

Interim report, January–June 2007

## Continued strong sales and earnings trends

- *Net sales during the period amounted to SEK 748 M (540).*
- *Operating profit during the period totaled SEK 161 M (81).*
- *Profit before tax during the period amounted to SEK 161 M (81).*
- *Profit after tax during the period totaled SEK 120 M (58).*
- *Earnings per share during the period amounted to SEK 1.73 (0.84).*

**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

Axis continued to move aggressively in an expansive market for network video products. Total sales amounted to SEK 748 M and the Video product area reported sales of SEK 677 M, corresponding to growth of 44 percent compared with the first six months of 2006. Axis also reported strong operating profit on a favorable sales trend and continuing stable gross margins.

Market activity in the Video product area was high in the first half of the year and a high level of interest in the company's network video products was observed in all regions.

In the Print product area, Axis signed a license agreement with an OEM partner for Axis' print server software. The agreement concerns a non-recurring license fee of approximately USD 2 M. The transaction, which had a favorable impact on sales in the Asia region, is reported under the Print product area.

At the end of the period, the number of employees amounted to more than 500. Recruitment focused primarily on the sales organization, but also on research and development.

Ray Mauritsson  
*President*

## Sales

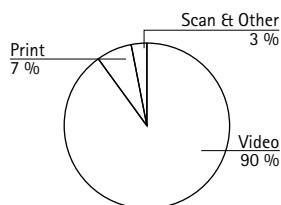
Net sales in the first six months of the year amounted to SEK 748 M (540), up 39 percent compared with the corresponding period in the preceding year. Exchange rate differences had a negative impact of SEK 39 M on net sales during the period.

Net sales in the second quarter of the year amounted to SEK 410 M (283), up 45 percent compared with the corresponding period in the preceding year. Exchange-rate differences had a negative impact of SEK 18 M on net sales.

Sales in the Video product area during the first six months of the year totaled SEK 677 M (469), corresponding to sales growth of 44 percent compared with the year-earlier period. For the second quarter, the Video product area reported sales of SEK 368 M (249), a growth of 48 percent. The favorable sales trend in the Video product area is primarily due to increased interest in network video products in an increasing number of security installations. Video products now account for 90 percent of Axis' total net sales. During the second quarter, sales in the Print product area amounted to SEK 30 M (24). Growth in this product area derived from the sale of a print license to one of Axis OEM partners in Asia. The agreement concerns a non-recurring license fee of approximately USD 2 M. Sales in the Print product area accounted for 7 percent of total Group sales.

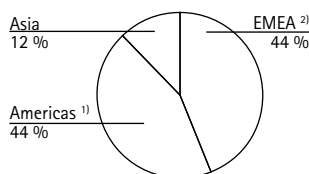
In all of the regions, activity during April-June was high. Sales in the Americas region amounted to SEK 179 M (117), corresponding to growth of 53 percent. EMEA's sales amounted to SEK 182 M (134), equal to growth of 35 percent. Region Asia reported sales of

### Invoiced sales per product group, Q2 2007



Product area Video represents 90 % of Axis' sales.

### Invoiced sales per region, Q2 2007



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

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

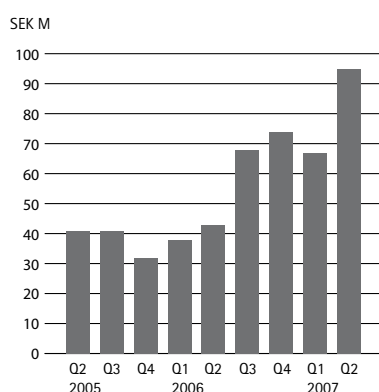
SEK 49 M (31), corresponding to growth of 57 percent as a result of increased interest in network video products and the sale of the OEM license.

