

ADMINISTRATION REPORT

The Board of Directors and the President and CEO herewith submit the following annual report and consolidated accounts for the financial year 1 January 2005–31 December 2005. Unless otherwise stated, all amounts are in SEK thousands. Information in parenthesis refers to the preceding year.

The operation

Axis develops products which provide added value to users of network solutions. The company is an innovative, global market leader in network video and print servers. Axis' solutions are used primarily in security surveillance, remote monitoring and document handling. Axis' products are based on the company's own integrated chips, which are also sold through third-party developers. The company is a global player through its own offices in 16 countries and through distributors and system integrators in over 70 countries. 95 percent of sales are to countries outside Sweden. Axis was established in 1984 and is listed on the Stockholm Stock Exchange's O-list.

Significant events

During the year, the network video market accelerated as the degree of acceptance of network video within the traditional security sector has grown. With strong growth, 55 percent in Axis Product Area Video, Axis has strengthened and developed its position as market leader. Axis' strong market position in network video was confirmed at the beginning of the year by the "2005 Market Leadership Award" from the international market research company Frost & Sullivan. Axis was also declared market leader by the market research and consulting company, J.P. Freeman Co. Inc.

The focus on network video was intensified during 2005. A large number of new products, six new camera models, four variants of video servers and new versions of the ACS application software were launched during the year. The product generation change which began in 2004 has now been completed, while the development of the next generation of products is in full swing.

The partnership programme with system integrators and application development partners has been

further developed, and this has led to a large number of new partners being linked to Axis. At the beginning of the year, a collaborative venture was launched with HID, a company within the ASSA Abloy Group, and a leading global manufacturer of touch-free access control systems. In North America, Axis is now working closely with Convergent, which specialises in alarm, security and energy management. Educating the market is central to speeding up the rate of conversion from analog to digital technology. Through its Axis Academy concept, Axis provides training in digital monitoring solutions for system integrators in the IT and security sectors. Around 1,000 partners participated in the education programme during 2005.

Sales within the mature Product Area, Print, continued to stagnate during the year. The downturn is largely due to the maturity of the market for print servers which had a negative impact on both sales for Axis' own brand and OEM sales.

Research & development

During 2005, 16.4 percent of Group sales were invested in research and development for hardware and software. The cost of research and development did not change significantly compared with the preceding year, and amounted to SEK -122 million (-115). SEK 24 million (12) of expenditure on development work was capitalised during the year. The capitalisation principle is described in greater detail in note to the accounts 2.7.

The heart of Axis' products is ETRAX, an application-specific chip for connecting to fixed and wireless networks. The chip is found in the majority of products, and forms, along with Axis' software platforms, an extremely flexible technology base on which world-beating products can be developed, rapidly and cost-effectively. In 2005, a new generation of Axis' ETRAX chip, the ETRAX FS, was launched.

Axis pursues an active patents strategy to protect its investments in its core technology and intellectual capital. During the year, three new patents were granted, most of them for video. In total, Axis held 45 patents at the end of 2005. The exposure to intellectual property risk in the patents area is managed by Axis' specialists in collaboration with external law-

yers and advisers. To date, a few disputes on patent infringement have been discussed, but these have not had any consequences for Axis. A dispute with the US company, CLI, was settled in 2005.

Research efforts are currently focused on three strategic areas: image analysis, chip design on silicon, and network and communications protocols. In all these areas, long-term technological development is carried on in-house. Research is carried out largely as an industrial undertaking in various national and local research programmes.

Financing and cash flow

Axis had at its disposal a total of SEK 267 million on 31 December 2005, of which SEK 187 million was in cash, and SEK 80 million was in unutilised credit facilities. Axis is, accordingly, in a very strong financial position for 2006. Cash flow from operating activities amounted to SEK 131 million (30). Net investment for the year amounted to SEK 30 million (15) and total cash flow to SEK 66 million (18).

Investment

Investments in tangible assets totalled SEK 6 million (4), and in intangible assets, SEK 24 million (12). Net investment for the year according to the consolidated cash flow statement was SEK 30 million (15).

Ownership

Axis AB's share capital at the end of the financial year amounted to SEK 689,250, divided over 68,925,000 shares of a nominal SEK 0.01. All shares are of the same class. With the full exercise of the outstanding share options, the dilution effect is 0.91 percent.

At the close of the financial year, Axis AB had 11,295 shareholders. The five largest shareholders at the end of the financial year were responsible for 57 percent of both votes and capital.

Shareholder	Number of shares	Percentage of capital and votes
T Karlsson, private and corporate holdings (LMK Industri AB)	15 308 408	22.2 %
C Brandberg, private and corporate holdings (Inter Indu SPRL)	10 756 957	15.6 %
M Gren, corporate holding (AB Grenspecialisten)	7 157 471	10.4 %
Robur	3 595 000	5.2 %
SIF	2 421 500	3.5 %
Other	29 685 664	43.1 %
	68 925 000	100.0 %

Results and position

Sales during the year amounted to SEK 895 million (691), which represents a growth of 29 percent compared with the preceding year. Currency effects have had a positive impact on sales of SEK 13 million. Product Area Video grew by 55 percent from SEK 474 million to SEK 733 million, while Product Area Print fell by 20 percent to SEK 136 million. The gross margin improved from 52.0 percent in 2004 to 54.0 percent for 2005.

The Group's operating profit amounted to SEK 128 million (51), an improvement of SEK 77 million compared with the preceding year. The operating margin rose from 7.4 percent in 2004 to 14.3 percent in 2005. Currency effects had a positive impact of SEK 6 million on operating profit.

Profit after financial items was SEK 128 million (50), an improvement of SEK 78 million compared with the previous year.

Income statement in summary, SEK thousands

	Q1, 2005	Q2, 2005	Q3, 2005	Q4, 2005	TOTAL
Net sales	174 771	226 119	234 730	259 447	895 066
Gross profit	91 659	124 744	128 764	137 806	482 973
Gross margin, %	52.4	55.2	54.9	53.1	54.0
Operating profit	13 932	41 449	40 639	32 171	128 192
Operating margin, %	8.0	18.3	17.3	12.4	14.3
Profit after financial items	13 772	41 306	40 418	32 044	127 541
Profit margin, %	7.9	18.3	17.2	12.4	14.2

Key ratios for the Group

	2005	2004	2003	2002	2001
Net sales, SEK million	895	691	624	670	696
Profit/loss after financial items, SEK million	128	50	8	51	-150
Balance sheet total, SEK million	580	470	434	430	489
Equity/assets ratio	70 %	72 %	69 %	73 %	56 %
Return on capital employed	24 %	11 %	2 %	12 %	-19 %
Return on equity	25 %	12 %	2 %	13 %	-46 %
Earnings per share before dilution, SEK	1.32	0.44	-0.04	0.52	-1.31
Earnings per share after dilution, SEK ¹⁾	1.32	0.44	-0.04	0.52	-1.31
Number of shares before dilution, average, thousands	68 906	68 900	68 900	68 900	68 900
Number of shares after dilution, average, thousands	69 121	68 900	68 900	68 985	68 900
Number of employees at close of financial year	391	346	362	344	324

¹⁾ In the event of a loss, no dilution effect arises. Definitions are given in note 29.

The formal work plan of the Board of Directors

The Board consists of four members elected by the general meeting. During the financial year, the Board held eight meetings. The work of the Board follows an annual agenda and is otherwise governed by the formal work plan adopted by the Board covering the division of work between the Board and the President and CEO.

The Board has appointed a Remuneration Committee whose principal task is to prepare decisions and guidelines affecting salaries and other terms of employment for the staff, the President and CEO, and those members of the Board who receive remuneration other than the fees set by the annual general meeting.

The Remuneration Committee consists of Patrik Tigerschiöld and Lars-Erik Nilsson, with Olle Isberg as a co-opted member.

