32 171	223 156	128 192
Operating margin	20.4 %	12.4 %	18.6 %	14.3 %
Pretax profit	73 342	32 044	222 406	127 541

Cash flow from current operations amounted to SEK 227 M during the year. Cash flow for the fourth quarter amounted to SEK 64 M. New investments totaled SEK 38 M, of which capitalized development costs accounted for SEK 15 M. At year-end, Axis had SEK 313 M in cash and cash equivalents, as well as unutilized credit facilities of SEK 60 M. The company thus had a total of SEK 373 M at its disposal at December 31, 2006.

Consolidated shareholders equity amounted to SEK 501 M. The total number of shares at the end of the period was 69,252,700. After full exercise of outstanding warrants, the number of shares will total 69,535,050. The Group's equity/assets ratio at December 31, 2006 was 63.5 percent.

(SEK 000s)	Share capital	Other contributed capital	Other reserves	Retained earnings	Total equity
Opening balance at Jan. 1, 2006	689	266 421	16 915	123 237	407 262
Translation differences	-	-	529	-	529
Other adjustments	3	5 265	1	-404	4 865
Dividend	-	-	-	-68 968	-68 968
Profit for the period	-	-	-	157 381	157 381
Closing balance at Dec. 31, 2006	692	271 686	17 445	211 246	501 069

## *Business development*

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Axis' business model is based on sales via distributors, system integrators and resellers. At year-end, there were more than 10,000 system integrators in the company's partner program and more than 400 Application Development Partners (ADP) that develop application software. Through efficient sales via distributors and resellers Axis products reach customers in about 70 countries.

### **Strengthened local market presence**

During the period, September-December, Axis strengthened its local market presence through the opening of a new sales office in Dubai. The Dubai office strengthens Axis presence in the dynamic markets in the Middle East and North African region, where Axis has successfully marketed network video solutions for several years. On the American continent, market presence was strengthened through a number of geographically dispersed recruitments where sales representatives work from local home offices.

### **Innovative products broaden the portfolio**

During the period, a number of innovative products were launched. The AXIS 223M is a megapixel camera that is among the more advanced network cameras in the portfolio. The camera is suitable for installations where the light changes over time, since it delivers good image quality even when light conditions are weak, making it ideal for demanding security installations in such locations as banks and airports.

At the end of the year, the AXIS 209FD-R was introduced as the world's first network camera for mobile environments. The AXIS 209FD-R withstands vibration and high humidity often associated with public transport environments. Stockholm Lokaltrafik (SL) announced in June 2006 that Axis network cameras will be installed in SL's buses starting in 2007.

The AXIS 243SA Video Server that was announced during the period delivers high performance, making it suitable for installations in demanding locations such as casinos, airports and for traffic monitoring.

### **Rewarding long-term partnership**

At the end of 2005, Axis entered a partnership with HP (Hewlett Packard). Through this partnership, HP offers an HP Scanjet 7650n Network Scanner as a turnkey solution consisting of an AXIS 70U Document Server and an HP Scanjet 7650 Flatbed Scanner in the EMEA region. The partnership continued during the year and resulted in favorable growth for the Scan product area.

### Substantial market interest

At the end of November, Axis arranged a press and media day. Some 70 journalists from around the world gathered to obtain knowledge of the network video market, the company's latest products and information about the partnerships between Axis and SL and Axis and Checkpoint Systems.

At exhibitions around the world focused on security, Axis was well-represented. ASIS Trade Show in San Diego, Security in Germany, Infocom in Moscow, Expo Protection in France and Security in China are examples of exhibitions at which Axis' products were demonstrated for an interested audience.

## *Trends ahead of 2007*

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Axis' overriding goal is to retain and further strengthen its position as the market-leading supplier of network-based video solutions for professional installations in an expanding market. According to market analysis institutes, this market will grow by approximately 40 percent annually over the coming year.

Moving into 2007, the company sees a market with favorable development potential for Axis but intensifying competition. To meet the competition, the focused strategy remains:

- continuing to maintain an aggressive pace of product launches in the Video product area with a number of innovative products and solutions designed for professional installations
- increasing market presence through close cooperation with partners to optimize presence in the global market in a cost-efficient way
- continuing to grow organically and attracting and recruiting skilled personnel on a global basis.

## *The Axis share*

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The Axis share is listed on the Nordic List in the Mid-Cap segment in Information Technology. Average share trading during the period January 1 through December 31, 2006 totaled SEK 9.2 M/day. The average number of shares traded during the same period totaled 142,340 per day. The volume-weighted average share price for the period was SEK 65.36. The total number of shares in the company at the end of the period was 69,252,700.