Invoiced sales per product group, SEK 000s	Q2 2007	Q2 2006	Q1-Q2 2007	Q1-Q2 2006	Full year 2006	Q306-Q207 12 months
Video	368 156	249 253	677 316	468 851	1 061 610	1 270 075
Print	29 630	24 192	48 364	52 048	95 313	91 629
Scan	8 459	6 230	13 058	10 343	27 000	29 715
Other	4 043	3 397	9 715	8 911	18 568	18 372
<b>TOTAL</b>	<b>410 288</b>	<b>283 072</b>	<b>748 453</b>	<b>540 153</b>	<b>1 202 491</b>	<b>1 410 791</b>

Invoiced sales per region, SEK 000s	Q2 2007	Q2 2006	Q1-Q2 2007	Q1-Q2 2006	Full year 2006	Q306-Q207 12 months
EMEA	181 670	134 447	343 002	250 327	581 412	674 087
Americas	179 287	117 246	321 156	225 836	485 202	580 522
Asia	49 331	31 379	84 295	63 990	135 877	156 182
<b>TOTAL</b>	<b>410 288</b>	<b>283 072</b>	<b>748 453</b>	<b>540 153</b>	<b>1 202 491</b>	<b>1 410 791</b>

## Operating profit

### Operating profit / EBIT



The Group's operating profit for the January-June period increased to SEK 161 M (81), corresponding to an operating margin of 21.5 percent (15.1). Gross margin remained stable and amounted to 55.7 percent (54.2). Pretax profit rose to SEK 161 M (81) and profit after tax to SEK 120 M (58). Exchange rate fluctuations had a negative impact of SEK 4 M on operating profit.

Operating profit for the second quarter amounted to SEK 95 M (43), corresponding to an operating margin of 23.1 percent (15.3). Pretax profit amounted to SEK 94 M (43). Profit after tax amounted to SEK 70 M (31). Gross margin remained stable and amounted to 56.3 percent, an improvement attributable to non-recurring revenue from the sale of a print license to an OEM partner.

Condensed income statement, SEK 000s	Q2 2007	Q2 2006	Q1-Q2 2007	Q1-Q2 2006	Full year 2006	Q306-Q207 12 months
Net sales	410 288	283 072	748 453	540 153	1 202 491	1 410 791
Gross profit	230 823	154 573	416 987	292 794	659 007	783 200
<i>Gross margin</i>	<i>56.3 %</i>	<i>54.6 %</i>	<i>55.7 %</i>	<i>54.2 %</i>	<i>54.8 %</i>	<i>55.5 %</i>
Operating profit	94 629	43 297	161 225	81 296	223 156	303 084
<i>Operating margin</i>	<i>23.1 %</i>	<i>15.3 %</i>	<i>21.5 %</i>	<i>15.1 %</i>	<i>18.6 %</i>	<i>21.5 %</i>
Profit before tax	94 432	43 106	160 797	81 003	222 406	302 199

## Cash flow and financial position

Cash flow from current operations amounted to SEK 92 M. Net investments amounted to SEK 16 M. Capitalized development costs totaled SEK 13 M for the period. During the period, SEK 208 M was distributed to the shareholders. Axis has SEK 184 M in cash and cash equivalents and unutilized credit facilities of SEK 60 M. Accordingly, the company had a total of SEK 224 M at its disposal at June 30, 2007.

## Shareholders' equity

Consolidated shareholders' equity amounted to SEK 412 M. The total number of shares at the end of the period was 69,298,200. After full exercise of outstanding warrants, the number of shares totaled 69,535,050. At June 30, 2007, the Group's equity/assets ratio was 60.3 percent.

## *Significant events in the first half of the year*

(SEK 000s)	Share capital	Other contributed capital	Other reserves	Retained earnings	Total share- holders' equity
Opening balance at Jan. 1, 2007	692	271 686	17 445	211 246	501 069
Exchange-rate effects	-	-	-2 533	-	-2 533
Exercise of warrants	1	1 136	-	-	1 137
Dividend	-	-	-	-207 834	-207 834
Profit for the period	-	-	-	119 877	119 877
Closing balance at June 30, 2007	693	272 822	14 912	123 289	411 716

Axis successfully continued its sales of network video solutions in an expanding market, while maintaining its market leadership.