Axis' Nominations Committee consists of representatives of the three largest shareholders, Therese Karlsson (LMK Industri AB), Christer Brandberg (Inter Indu SPRL) and Martin Gren (AB Grens specialisten). Christer Brandberg is the Chairman and Convener of the Nominations Committee.

Contacts between the company's Board and the auditors have taken place through audit meetings between the Chairman of the Board and the auditors. The auditors have also participated in two Board meetings during the year.

Financial risks

The Group's international operations involve a number of financial risks which are managed in accordance with the policies adopted by the Board. The overriding objective is that the Group's Treasury Department will be able to provide Group companies with finance on a continuous basis, and manage financial risks so that the impact on the Group's results is minimised. The Group's main exposure is to financing, currency and credit risks. Interest-rate risk is regarded as insignificant. For further information, please refer to note to the accounts 3.

Future prospects

It is Axis' view that the video market will continue to develop rapidly, and that this will provide excellent opportunities for growth.

The main driving force behind the growth of the market is the transition from analog to digital video solutions. The market for print server solutions may be regarded as mature, which reduces expectations on Product Area Print and also has a negative effect on the Group's OEM sales. Despite this, overall, the conditions for strong and profitable growth are good.

In the light of this, the target for the next three to five years is for total average annual growth of around 20 percent for the Group. At the same time, Axis will achieve its profitability target. With current market trends, the company's target is to achieve a profit margin of at least 10 percent over the next few years. Axis' equity/assets ratio will not fall below 50 percent.

The Parent Company

The primary activity of the Parent Company is the administration of the Group. The Parent Company has no employees. Sales to Group companies are insignificant. No purchases from Group companies have been made. The Parent Company's profit after financial items amounted to SEK 100 (60) million.

Proposed appropriation of profits for the Parent Company

The funds at the disposal of the annual general meeting are:

Profit brought forward	SEK 60 771 917
Net profit for the year	SEK 70 497 839
Total	SEK 131 269 756

The Board of Directors and the President and CEO propose that the profits at the disposal of the annual general meeting be appropriated as follows:

that a dividend of SEK 1.00 kr per share be paid to shareholders	68 925 000 kr
carried forward	62 344 756 kr
Total	131 269 756 kr

The company's non-restricted equity as at 31 December 2005 amounted to SEK 131,269,756. The Board anticipates a continuing positive trend in both results and liquidity in financial year 2006. In the Board's view, the proposed dividend will not prevent the company from fulfilling its obligations in the short and long term, nor from carrying out the necessary investment.

CONSOLIDATED INCOME STATEMENT

	Note	2005	2004
Net sales	4	895 066	691 481
Cost of goods and services sold		-412 093	-331 968
Gross profit		482 973	359 514
Other income and changes in value	8	-2 718	2 663
Selling and marketing expenses		-176 289	-154 078
Administrative expenses		-53 274	-42 277
Research and development expenses		-122 500	-114 787
Operating profit	6, 7, 8	128 192	51 035
Financial expenses		-651	-760
Profit before tax		127 541	50 275
Tax	9	-36 454	-19 732
NET PROFIT FOR THE YEAR		91 087	30 543
Earnings per share before dilution, SEK	10	1.32	0.44
Earnings per share after dilution, SEK		1.32	0.44
Number of shares before dilution, average, thousands		68 906	68 900
Number of shares after dilution, average, thousands		69 121	68 900
Proposed dividend, SEK		1.00	0.50

PARENT COMPANY'S INCOME STATEMENT

	Note	2005	2004
Net sales		10 267	4 978
Gross profit		10 267	4 978
Administrative expenses		-12 706	-7 497
Operating loss		-2 439	-2 519
<i>Results from financial investments</i>			
Results from participations in Group companies	23	127 327	55 887
Interest income and similar profit/loss items	24	8 763	16 046
Interest expense and similar profit/loss items	25	-34 070	-9 053
Profit after financial items		99 581	60 361
Change in tax allocation reserve		-	5 036
Tax	9	-29 083	-20 000
NET PROFIT FOR THE YEAR		70 498	45 397

CONSOLIDATED BALANCE SHEET

ASSETS	Note	2005	2004
Fixed assets			
Tangible assets	5	8 750	7 733
Intangible assets	5	55 168	38 608
Deferred income taxes recoverable	11	38 696	69 302
Other financial assets	14	4 590	2 744
Total fixed assets		107 204	118 387
Current assets			
Inventories	12	117 811	85 788
Accounts receivable and other receivables	13	167 370	140 136
Current income tax recoverable		613	4 663
Cash and cash equivalents	15	187 225	121 023
Total current assets		473 019	351 610
TOTAL ASSETS		580 223	469 997

PARENT COMPANY'S BALANCE SHEET

ASSETS	Note	2005	2004
Fixed assets			
<i>Financial assets</i>			
Participations in subsidiaries	26	742	742
Deferred income taxes recoverable	11	34 724	63 807
Other financial assets		1 600	-
Total financial assets		37 066	64 549
Total fixed assets		37 066	64 549
Current assets			
<i>Receivables</i>			
Receivables from Group companies		291 987	284 056
Other receivables		14	2 120
Prepaid expenses and accrued income		1 340	7 166
Total receivables		293 341	293 342
<i>Cash and bank balances</i>			
Cash and bank balances		105 928	37 792
Total cash and bank balances		105 928	37 792
Total current assets		399 269	331 134
TOTAL ASSETS		436 335	395 683

CONSOLIDATED BALANCE SHEET

EQUITY & LIABILITIES	Note	2005	2004
Equity			
<i>Capital and reserves</i>			
Share capital	16	689	689
Other reserves	17	283 336	267 818
Profit brought forward		123 237	71 337
Total equity		407 262	339 844
Liabilities			
<i>Long-term liabilities</i>			
Borrowing	18	6 780	6 375
Pension commitments	19	200	325
Other provisions	20	3 794	3 578
Total long-term liabilities		10 774	10 278
<i>Current liabilities</i>			
Accounts payable and other liabilities	21	161 152	119 875
Derivative instruments	22	1 035	-
Total current liabilities		162 187	119 875
Total liabilities		172 961	130 153
TOTAL EQUITY AND LIABILITIES		580 223	469 997
ITEMS ABOVE THE LINE			
<i>Pledged assets</i>		NONE	NONE
<i>Contingent liabilities</i>		NONE	NONE

PARENT COMPANY'S BALANCE SHEET

EQUITY & LIABILITIES	Note	2005	2004
Equity			
<i>Restricted equity</i>			
Share capital		689	689
Statutory reserve		293 319	294 324
Total restricted equity		294 008	295 013
<i>Non-restricted equity</i>			
Profit brought forward		60 772	46 280
Net profit for the year		70 498	45 397
Total non-restricted equity		131 270	91 677
Total equity		425 278	386 690
Liabilities			
<i>Current liabilities</i>			
Liabilities to Group companies		8 306	8 306
Accrued expenses and deferred income		2 751	687
Total current liabilities		11 057	8 993
Total liabilities		11 057	8 993
TOTAL EQUITY AND LIABILITIES		436 335	395 683
ITEMS ABOVE THE LINE			
<i>Pledged assets</i>		NONE	NONE
<i>Contingent liabilities</i>	27	7 973	7 513