## *Accounting principles*

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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 were unchanged, compared with those applied in 2005.

## *Nomination Committee*

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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 Grenspecialisten). 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*

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The Parent Company's operations focus primarily on Group-wide administration. The Parent Company has no employees. Operating profit totaled SEK 0 M (loss: 2). Cash and cash equivalents amounted to SEK 253 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 0 (0).

## *Reporting dates*

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The interim report for the first quarter of 2007 (Jan. 1, 2007 – March 31, 2007) will be presented on April 17, 2007.

## *Annual General Meeting*

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The Annual General Meeting of Axis AB will be held at Edison Park, Lund, on Thursday April 18, 2006 at 5 p.m.

The annual report for 2006 will be available on the company's web site in mid-March.

## *Dividend*

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The Board of Directors proposes an ordinary dividend of SEK 0.75 (0.50) per share for the 2006 fiscal year and an extraordinary dividend of SEK 2.25 (0.50) against the background of the company's strong financial position. The company's unrestricted equity at December 31, 2006 amounted to SEK 503,982. Liquidity in the Parent Company was strengthened by SEK 147 M during the fiscal year. The Board of Directors anticipates continued favorable growth during the 2007 fiscal year. The view of the Board of Directors is that the proposed dividend will not prevent the company from fulfilling its obligations over the short or long term or from making necessary investments.

Lund, February 8, 2007

The Board of Directors, Axis AB

## Income statement

(SEK 000s)	Q4 2006	Q4 2005	Q1-Q4 2006	Q1-Q4 2005
Net sales	361 019	259 447	1 202 491	895 066
Cost of sold products and services	-161 578	-121 641	-543 484	-412 093
Gross profit	199 441	137 806	659 007	482 973
Other revenues and changes in value	1 760	-4 244	2 534	-2 718
Selling and marketing costs	-67 746	-49 071	-226 732	-176 289
Administrative costs	-14 932	-16 925	-53 485	-53 274
Research and development costs	-44 996	-35 395	-158 168	-122 500
Operating profit	73 527	32 171	223 156	128 192
Financial expenses	-185	-127	-750	-651
Pretax profit	73 342	32 044	222 406	127 541
Tax	-23 619	-12 677	-65 025	-36 454
Net profit for the period	49 723	19 367	157 381	91 087
Earnings per share before dilution, SEK	0.72	0.28	2.28	1.32
Earnings per share after dilution, SEK	0.72	0.28	2.27	1.32
Average number of shares before dilution, thousands	69 084	68 906	69 084	68 906
Average number of shares after dilution, thousands	69 220	69 121	69 220	69 121

## Cash-flow statement

(SEK 000s)	Q4 2006	Q4 2005	Q1-Q4 2006	Q1-Q4 2005
Cash flow from operating activities before change in working capital	86 246	45 068	247 423	145 678
Change in working capital	-22 326	-16 289	-20 490	-15 149
Cash flow from operating activities	63 920	28 779	226 933	130 529
Cash flow from investment activities	-7 729	-9 103	-37 992	-29 921
Cash flow from financing activities	1 439	-10	-62 700	-34 406
Cash flow for the period	57 630	19 666	126 241	66 202
Cash and cash equivalents, beginning of period	255 836	167 559	187 225	121 023
Cash and cash equivalents, end of period	313 466	187 225	313 466	187 225

## Balance sheet

(SEK 000s)	Dec. 31, 2006	Dec. 31, 2005
Fixed assets	85 563	107 204
Inventories	151 690	117 811
Accounts receivable and other receivables	238 586	167 983
Cash and cash equivalents	313 466	187 225
<b>Total</b>	<b>789 305</b>	<b>580 223</b>
Shareholders' equity	501 069	407 262
Long-term liabilities	15 732	10 774
Current liabilities	272 504	162 187
<b>Total</b>	<b>789 305</b>	<b>580 223</b>