During the April–June period, Axis launched four innovative network video products – AXIS 216MFD, AXIS 211M, AXIS 215PTZ and AXIS 247S. AXIS 216MFD is a megapixel dome camera that delivers video at three times the resolution of an analog camera and is ideal for identifying people and objects. AXIS 211M is another example of a megapixel camera that is suitable for professional installations in environments where detail accuracy is desirable – for example, in schools, stores, airports and banks. AXIS 215PTZ is a network camera that can pan 360 degrees, and accordingly, is particularly suitable for receptions and schools and in offices. AXIS 247S is a compact video server that supports power supplied over the Ethernet (PoE).

There has been considerable interest in network video products in all six customer segments. Installations have been implemented on retail premises, in the transport sector and in schools worldwide. During the period, Axis participated in the international trade fairs ISC West in the US and IFSEC in the UK, where visitors showed great interest in new products within Axis network video product portfolio. In June, Axis participated in the retail trade fairs Loss Prevention in the US and Retail Solutions in the UK. It was the first time the company participated in trade fairs for a specific customer segment.

During the period, Axis signed a license agreement with an OEM partner for Axis' print server software. The agreement concerns a non-recurring license fee of approximately USD 2 M. Axis' business partner licenses software for further internal development of its offering. The agreement will not affect sales of Axis' branded print servers.

A key success factor for Axis is its partner cooperation with sales channels, distributors and development partners (Application Development Partners, ADP). At June 30, 2007, Axis had approximately 11,000 sales channel partners and distributors, and over 400 ADP partners. In light of the constantly increasing interest in network video products, Axis provides ongoing training for its partners through the Axis Academy program.

At the beginning of June, Axis announced a new cooperation with Hewlett Packard (HP). The AXIS 70U document server will be packaged together with the HP Scanjet 7650n flatbed scanner. The solution is ideal for small and medium-size companies, and will mean increased productivity and reduced costs for customers. In 2006, sales of the package commenced in Europe, the Middle East and Africa (EMEA). This expanded cooperation will also make the solution available to customers in the US market.

## *Outlook for 2007*

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Axis' overall goal is unchanged. The overall goal is to maintain and further strengthen its position as the market-leading supplier of network-based video solutions. Moving into the second half of 2007, Axis sees a market for network video that will continue its sharp growth. The company's aim is to grow at the pace of the market. To maintain market share and its leading position, and to meet the increasing competition in the market, Axis will continue to apply its focused strategy. This is a strategy that entails launching innovative network video products, further developing partnerships and pursuing expansion and ongoing recruitment.

## *The Axis share*

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The company's share is listed on OMX Nordic Exchange Stockholm AB. It has been included in the Large Cap segment since July 2, 2007. Average share trading during the period from January 1 through June 30, 2007, totaled SEK 18 M per day. The average number of shares traded during the same period totaled 141 489 shares per day. The average share price for the period was SEK 120.88. The total number of shares in the company at the end of the period was 69,298,200.

## *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 are unchanged compared with those applied in 2006.

## *Parent Company*

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The Parent Company's operations focus primarily on Group-wide administration. The Parent Company has no employees. Net sales amounted to SEK 6 M (3). Operating profit totaled -1 (-1). Cash and cash equivalents amounted to SEK 74 M (103) and borrowing was SEK 0 M (0).

## *Reporting dates*

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The interim report for the third quarter of 2007 (January 1, 2007–September 30, 2007) will be presented on October 19, 2007. The year-end report for Axis AB will be presented on January 31, 2008. This date was changed after the printing of the Annual Report.

The semi-annual report provides a true and fair picture of the income statement and balance sheet and the explaining notes gives a true and fair view of the company's position and result. In addition to this, the information in the semi-annual report gives a true and fair overview of the company's operations and position.