CHANGE IN EQUITY – GROUP

	Attributable to the Parent Company's shareholders				Total equity
	Note	Share capital	Other reserves	Profit brought forward	
Opening balance as at 1 January 2004		689	265 408	34 227	300 324
Adjustments due to transition to IFRS (IAS 21)	30	-	457	-	457
VAT refunded on issue expenses		-	1 748	-	1 748
Currency fluctuations on share options in own holding ¹⁾		-	18	-	18
Vesting of stock options in Axis Inc. USA ²⁾		-	132	-	132
Other adjustments		-	55	-227	-172
Other transactions recorded directly in equity		-	1 953	-227	1 726
Net profit for the year		-	-	37 337	37 337
Closing balance as at 31 December 2004		689	267 818	71 337	339 844
Adjustments due to transition to IFRS	30	-	7 999	-4 436	3 563
Opening balance as at 1 January 2005		689	275 817	66 901	343 407
New issue on exercise of share options		-	449	-	449
Elimination of issue expenses in respect of matured share option scheme		-	-1 005	-	-1 005
Elimination of issue expenses in respect of exercised share options		-	-449	-	-449
Vesting of stock options in Axis Inc. USA ²⁾		-	60	-	60
Other adjustments		-	5	-301	-296
Cash flow hedges, after tax		-	-2 114	-	-2 114
Hedging of net investment, after tax		-	-3 148	-	-3 148
Exchange rate differences		-	13 721	-	13 721
Total transactions recorded directly in equity		-	7 519	-301	7 218
Net profit for the year		-	-	91 087	91 087
Dividend for 2004		-	-	-34 450	-34 450
Closing balance as at 31 December 2005		689	283 336	123 237	407 262

¹⁾ Refers to stock options acquired for selling-on to employees in the US subsidiary, Axis Inc. The item is entered locally in USD and eliminated against equity at the closing day rate.

²⁾ Refers to stock options acquired for selling-on to employees in the US subsidiary, Axis Inc. Stock options are expensed continuously as they are earned by the staff.

CHANGE IN EQUITY – PARENT COMPANY

	Share capital	Statutory reserve	Share premium reserve	Profit brought forward	Net profit for the year	Total equity
Equity 31 December 2003	689	1 024	291 552	33 467	12 813	339 545
Reversal of net profit for the year	-	-	-	12 813	-12 813	-
VAT refunded on issue expenses	-	-	1 748	-	-	1 748
Reversal of share premium reserve to statutory reserve due to new Companies Act	-	293 300	-293 300	-	-	-
Net profit for the year	-	-	-	-	45 397	45 397
Equity 31 December 2004	689	294 324	-	46 280	45 397	386 690
Effects on 1 January 2005 of valuation at fair value	-	-	-	3 545	-	3 545
Reversal of net profit for the year	-	-	-	45 397	-45 397	-
Dividend	-	-	-	-34 450	-	-34 450
New issue on exercise of share options	-	449	-	-	-	449
Elimination of expenses in respect of matured share option scheme	-	-1 005	-	-	-	-1 005
Elimination of issue expenses in respect of exercised share options	-	-449	-	-	-	-449
Net profit for the year	-	-	-	-	70 498	70 498
Equity 31 December 2005	689	293 319	-	60 772	70 498	425 278

The number of shares as at 31 December 2005 amounted 68,925,000. The net worth ratio amounted to SEK 0.01 per share.

At the annual general meeting on 20 April, a dividend of SEK 1.00 will be proposed. During 2005, a dividend of SEK 0.50 per share was paid in respect of financial year 2004.

CONSOLIDATED CASH FLOW STATEMENT

	Note	2005	2004
<i>Operating activities</i>			
Cash flow from operations	28	130 732	32 226
Net interest income/expense		-159	-1 076
Tax paid		-44	-1 307
Cash flow from operating activities		130 529	29 843
<i>Investing activities</i>			
Acquisition of tangible assets		-5 970	-3 619
Sale of tangible assets		-	240
Acquisition of intangible assets		-24 110	-12 290
Investment in other financial assets		159	902
Cash flow from investing activities		-29 921	-14 767
<i>Financing activities</i>			
New issue		449	-
Amortisation of loans		-	-3 400
Dividend paid		-34 450	-
Exchange rate differences		-405	6 369
Cash flow from financing activities		-34 406	2 969
Cash flow for the year		66 202	18 045
Cash and cash equivalents at start of year		121 023	102 978
Changing cash and cash equivalents		66 202	18 045
Cash and cash equivalents at end of year		187 225	121 023

PARENT COMPANY'S CASH FLOW STATEMENT

	Note	2005	2004
<i>Operating activities</i>			
Cash flow from operations	28	69 615	88 461
Net interest income/expense		1 141	2 093
Group contribution received		129 871	59 743
Shareholders' contribution made		-2 544	-3 856
Adjustment for Group contribution not affecting cash		-71 440	-75 300
Cash flow from operating activities		126 643	71 141
<i>Financing activities</i>			
New issue		449	-
Dividend paid		-34 450	-
Exchange rate differences		-24 506	4 584
Cash flow from financing activities		-58 507	4 584
Cash flow for year		68 136	75 725
Cash and cash equivalents at start of year		37 792	-37 933
Change in cash and cash equivalents		68 136	75 725
Cash and cash equivalents at end of year		105 928	37 792

NOTES

Note 1 General information

Axis develops products which add value to network video solutions. The company is an innovative market leader in the fields of network video solutions and print servers. Axis' solutions are used mainly in security surveillance, remote monitoring and document processing applications. All products are based on the company's own chip technology which is also sold to third-party developers. Axis was established in 1984 and is listed on the Stockholm Stock Exchange O-list. The company operates globally through its own offices in 16 countries, as well as through collaboration with distributors, system integrators and OEM partners in over 70 countries. More than 95 percent of sales are to markets outside Sweden.

Note 2 Accounting principles

2.1 Basis for drawing up the financial statements

The consolidated financial statements for the Axis Group have been drawn up in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, and also in accordance with the Annual Accounts Act and the Swedish Financial Accounting Standard Council's recommendation RR 30. The most important accounting principles adopted in drawing up the consolidated accounts are specified below.

Preparing financial statements in conformity with IFRS requires the use of some important accounting estimates. In addition, management is required to make judgments in applying the company's accounting principles. Areas which involve a high degree of judgment, which are complex or are areas where assumptions and estimates are of considerable significance for the consolidated accounts, are specified where appropriate in the relevant note. The standards and statements which came into force on 1 January 2006 are not considered to have any significant effect on Axis' accounting principles.

The accounts of the Parent Company have been drawn up in accordance with the Annual Accounts Act and the Swedish Financial Accounting Standard Council's recommendation RR 32. The Parent Company's accounting principles conform in all essentials with the Group's, with the exception of hedge accounting in respect of currency hedging which is not applied to the Parent Company.

2.2 Consolidated financial statements

Subsidiaries are all companies for which the Group has the right to set financial and operational strategies in the manner normally associated with a shareholding amounting to more than half of the voting rights. The existence and effect of potential voting rights which it is currently possible to utilise or convert are to be taken into account in the assessment of whether the Group exercises a controlling influence over another company. Subsidiaries are to be included in the consolidated financial statements from and including the date on which the controlling influence is transferred to the Group. They are to be excluded from the consolidated financial statements from and including the date on which the controlling influence ceases.

The purchase method is used for the accounting of Axis' acquisitions of subsidiaries. The acquisition cost is made up of the fair value of assets given, equity instruments issued by the acquirer and incurred or assumed liabilities at the date of exchange, plus any costs directly attributable to the acquisition. Identifiable acquired assets and assumed liabilities, along with any obligations in a corporate acquisition, are initially valued at the fair value on the date of acquisition irrespective of the extent of any minority interest. The surplus represented by the difference between the acquisition value and the fair value of the Group's share of identifiable acquired net assets is recognised as goodwill. If the acquisition cost is below the fair value of the subsidiary company's net assets, the difference is recognised directly in the income statement.

Internal Group transactions and balance sheet items, as well as unrealised gains on transactions between Group companies, are eliminated. Unrealised losses are also eliminated, unless the transaction constitutes a proof that the assumed assets need to be impaired. Where appropriate, the accounting principles for subsidiaries have been changed to ensure the consistent application of the Group's principles.

2.3 Translation of foreign subsidiaries

All foreign subsidiaries within the Axis Group have functional currencies other than the currency in which the Group prepares its financial statements. In translating the financial statements of these subsidiaries, the current method is applied. Assets and liabilities are translated at the closing day rate on the respective closing day. Items in the income statement are translated at the exchange rate on the transaction date approximated to the average exchange rate. Translation differences are recognised directly against equity.