## Key figures

	Q4 2006	Q4 2005	Q1-Q4 2006	Q1-Q4 2005
Net sales growth (%)	39.1	30.2	34.3	29.4
Gross margin (%)	55.2	53.1	54.8	54.0
Operating margin (%)	20.4	12.4	18.6	14.3
Profit margin (%)	20.3	12.4	18.5	14.2
Depreciation (SEK M)	20	13	20	13
Shareholders' equity (SEK M)	501	407	501	407
Capital employed (SEK M)	517	414	517	412
Interest-bearing liabilities (SEK M)	6	7	6	7
Net interest-bearing liabilities (SEK M)	-302	-180	-302	-180
Total assets (SEK M)	789	580	789	580
Return on capital employed (%)	63.3	33.6	48.1	33.6
Return on total capital (%)	43.0	24.5	32.6	24.4
Return on equity (%)	46.5	24.7	35.3	24.6
Interest-coverage ratio (times)	397.4	253.3	297.5	196.9
Net debt/equity ratio (times)	-0.6	-0.4	-0.6	-0.4
Equity/assets ratio (%)	63.5	70.2	63.5	70.2
Share of risk-bearing capital (%)	64.1	70.2	64.1	70.2
Capital turnover ratio (times)	3.1	2.7	2.6	2.3
Number of employees (average for the period)	442	380	427	361
Sales per employee (SEK M)	3.3	2.7	2.8	2.5
Operating profit per employee (SEK M)	0.7	0.3	0.5	0.4

The key figures are based on the restated IFRS balance sheets and income statements as well as at full-year values when required.

## Per-share data

	Dec. 31, 2006	Dec. 31, 2005
Share price at end of period, SEK	91.75	58.25
Dividend, SEK	1.00	0.50
P/E multiple	40	44
Earnings per share before dilution, SEK	2.28	1.32
Earnings per share after dilution, SEK	2.27	1.32
Average number of shares before dilution, thousands	69 084	68 906
Average number of shares after dilution, thousands	69 220	69 121
Number of shares outstanding (thousand)	69 253	68 925

## Quarterly data

Invoiced sales per product group (SEK 000s)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	2004	2004	2004	2004	2005	2005	2005	2005	2006	2006	2006	2006
Video	96 744	115 193	117 576	144 563	130 231	183 107	198 422	220 766	219 598	249 253	268 667	324 092
Print	43 053	45 832	39 010	41 154	39 143	36 241	29 775	30 383	27 856	24 192	20 939	22 326
Scan	1 871	935	5 824	2 932	2 038	2 327	2 387	4 298	4 113	6 230	6 946	9 711
Other	10 401	5 614	10 088	10 691	3 359	4 444	4 146	4 000	5 514	3 397	4 767	4 890
<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>	<b>301 319</b>	<b>361 019</b>

Invoiced sales per region (SEK 000s)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	2004	2004	2004	2004	2005	2005	2005	2005	2006	2006	2006	2006
EMEA	78 058	81 019	83 022	108 038	80 459	104 242	96 524	129 163	115 880	134 447	139 505	191 580
Americas	39 713	55 127	56 530	55 241	52 934	84 164	100 331	99 733	108 590	117 246	129 422	129 944
Asia	34 298	31 428	32 946	36 061	41 378	37 713	37 875	30 551	32 611	31 379	32 392	39 495
<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>	<b>301 319</b>	<b>361 019</b>



## *Auditor's review*

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We have reviewed the interim report of Axis AB (publ) for the period January 1, 2006 to December 31, 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 report our conclusions concerning this interim financial information based on our review.

We have conducted our limited review in accordance with the Standard for Limited Review (SÖG) 2410 Limited review of interim financial information conducted by the company's appointed auditor, issued by FAR. A limited review consists of making inquiries, primarily of individuals having responsibility for financial and accounting matters, as well as performing analytical procedures and taking other limited review procedures. A limited review has a different focus and is significantly smaller in scope than an audit according to Auditing Standards in Sweden, RS, and generally accepted auditing practice. The review procedures undertaken during a limited review do not enable us to obtain a level of assurance at which we would be aware of all important circumstances which would have been identified had an audit been conducted. Therefore, a conclusion reported on the basis of a review does not give the same level of assurance as a conclusion expressed based on an audit.

Based on our review, no conditions have come to our attention which would give us reason 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, February 8, 2007

Öhrlings PricewaterhouseCoopers AB

Anders Lundin

*Authorized Public Accountant*

*Auditor in charge*

## *Invitation to analyst and media meeting*

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Time: Friday, February 9, 10:00 a. m.

Place: Wenströmsalen, IVA (Royal Academy of Science), Grev Turegatan 16, Stockholm, Sweden.

Participants from Axis AB will be Ray Mauritsson, President, and Fredrik Sjöstrand, CFO.

To register, please contact Margareta Lantz

E-mail: [margareta.lantz@axis.com](mailto:margareta.lantz@axis.com), telephone: +46 46 272 18 00.

The presentation can also be followed via a telephone conference:

+46 8 506 269 04

Password: Axis Communications AB

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 Investor Relations &  
Corporate Communications, telephone +46 46 272 18 00.

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