Lund, July 9, 2007

Ray Mauritsson  
*President and CEO*

Lars-Erik Nilsson  
*Chairman of the Board*

Martin Gren

Charlotta Falvin

Olle Isberg

Göran Jansson

## Consolidated income statement

(SEK 000s)	Q2 2007	Q2 2006	Q1–Q2 2007	Q1–Q2 2006	Full year 2006	Q306–Q207 12 months
Net sales	410 288	283 072	748 453	540 153	1 202 491	1 410 791
Cost of products and services sold	-179 465	-128 499	-331 466	-247 359	-543 484	-627 591
Gross profit	230 823	154 573	416 987	292 794	659 007	783 200
Other revenues and changes in value	-1 654	-2 223	4 227	-1 381	2 534	8 141
Selling and marketing costs	-76 059	-58 345	-142 171	-108 721	-226 732	-260 182
Administrative costs	-13 915	-12 285	-30 237	-26 821	-53 485	-56 901
Research and development costs	-44 566	-38 423	-87 581	-74 575	-158 168	-171 174
Operating profit	94 629	43 297	161 225	81 296	223 156	303 084
Financial expenses	-197	- 191	- 428	- 293	-750	- 885
Profit before tax	94 432	43 106	160 797	81 003	222 406	302 199
Tax	-23 987	-12 177	-40 920	-23 127	-65 025	-82 818
Profit for the period	70 445	30 929	119 877	57 876	157 381	219 381
Earnings per share before dilution, SEK	1.02	0.45	1.73	0.84	2.28	3.17
Earnings per share after dilution, SEK	1.02	0.45	1.73	0.84	2.27	3.16
Number of shares before dilution, average, thousands	69 228	68 953	69 228	68 953	69 084	69 228
Number of shares after dilution, average, thousands	69 379	69 178	69 379	69 178	69 220	69 379

## Cash flow statement

(SEK 000s)	Q2 2007	Q2 2006	Q1–Q2 2007	Q1–Q2 2006	Full year 2006	Q306–Q207 12 months
Cash flow from operating activities before change in working capital	87 350	55 034	128 794	93 774	247 423	282 443
Change in working capital	-24 523	13 319	-36 376	23 604	-20 490	-80 470
Cash flow from operating activities	62 827	68 353	92 418	117 378	226 933	201 973
Cash flow from investing activities	-7 998	-9 930	-15 542	-16 817	-37 992	-36 717
Cash flow from financing activities	-207 311	-67 251	-206 651	-67 158	-62 700	-202 193
Cash flow for the period	-152 482	-8 828	-129 775	33 403	126 241	-36 937
Cash and cash equivalents at beginning of period	336 173	229 456	313 466	187 225	187 225	220 628
Cash and cash equivalents at period end	183 691	220 628	183 691	220 628	313 466	183 691

## Consolidated balance sheet

(SEK 000s)	June 30, 2007	June 30, 2006	Dec. 31, 2006
Fixed assets	91 855	97 114	85 563
Inventories	152 539	83 456	151 690
Accounts receivable and other receivables	255 005	184 875	238 586
Cash and cash equivalents	183 691	220 628	313 466
<b>Total</b>	<b>683 090</b>	<b>586 073</b>	<b>789 305</b>
Shareholders' equity	411 716	398 670	501 069
Long-term liabilities	7 685	12 081	15 732
Current liabilities	263 689	175 322	272 504
<b>Total</b>	<b>683 090</b>	<b>586 073</b>	<b>789 305</b>

## Key figures

	Q2 2007	Q2 2006	Q1–Q2 2007	Q1–Q2 2006	Full year 2006
Net sales growth (%)	44.9	25.2	38.6	34.7	34.3
Gross margin (%)	56.3	54.6	55.7	54.2	54.8
Operating margin (%)	23.1	15.3	21.5	15.1	18.6
Profit margin (%)	23.0	15.2	21.5	15.0	18.5
Depreciation (SEK M)	21	19	18.2	19	20
Shareholders' equity (SEK M)	412	399	412	399	501
Capital employed (SEK M)	419	408	419	408	517
Interest-bearing liabilities (SEK M)	6	7	6	7	6
Net interest-bearing liabilities (SEK M)	-184	-214	-184	-214	-302
Total assets (SEK M)	683	586	683	586	789
Return on capital employed (%)	80.9	42.3	68.9	39.7	48.1
Return on total capital (%)	51.4	29.7	43.8	27.9	32.6
Return on shareholders' equity (%)	59.6	30.8	50.7	29.0	35.3
Interest-coverage ratio (times)	480.4	226.7	376.7	277.5	297.5
Net debt/equity ratio (times)	-0.4	-0.5	-0.6	-0.5	-0.6
Equity/assets ratio (%)	60.3	68.0	60.3	68.0	63.5
Share of risk-bearing capital (%)	67.4	68.6	67.4	68.6	64.1
Capital turnover ratio (times)	3.5	2.8	3.2	2.6	2.6
Number of employees (average for period)	494	410	481	403	427
Sales per employee (SEK M)	3.3	2.8	3.1	2.7	2.8
Operating profit per employee (SEK M)	0.8	0.4	0.7	0.4	0.5