When the Parent Company or other Group company in the Axis Group carries out hedging measures to offset and protect exchange rate differences on net investment in a subsidiary, the exchange rate difference on their hedging instrument is recognised against the equivalent translation difference for the subsidiary.

In the event of different valuations of assets and liabilities at Group and company level, the tax effect is taken into account, and this is recognised as a long-term receivable or provision. No account, however, is taken of deferred tax on Group goodwill. During consolidation, exchange rate differences, which arose in consequence of the translation of net investment in foreign operations and from borrowing and other currency instruments which have been identified as hedges for such investments, are taken to equity. In the event that a foreign operation is sold, any such exchange rate differences in the income statement are recognised as part of the capital gain or loss.

2.4 Inventories

Goods for resale are valued at the lower of cost and net realisable value on the closing date using the FIFO principle. Internal profits on sales between Group companies are eliminated.

2.5 Receivables

Receivables are recognised at the amount which it is expected will be received. Receivables in foreign currencies are valued at the closing day rate.

2.6 Tangible assets

Tangible assets are recognised at acquisition value after deduction of accumulated depreciation according to plan. There are no pledges or undertakings on future investment. The acquisition value includes expenditure which can be directly attributed to the acquisition of the asset. The acquisition value may also include transfers from equity of gains/losses from cash flow hedging, which fulfil the conditions for hedge accounting, in respect of purchases of tangible assets in foreign currency. In the event that the recognised value of an asset exceeds its estimated recoverable amount, the asset is impaired immediately to its recoverable amount. Depreciation according to plan is calculated on the original acquisition values and is based on the estimated useful life of the assets in accordance with the following:

Plant and equipment 3–10 years

2.7 Intangible assets

Axis' technology is based on the internally-developed ASIC (Application Specific Integrated Circuit) platforms, which are at the heart of Axis' products. Costs closely associated with the production of identifiable and unique software products which are controlled by Axis, and which are likely to generate economic benefits in excess of costs for more than a year, are recognised as intangible assets. Costs which are closely associated with the production of software include personnel costs for software de-

velopment and a reasonable percentage of attributable indirect costs. Capitalised intangible assets are not subject to valuation of fair value. Where an asset's recognised value exceeds its estimated recoverable amount, the asset is immediately impaired to its recoverable amount.

The development of new platforms is capitalised, with effect from and including financial year 2002, continuously over the development period, and is impaired on the basis of estimated useful life. Network applications based on these platforms, such as network cameras, print servers etc are treated as adaptations of the core products. Adaptations of platforms to different network applications are not capitalised. Expenditure on research is charged to results in the year in which it is incurred.

Depreciation according to plan is calculated on the original acquisition values and is based on the estimated useful life of the assets in accordance with the following:

Capitalised development work	3 years
Software	3 years
Rights	5 years

2.8 Impairment of assets

Assets which have an undetermined useful life are not depreciated but are subject to an annual impairment test. Assets which are impaired are assessed in respect of the reduction in value whenever events or changes in circumstances indicate that the carrying value may not actually be recoverable. An impairment is made by the amount by which the carrying value of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In carrying out an impairment test, assets are grouped at the lowest level which has separate identifiable cash flows (cash-generating units).

2.9 Cash and cash equivalents

Cash and cash equivalents are defined as cash, bank balances and other short-term investments with maturities of less than three months.

2.10 Financial instruments

Financial instruments are classified into the following categories: financial assets valued at fair value via the income statement, loan receivables and accounts receivable, financial instruments which are to be held to maturity and financial assets which are available for sale. The classification is dependent on the aim for which the instrument was acquired. Management determines the classification of instruments at the first accounting date, and reviews this decision at every accounting date.

(a) Financial assets valued at fair value via the income statement

This category has two subcategories: financial assets which are held for trading and financial assets which from acquisition are attributed to the category valued at fair value via the income statement. A financial asset is to be classified in this category if it was acquired primarily with the aim of being sold in the short-term or if this classification is determined by the management. Derivative instruments are also categorised as being held for trading unless they are identified as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date.

(b) Loan receivables and accounts receivable

Loan receivables and accounts receivable are non-derivative financial assets with established or ascertainable payments which are not listed on an active market. Characteristically, they arise when the group supplies money, goods or services direct to a customer without the intention of trading the resulting receivable. They are included in current assets, with the exception of items with a maturity date of more than twelve months after the balance sheet date, which are classified as fixed assets. Loan receivables and accounts receivable are included in the accounts receivable and other receivables item in the balance sheet (see note 13, Accounts receivable and other receivables).

c) Financial assets which are to be held to maturity

Financial instruments which are to be held to maturity are non-derivative financial assets with established or ascertainable payments and an established term which the Group's management has the intention and ability to hold until maturity. During the financial year, Axis did not hold any instruments belonging to this category.

(d) Financial assets which are available for sale

Financial assets which are available for sale are non-derivative assets which are either assigned to this category or which have not been classified in any of the other categories. They are included in fixed assets unless the management intends to dispose of the asset within twelve months of the balance sheet date. During the financial year, Axis did not hold any instruments belonging to this category.

In determining fair value, where appropriate, information in respect of recent arms-length transactions, other instruments which are broadly similar and the discounted cash flow analysis are used.

At each balance sheet date, the Group assesses whether there is objective evidence that there is a need for impairment in respect of a financial asset or a group of financial assets. Where such an impairment need has been identified, the asset is impaired to its fair value.

2.11 Provisions

Provisions for restructuring costs and legal requirements are recognised when the group has an existing legal or constructive obligation in consequence of past events, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions for restructuring include the expense of terminating leasing agreements and termination payments. No provisions are made for future operating losses.

If there are a number of similar obligations, the probability that an outflow of resources will be required for the settlement of this group as a whole is assessed. A provision is recognised even if the probability of an outflow in respect of one special item in this group of obligations is low.

2.12 Income taxes

Recognised tax expense includes tax payable or recoverable in respect of the current year, adjusted for prior years' tax as well as changes in deferred tax. All tax liabilities and income taxes recoverable are valued at their nominal amount in accordance with the tax regulations and the tax rates adopted or announced and which there is a considerable degree of certainty will be adopted. For items recognised in the income statement, the associated tax consequences are recognised in the income statement. The tax consequences of items which are recognised directly against equity are recognised against equity. Deferred taxes are estimated in accordance with the balance sheet method on temporary differences arising between the recognised carrying amounts for tax purposes of assets and liabilities.

Deferred taxes recoverable or deferred tax liabilities to the same tax authority are recognised net in the balance sheet. Deferred income taxes recoverable in respect of a loss carry forward are recognised to the extent that it is probable that the loss carry forward can be set off against a surplus for future taxation.

Untaxed reserves are recognised in the Parent Company due to the connection between recognition and taxation.

2.13 Cash flow statement

The cash flow statement for the Group has been drawn up in accordance with IAS 7, Cash flow statements, using the indirect method. Changes for the year in cash and cash equivalents are divided up into operating activities, investing activities and financing activities. The starting point for the indirect method is the operating profit or loss adjusted for transactions which do not involve receipts or disbursements. The term cash and cash equivalents refers to cash balances and bank funds, as well as short-term investments with a maturity of less than three

months. All items included in cash and cash equivalents can be readily converted to cash.

2.14 Leasing

Leasing charges for hired equipment are normally recognised as an expense during the lease period. The total contracts are for negligible amounts and are treated in the financial statements as operational. The Group's operational leasing agreements are for negligible amounts and relate largely to a small number of office machines.

2.15 Income recognition

Net sales are recognised when the goods are delivered and accepted by the customer. Sales are recognised after the deduction of VAT, similar taxes and discounts as well as after the elimination of internal Group sales.

2.16 Borrowing costs

All borrowing costs are recognised as an expense as they arise.

2.17 Share-based payments

The Axis Group has outstanding options schemes for its employees in Europe, the USA and Asia. For the schemes for employees in Europe and Asia, share options have been issued and assigned to employees on commercial terms. The funds which Axis has received on assignment have been transferred to the share premium reserve. At every year end, options which have not yet been assigned are eliminated against the Group's restricted equity. For the schemes for staff in the USA, the stock options are recognised as an expense equal to the fair value of the options as they are assigned to employees during the term of the option rights. On the acquisition of stock options by employees, the funds are transferred to restricted reserves. When the options are exercised, the share capital is increased by the nominal value of every newly-issued share and the associated premium is transferred to the share premium reserve.

2.18 Pensions

The Axis Group has pension obligations which are classified both as defined benefit and defined contribution plans. In the Swedish units, all pension obligations, apart from those relating to the President and CEO, are classified as defined benefit. In the foreign units, the pension obligations are classified as defined contribution.

The pension obligations in respect of white-collar staff in Sweden are secured through insurance with the insurance company, SPP. According to the Swedish Financial Accounting Standard Council's Emerging Issues Task Force's statement URA 42, this is a defined benefit plan which covers a number of employers. For financial year 2005, the company does not have access to the information required to allow this plan to be recognised as a defined benefit plan. The pension obligations are, therefore, recognised as a defined contribution plan.

2.19 Fair value in respect of financial assets and liabilities

No significant differences are believed to exist between the recoverable amount and the fair value of financial assets and liabilities since financial assets and liabilities were to all intents and purposes valued at fair value.

Note 3 Financial risk management

3.1 Financial risk factors

Through its operations, Axis is exposed to a number of different financial risks, market risk (including currency risk and interest-rate risk), credit risk and financing risk. The Group's overall risk management policy focuses on the unpredictability of the financial markets and aims to minimise potential adverse effects on the Group's financial results. The Group uses derivative instruments to hedge certain risk exposures.

Risk management is handled by a central Treasury Department in accordance with the policies adopted by the Board of

Directors. The Treasury staff identify, evaluate and hedge financial risks in close cooperation with the Group's operating units. The Board has drawn up written principles both for overall risk management and for specific areas, such as currency risk, interest-rate risk, credit risk, the use of derivative and non-derivative financial instruments and the investment of surplus liquidity.

Financial risks

Axis' international operation involves a number of financial market risks which are managed in accordance with the policies set by the Board. The overall aim is that the Group's Treasury Department will continuously provide Group companies with finance and will also manage financial risks so that the impact on the Group's results is minimised. The Group is primarily exposed to financing, currency and credit risks. At the end of 2005, there were unutilised credit facilities of SEK 80 million shared between two agreements. The credit agreements run until 31 May 2006 and 27 February 2006 respectively. Interest-rate risk is regarded as insignificant. Interest-rate risk is the risk of a change in interest rates affecting the Group's net financial income/expense.

Financing risk arises when, at a given date, there are difficulties in obtaining financing. To minimise the cost of borrowing and financing for the Group, the Treasury Department arranges credit facilities which cover the Group's requirement for operating credits. The average term on outstanding loans and credits will be six months, with a maximum term of one year for individual credit agreements. Credit facilities for the group must never fall due during the same quarter. All borrowing is done in consultation with the Parent Company's Treasury Department.

The Group's currency risks consist partly of transactions risk, which arises on sales and purchases in foreign currencies, and partly on translation risk, which is attributable to net assets in foreign subsidiaries which are translated in accordance with the current method. The Group's policy is to hedge at least 80 percent of the translation risk. Cash flow hedging for the next two months will be carried out within the range 60-100 percent of exposure, and for the next 3-12 months, hedging will be carried out within the range 0-50 percent. Currency futures are used primarily. Currency swaps and currency options are used to a limited extent.

The Group's credit policy contains clear guidelines for granting credit to customers as well as when security is required. It is the view of the Group management that there are no significant credit risk concentrations in relation to any specific customer, counterparty or geographical region. When investing cash and cash equivalents, the Group uses only financial instruments with Moody's rating P1 or K1, or Standard & Poors A1.

3.2 Recognition of derivative instruments and hedging measures

Axis holds financial derivative instruments, primarily currency futures, with the aim of protecting sales and purchases in foreign currency, as well as net assets in foreign subsidiaries. Axis applies hedge accounting.

When the transaction is entered into, Axis documents the relationship between the hedging instrument and the hedged item, along with the objective of the risk management and the strategy for taking other hedging action. The Group also documents its assessment, both when the hedge instrument is taken out and during its term, of the effectiveness of the derivative instrument used in hedging transactions in the evening out of fluctuations in the fair value or cash flow for the hedged items. Information on the fair value of different derivative instruments used for hedging is given in note 22. Changes in the hedging reserve in equity are shown in note 17.

(a) Hedging fair value

Changes in the fair value of derivatives identified as hedges of fair value, and which fulfil the conditions for hedge accounting, are recognised in the income statement along with changes in fair value on the asset or liability which gave rise to the hedged risk.

(b) Cash flow hedges

Axis also holds financial derivative instruments, primarily currency forward contracts, with the aim of protecting sales and purchases in foreign currencies. Changes in the fair value of derivative instruments which are identified as cash flow hedges, and which fulfil the requirements for hedge accounting, are recognised in equity. The accumulated amount in equity is reversed to the income statement in the periods in which the hedged item affects results.

(c) Net investment hedge, equity hedge

Hedging of net investment in foreign operations is recognised in a similar way to cash flow hedges. Gains or losses in respect of hedging instruments attributable to the effective part of the hedge are recognised in equity, gains or losses attributable to the ineffective part are recognised immediately in the income statement. Accumulated gains and losses in equity are recognised in the income statement when the foreign operation is sold. In assessing the fair value of a hedge, the valuation effects from fluctuations in exchange rates are taken to equity, and the interest component is taken to the income statement.

(d) Derivatives which do not fulfil the conditions for hedge accounting

Some derivative instruments do not fulfil the conditions for hedge accounting. Changes in the fair value of such derivative instruments which do not fulfil the conditions for hedge accounting are recognised immediately in the income statement.

The value of currency futures, currency swaps and currency options is calculated using the spot and future rates on the balance sheet date. A summary of cash flow hedges and equity hedges as at 31 December 2005 is given below.

Currency type	Equity hedges			Cash-flow hedges		
	Exposure	Total derivative	Pro-portion hedged	Exposure	Total derivative	Pro-portion hedged
EUR	-	-	-	31 408	17 500	56 %
JPY	163 983	150 000	91 %	132 144	70 000	53 %
USD	7 563	7 500	99 %	10 956	5 300	48 %

3.3 Calculation of fair value

The fair value of financial instruments which are traded on an active market, such as market-listed derivative instruments, is based on the listed market price on the balance sheet date. The current purchase price is listed as the market price for Axis' financial assets, and the current selling price is used as the listed market price for financial liabilities.

The fair value for financial instruments which are not traded on an active market is determined using valuation techniques. Axis uses a number of different methods, and makes assumptions based on the market conditions ruling on the balance sheet date. Other techniques, such as discounted cash flow calculations, are used to determine the fair value of the remaining financial instruments. The fair value of currency future contracts is determined through the use of market prices for currency futures on the balance sheet date.

The nominal value, reduced by any assessed credits, of accounts receivable and accounts payable is assumed to be their fair value. The fair value of financial liabilities is calculated, for disclosure in notes, by discounting the future contracted cash flow at the current market interest-rate available for the Group for similar financial instruments.

Note 4 Segment information

Business segments usually contain products which are subject to risks and returns which are different from other segments. This is not the case in the Axis Group. The Group's common technology platform is the basis for all products. The development and sales organisations, as well as customer groups, are almost identical for all products. Given this, the Axis Group recognises only

one primary segment which is the common technology platform. This means that segment information is covered by the Group as a whole.