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

## Data per share

	June 30, 2007	June 30, 2006	Dec. 31, 2006
Share price at end of period, SEK	153.00	59.50	91.75
Dividend, SEK	3.00	1.00	1.00
P/E ratio	44	35	40
Earnings per share before dilution, SEK	1.73	0.84	2.28
Earnings per share after dilution, SEK	1.73	0.84	2.27
Number of shares before dilution, average, thousands	69 228	68 953	69 084
Number of shares after dilution, average, thousands	69 379	69 178	69 220
Number of shares outstanding (thousands)	69 298	69 072	69 253

## Quarterly data

Invoiced sales per product group (SEK 000s)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	2005	2005	2005	2006	2006	2006	2006	2007	2007
Video	183 107	198 422	220 766	219 598	249 253	268 667	324 092	309 160	368 156
Print	36 241	29 775	30 383	27 856	24 192	20 939	22 326	18 734	29 630
Scan	2 327	2 387	4 298	4 113	6 230	6 946	9 711	4 599	8 459
Other	4 444	4 146	4 000	5 514	3 397	4 767	4 890	5 672	4 043
TOTAL	226 119	234 730	259 447	257 081	283 072	301 319	361 019	338 165	410 288
Invoiced sales per region	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EMEA	104 242	96 524	129 163	115 880	134 447	139 505	191 580	161 332	181 670
Americas	84 164	100 331	99 733	108 590	117 246	129 422	129 944	141 869	179 287
Asia	37 713	37 875	30 551	32 611	31 379	32 392	39 495	34 964	49 331
TOTAL	226 119	234 730	259 447	257 081	283 072	301 319	361 019	338 165	410 288



## Parent Company income statement

(SEK 000s)	Q1-Q2 2007	Q1-Q2 2006
Net sales	6 028	3 370
<b>Gross profit</b>	<b>6 028</b>	<b>3 370</b>
Administrative costs	-6 856	-4 438
<b>Operating profit</b>	<b>-828</b>	<b>-1 068</b>
Financial income	8 237	15 556
Financial expenses	-4 993	-3 645
<b>Profit for the period</b>	<b>2 416</b>	<b>10 843</b>
Earnings per share before dilution, SEK	0.03	0.16
Earnings per share after dilution, SEK	0.03	0.16
Number of shares before dilution, average, thousands	69 228	68 953
Number of shares after dilution, average, thousands	69 379	69 178

## Parent Company balance sheet

(SEK 000s)	June 30, 2007	Dec. 31, 2006
Fixed assets	2 342	2 342
Receivables from Group companies	232 090	297 600
Accounts receivable and other receivables	1 126	8 520
Tax receivables	12 444	-
Cash and cash equivalents	74 223	253 263
<b>Total</b>	<b>322 225</b>	<b>561 725</b>
Shareholders' equity	294 671	504 674
Untaxed reserves	24 135	24 135
Liabilities to Group companies	735	8 208
Current liabilities	2 684	24 708
<b>Total</b>	<b>322 225</b>	<b>561 725</b>

## *Auditor's review report*

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We have reviewed the interim report of Axis AB (publ) for the period of January 1 to June 30, 2007. 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*. 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 9, 2007

Öhrlings PricewaterhouseCoopers AB

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

*For further  
information*

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Axis will hold a telephone conference for media and financial analysts today, July 9, at 10:00 a.m. A presentation will be available at <http://www.axis.com/corporate/investor/index.php>

Time: Monday, July 9, at 10:00 a.m.

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The Annual Report for 2006 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 &  
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