Axis operates within different geographical areas in which it supplies products within a special economic environment, which differ from the risks and returns applicable to units operating in other economic environments.

Net sales per product area	2005	2004
Video	732 586	474 076
Print	135 542	169 049
Scan	11 050	11 562
Other	15 888	36 794
	895 066	691 481

Net sales per geographical market	2005	2004
EMEA (Europe, Africa, the Middle East)	410 387	350 137
North & South America	337 162	206 611
Asia	147 517	134 733
	895 066	691 481

The recognised value of assets and investments is divided by geographical area according to where the assets are located when they amount to at least 10 percent of the Group's total assets.

	Assets		Investments	
	2005	2004	2005	2004
EMEA (Europe, Africa, the Middle East)	237 381	179 620	29 844	13 427
Asia	69 204	63 278	206	1 332
North & South America	169 736	97 851	30	8
	476 321	340 749	30 080	14 767

Note 5 Fixed assets

	Plant and equipment	Capitalised development costs	Rights	Other	Total
As at 1 Jan 2004					
Acquisition value	75 278	20 324	12 100	7 686	40 110
Accumulated depreciation and impairment	-64 119	-	-2 969	-7 584	-10 553
Carrying amount	11 159	20 324	9 131	102	29 557
1 Jan–31 Dec 2004					
Carrying amount brought forward	11 159	20 324	9 131	102	29 557
Revaluation	-58	-	-	-	-
Acquisitions	3 679	12 290	-	-	12 290
Sales and disposals	-242	-	-	-	-
Depreciation and impairment	-7 262	-	-3 148	-91	-3 239
Adjustment due to transition to IFRS (IAS 21)	457	-	-	-	-
Carrying amount carried forward	7 733	32 614	5 983	11	38 608
As at 31 Dec 2004					
Acquisition value	77 316	32 614	12 100	7 686	52 400
Accumulated depreciation and impairment	-69 583	-	-6 117	-7 675	-13 792
Carrying amount	7 733	32 614	5 983	11	38 608
1 Jan–31 Dec 2005					
Carrying amount brought forward	7 733	32 614	5 983	11	38 608
Revaluation	130	-	-	-	-
Acquisitions	5 970	24 110	-	-	24 110
Sales and disposals	-104	-	-	-	-
Depreciation and impairment	-4 979	-4 548	-2 991	-11	-7 550
Carrying amount carried forward	8 750	52 176	2 992	-	55 168
Per 31 Dec 2005					
Acquisition value	83 661	56 724	12 100	-	68 824
Accumulated depreciation and impairment	-74 911	-4 548	-9 108	-	-13 656
Carrying amount	8 750	52 176	2 992	-	55 168

Note 6 Costs divided by cost type

	2005	2004
Depreciation and impairment (note 5)	-12 529	-10 501
Cost of payments to employees (note 19)	-257 349	-209 362
Cost of purchasing and handling goods for resale	-412 093	-331 968
Other external costs	-82 185	-91 279
	-764 156	-643 110

Note 7 Audit fees

	2005	2004
Audit fees to Öhrlings PricewaterhouseCoopers	615	500
Other fees to Öhrlings PricewaterhouseCoopers	430	346
Audit fees to other auditors	599	564
	1 644	1 410

The term "Audit assignment" refers to auditing of the annual report and books of account, as well as the administration by the Board of Directors and President and CEO, other tasks which fall

upon the company's auditors to carry out, and advice or other assistance resulting from observations made during such audit or in the performance of the other tasks referred to. Everything else is "Other fees". The audit fees and other fees paid to the Parent Company's auditors have been charged in their entirety to the subsidiary company, Axis Communications AB.

Note 8 Other income and changes in value

	2005	2004
<i>Financial assets valued at fair value</i>		
Fair value, realised and unrealised losses	-740	-
<i>Derivative instruments</i>		
Cash flow hedges	-6 704	-
Operational exchange rate differences ¹⁾	2 957	-
Interest income	1 769	2 663
	-2 718	2 663

¹⁾ Operational exchange rate differences are recognised in their entirety in Other income and changes in value.

Note 9 Income tax

	The Group		The Parent Company	
	2005	2004	2005	2004
Current tax	-4 093	-1 610	-	-
Deferred tax	-32 361	-18 121	-29 083	-20 000
	-36 454	-19 732	-29 083	-20 000
Recognised profit before tax	127 541	50 275	100 786	65 397
Theoretical tax, 28 percent	-35 711	-14 077	-28 220	-18 311
Recognised tax	-36 454	-19 732	-29 083	-20 000
Difference between theoretical and recognised tax	-743	-5 655	-863	-1 689
<i>Due</i>				
Non-deductible expenses	-695	-1 096	-900	-1 689
Taxable temporary differences	-560	-427	-	-
Differences in tax rates	-927	281	-	-
Deferred tax consequences in respect of Group adjustments and changes in Group structures	-162	-5 549	-	-
<i>To be deducted</i>				
Non taxable income	60	44	37	-
Deductible temporary differences	1 541	1 092	-	-
	-743	-5 655	-863	-1 689

Note 10 Earnings per share

Earnings per share before dilution

Earnings per share before dilution are calculated by dividing the earnings attributable to the Parent Company's shareholders by a weighted average of the number of outstanding ordinary shares during the period.

	2005	2004
Earnings attributable to the Parent Company's shareholders	91 087	30 543
Weighted average of the number of outstanding ordinary shares, thousands	68 906	68 900
Earnings per share before dilution, SEK	1.32	0.44

Earnings per share after dilution

In calculating earnings per share after dilution, the weighted average number of outstanding ordinary shares is adjusted for the dilution effect of all potential ordinary shares. The Parent Company has, on a number of occasions, adopted share option schemes for staff, and these constitute the only potential dilution effect. For the share options, a calculation is made of the number of shares which could have been purchased at fair value (calculated as the average market price for the year of the Parent Company's shares), for an amount equivalent to the monetary value of the subscription rights linked to the outstanding share options. The number of shares as calculated in accordance with the above is compared with the number of shares which would have been issued on the assumption that the share options were exercised. If all outstanding share option schemes were exercised in their entirety, the maximum dilution would be 626,050 shares.

	2005	2004
Earnings attributable to the Parent Company's shareholders	91 087	30 543
Weighted average of the number of outstanding ordinary shares, thousands	68 906	68 900
Potential dilution effect of outstanding share options	215	-
Weighted average of the number of ordinary shares after dilution, thousands	69 121	68 900
Earnings per share after dilution, SEK	1.32	0.44

Note 11 Deferred income taxes recoverable

The Group's and the Parent Company's temporary differences have resulted in deferred income taxes recoverable and deferred tax liabilities in respect of the following items:

	The Group		The Parent Company	
	2005	2004	2005	2004
<i>Deferred income taxes recoverable</i>				
Tangible and intangible assets	-	878	-	-
Financial assets	1 717	9 091	-	9 091
Inventories	2 471	2 381	-	-
Other provisions	-	-	-	-
Accumulated loss carry forwards ¹⁾	34 767	56 567	34 724	54 716
Other items	-	749	-	-
	38 955	69 666	34 724	63 807
<i>Deferred tax liabilities</i>				
Tangible and intangible assets	259	-	-	-
Other items	-	364	-	-
	259	364	-	-
Deferred income taxes recoverable	38 696	69 302	34 724	63 807

Deferred tax liabilities to the same tax authority are recognised net in deferred income taxes recoverable.

¹⁾ Accumulated loss carry forwards correspond in all essentials to the Group's total deficit for tax purposes. These loss carry forwards will not expire in the near future.

Note 12 Inventories

	2005	2004
Goods for resale	117 811	85 788
	117 811	85 788

Costs of stock impairment (obsolescence) which have been charged to the net profit for the year are included in the item Cost of goods sold, and amounted to SEK 8,304 (11,534) million.

Note 13 Accounts receivable and other receivables

	2005	2004
Accounts receivable	143 402	108 416
Provision for fall in value of receivables	-676	-1 384
Accounts receivable – net	142 726	107 032
Other receivables	9 521	11 697
Prepaid expenses and deferred income	15 123	21 407
	167 370	140 136

Note 14 Other financial assets

Unlisted securities:

	2005	2004
Poobah Inc.	-	-
Aptilo Networks AB	1 600	-
Other	2 990	2 744
	4 590	2 744

In connection with the transition to IFRS, the holding in Aptilo Networks AB was valued as at 1 May 2005 at SEK 2,340,000. Changes in fair value during 2005 are recorded in note 8 under Other income and changes in value – net. All long-term receivables fall due within five years of the balance sheet date.

Note 15 Cash and cash equivalents

	2005	2004
Cash and bank balances	127 225	61 023
Short-term bank investments	60 000	60 000
	187 225	121 023

The effective rate of interest for short-term bank investments was 1.6 % (2.1). These investments have an average due date of 16 days. Axis has an unutilised credit facility of SEK 80 million.

Note 16 Share option scheme for employees

At present, Axis AB has an outstanding option scheme covering the staff. The scheme was introduced in 1999, and is aimed at all employees in the Axis Group. The scheme is aimed at encouraging long-term commitment on the part of the staff to the Group's operational and profit growth. Employees in the USA, are offered the American equivalent, "stock options".

All permanent staff in EMEA and Asia are entitled to participate in the scheme. Permanent employees in the US subsidiary are entitled to participate in a special stock option scheme. This is aimed solely at staff employed in the USA. Key management personnel may acquire an additional limited number of options over and above those offered to all permanent employees.

In the US scheme, an option can be exercised for a new issue of shares after the date on which the option was received by the employee. Allocation takes place after three years for the 1999 scheme, and over a three-year period at 25 percent on four occasions for the schemes from 2000, 2001 and 2002.

The subscription price per share is equivalent to 130 percent of the average for each trading day of the volume-weighted mean of the prices quoted during the day in accordance with the Stockholm Stock Exchange's official price list for shares in the company calculated over a period of five trading days. Share options may be transferred and will expire if the employee's employment ceases. The table on the following page shows the conditions of the option scheme, and the effects on equity if the options are fully exercised. The allocation of shares through the exercise of options will take the form of newly-issued shares.

Recipients	Due date	Subscription price, SEK	Acquisition price, SEK	Funds received	Number of options	Number redeemed	Number of options	Number of shares	Full dilution
					Dec. 31, 2004		Dec. 31, 2005		
Staff in Europe and Asia	Oct. 2, 2006	18.00	4.33	959 528	221 600	24 000	197 600	197 600	0.29 %
Staff in Europe and Asia	Oct. 2, 2007	26.00	5.50	573 100	104 200	-	104 200	104 200	0.15 %
Staff in the USA	Oct. 2, 2006	18.00	4.30	382 700	89 000	1 000	88 000	88 000	0.13 %
Staff in the USA	Oct. 2, 2007	26.00	5.50	352 000	64 000	-	64 000	64 000	0.09 %
Staff in the USA	Sept. 30, 2010	48.00	15.50	2 669 875	172 250	-	172 250	172 250	0.25 %
				4 937 203	651 050	25 000	626 050	626 050	0.91 %

The funds paid to the Parent Company amount in total to SEK 12,500,000. 25,000 share options were exercised during the financial year 2005. During 2005, the other scheme from 2000 expired without value below the exercise price. The average volume-weighted price of the shares during 2005 was SEK 35.92 per share. Non-assigned options will be eliminated against equity in the Group.

The company's share capital consists of 68,925,000 (68,900,000) shares of the same type and class with a par value of SEK 0.01. The company's legal form is a public joint stock limited liability company. The country of registration is Sweden, and the registered office is in Lund. The main place of business is Lund.

Note 17 Other reserves in Equity

	Hedge reserve	Translation reserve	Total
Balance brought forward as at 1 January 2004	-	-	-
Translation differences	-	7 251	7 251
Balance carried forward as at 31 December 2004	-	7 251	7 251
Changes caused by transition to IAS 39	1 205	-	1 205
Balance brought forward as at 1 January 2005	1 205	7 251	8 456
Cash flow hedges	-2 787	-	-2 787
Hedging of net investment, equity hedge	-	-7 983	-
Tax relating to cash flow hedges	672	-	672
Tax relating to the hedging of net investment, equity hedge	-	1 223	-
Translation differences	-	17 334	17 334
Balance carried forward as that 31 December 2005	-910	17 825	16 915

The amount in respect of cash flow hedges which has been transferred from equity to the income statement during the year was SEK -6,704,000.

Note 18 Borrowing

	2005	2004
Long-term portion	6 780	6 375
	6 780	6 375

Note 19 Personnel

Distribution of the average number of employees:

	Women		Men		Total	
	2005	2004	2005	2004	2005	2004
The Parent Company	-	-	-	-	-	-
Denmark	-	-	2	2	2	2
France	4	4	9	7	13	11
Japan	7	8	8	9	15	17
The Netherlands	1	1	3	3	4	4
Singapore & Asia Pacific	11	12	16	16	27	28
Spain & Italy	4	3	8	8	12	11
Great Britain	1	1	4	4	5	5
Sweden	57	54	195	183	252	237
Germany	2	2	6	5	8	7
USA	8	8	15	13	23	21
Group total	95	93	266	250	361	343

Salaries and remuneration amounted to:

	The Board of Directors & President and CEO		Other		Total	
	2005	2004	2005	2004	2005	2004
The Parent Company	-	-	-	-	-	-
Denmark	-	-	980	920	980	920
France	-	-	10 488	6 265	10 488	6 265
Japan	-	-	8 572	8 947	8 572	8 947
The Netherlands	-	-	2 737	2 077	2 737	2 077
Singapore & Asia Pacific	-	-	9 365	7 798	9 365	7 798
Spain & Italy	-	-	5 918	4 442	5 918	4 442
Great Britain	-	-	4 621	4 175	4 621	4 175
Sweden	4 504	3 198	113 125	93 362	117 629	96 560
Germany	-	-	5 874	4 592	5 874	4 592
USA	-	-	21 572	15 854	21 572	15 854
Group total	4 504	3 198	183 252	148 432	187 756	151 630

Salaries and remuneration to the Board of Directors and the President and CEO was paid through the subsidiary company, Axis Communications AB. All members of the Board and the President and CEO are, as in preceding years, men. The table above does not include Directors' fees.

	Salaries and remuneration		Social security contributions		(of which pension expenses)	
	2005	2004	2005	2004	2005	2004
The Parent Company	-	-	-	-	-	-
Subsidiaries	187 756	151 630	69 593	57 732	16 201	16 230
Group total	187 756	151 630	69 593	57 732	16 201	16 230

Remuneration to the Board of Directors:

	The Group	
	2005	2004
Directors' fees	688	600
	688	600

Remuneration to key management personnel

Fees are payable to the Chairman of the Board and Members of the Board in accordance with the resolution of the annual general meeting. Of the fees approved, SEK 400,000 is payable to the Chairman of the Board, and SEK 133,000 to each Director who is not an employee of the Axis Group. No Director's fee is payable to Directors who are employees of the Axis Group. No special fee is payable for committee work. During the period from and including October up to and including December, one person was co-opted onto the Board, receiving the same payment as ordinary members of the Board. This fee is not included in the table above.

Remuneration to the President and CEO and other key management personnel consists of basic salary, variable remuneration and pensions. The term key management personnel refers to the five people who, along with the President and CEO, constitute the Group management team.

The apportionment between basic salary and bonus will be proportionate to the office holder's responsibility and authority. For the President and CEO, the maximum bonus is SEK 5 million. For other key management personnel, the maximum bonus is SEK 1,250,000 per person. The bonuses for the President and CEO, and the key management personnel, are based on the financial targets for the Group. For the maximum financially-based bonus to be payable, the company must achieve an operating margin of 25 percent and an average annual growth over two years of 45 percent. The accounts for financial year 2005 have been charged with SEK 2,103,000 in bonus for the President and CEO, and SEK 2,296,000 for the other key management personnel.

Remuneration and other benefits in respect of key management personnel are shown in the table on the following page.

	Basic salary	Other Bonus	Other benefits	Pension expenses	Other re-muneration	Total
	/fees					
Chairman of the Board	333	-	-	-	-	333
President and CEO	1 654	2 103	-	990	14	4 761
Other key management personnel ¹⁾	5 062	2 296	9	1 012	28	8 407
Employed members of the Board	734	71	-	146	5	956
	7 783	4 470	9	2 148	47	14 457

¹⁾ Of the five key management personnel, as in the preceding year, four are men and one is a woman.

The bonus shown on the table refers to the bonus due for financial year 2005, which will be paid during financial year 2006. The bonus in respect of financial year 2004 was paid during 2005 and amounted to SEK 337,000 for the President and CEO, and a total of SEK 355,000 for the key management personnel. For information on how the bonus is calculated, see above.

Other benefits and Other remuneration are payable on a corresponding basis to other employees.

The retirement age for the President and CEO is 65. The pension premium amounts to 35 percent of the pensionable salary to a maximum of 28.5 basic amounts. For a salary in excess of 28.5 basic amounts, a premium of 25 percent is paid.

Other key management personnel are covered by the ITP occupational pension, with the retirement age of 65.

Holdings of financial instruments as at 31 December 2005

	From the period before 2005	Maturity/ subscription for shares during 2005
	Share options	Share options
	Number, Dec. 31, 2005	Number
Chairman of the Board	-	-
President and CEO	-	-11 000
Other key management personnel	14 000	-81 000
	14 000	-92 000

During 2005, neither the President and CEO nor other key managing personnel acquired share options in Axis AB. Of the total change in 2005, 79,000 share options expired without value under the exercise price.

Pensions

The Axis Group has pension obligations which are classified both as defined benefit and defined contribution plans. In the Swedish units, all pension obligations, apart from those relating to the President and CEO, are classified as defined benefit. In the foreign units, the pension obligations are classified as defined contribution.

The pension obligations in respect of white-collar staff in Sweden are secured through the insurance company, SPP. According to the Swedish Financial Accounting Standard Council's Emerging Issues Task Force's statement URA 42, this is a defined benefit plan which covers a number of employers. For financial year 2005, the company does not have access to the information required to allow this plan to be recognised as a defined benefit plan. The ITP occupational pension plan is secured through the insurance company SPP, and is, therefore, recognised as a defined-contribution plan. The charges for pension insurance policies with SPP amounted to SEK 12 million (13) during the year. SPP's surplus may be allocated to the policyholder and/or the beneficiaries.

	The Group	
	2005	2004
Cost of defined contribution plans	14 441	16 230
Cost of special employer's contribution	3 261	3 250
	17 702	19 480

Severance pay

Termination of employment for the President and CEO is subject to a mutual period of notice of six months. If notice of termination is given by the company, severance pay equivalent to one year's salary is payable. The severance pay is not set off against other income. In the event that the President and CEO gives notice, no severance pay will be payable.

A mutual period of notice of three months applies between the company and four of the other leading key management personnel. For the fifth member of the management team, a mutual period of notice of six months applies. If notice of termination is given by the company, salary will be paid during the period of notice. This amount will not be set off against other income. In the event that the member of the management team gives notice, salary will be paid during the period of notice.

Preparatory and decision processes

During the year, the Remuneration Committee submitted recommendations to the Board in respect of principles for the remuneration of key management personnel. The recommendations covered the proportions between fixed salary and bonus, and the size of any increase in salary. The Remuneration Committee also proposed criteria for assessing bonus outcomes etc. The Board discussed the Remuneration Committee's proposals, and reached decisions in line with the Committee's recommendations.

Remuneration to the President and CEO for financial year 2005 was determined by the Board on the basis of the Remuneration Committee's recommendation. Remuneration to other key management personnel was decided by the President and CEO in consultation with the Remuneration Committee.

Note 20 Other provisions

	2005	2004
Anticipated additional purchase price, software rights ¹⁾	3 794	3 578
	3 794	3 578

¹⁾ This item will probably be settled during financial year 2007.

	2005	2004
Provisions brought forward	3 578	4 948
Change during the year	216	-1 370
Provisions carried forward	3 794	3 578

Note 21 Accounts payable and other liabilities

	The Group	
	2005	2004
Accounts payable	68 635	56 498
Other liabilities	7 175	8 530
Social security contributions and other taxes	18 902	11 973
Accrued expenses	66 440	42 874
	161 152	119 875

Note 22 Derivative instruments

	Assets	Liabilities	Net
Currency swaps – equity hedge	595	-353	242
Currency futures – equity hedge	-	-	-
	595	-353	242
Currency futures – cash flow hedge	789	-2 066	-1 277
	1 384	-2 419	-1 035

Note 23 Results from participations in Group companies

	2005	2004
Group contributions received	129 872	59 743
Impairment of shares in subsidiaries (related to Group contribution made and shareholders' contribution made)	-2 545	-3 856
	127 327	55 887

Note 24 Interest income and similar profit/loss items

	2005	2004
Interest income	1 862	2 118
Interest income from Group companies	297	302
Liquidation funds received in respect of impaired shares	-	422
Exchange rate differences	6 604	13 204
	8 763	16 046

Note 25 Interest expense and similar profit/loss items

	2005	2004
Interest expense	-132	-159
Interest expense to Group companies	-718	-
Exchange rate differences	-32 315	-8 620
Other financial expenses	-905	-274
	-34 070	-9 053

Note 26 Participations in subsidiaries

Shares owned by the Parent Company	Registered office	Corporate ID number	Share of votes and capital	Number of shares	Par value	Carrying amount	
						Dec. 31, 2005	Dec. 31, 2004
Axis Communications AB	Sweden, Lund	556253-6143	100 %	1 600	160	342	342
Gren & Karlsson Firmware AB	Sweden, Lund	556304-6209	100 %	500	100	50	50
Axis Technologies AB	Sweden, Lund	556485-0765	100 %	500	100	50	50
Axis Alfa AB	Sweden, Lund	556599-4547	100 %	500	100	100	100
Axis Beta AB	Sweden, Lund	556599-4588	100 %	500	100	100	100
Axis Gamma AB	Sweden, Lund	556599-4562	100 %	500	100	100	100
						742	742

Shares owned by subsidiaries	Registered office	Corporate ID number	Proportion of capital
Axis Communications SA	France		100 %
Axis Communications (UK) Ltd	Great Britain		100 %
Axis Communications GmbH	Germany		100 %
Axis Communications BV	The Netherlands		100 %
Axis Attento Aps	Denmark		100 %
AxerNet Communications SA	Spain		100 %
Axis Communications Inc	USA		100 %
Axis Communications Ltda	Brazil		100 %
Axis Communications KK	Japan		100 %
Axis Communications (S) Pte Ltd	Singapore		100 %
Axis Communications Korea Co. Ltd.	Korea		100 %
Axis Communications Ltd	China, Hong Kong		100 %
Axis Communications Ltd	China and Shanghai		100 %
Axis Communications Pty Ltd	Australia		100 %
Axis Communications Ltd	Taiwan		100 %
Axis Network AB	Sweden, Lund	556505-3450	100 %
Axis Peripherals AB	Sweden, Lund	556505-1785	100 %

Note 27 Contingent liabilities

	2005	2004
Contingent liabilities on behalf of other Group companies	7 973	7 513
	7 973	7 513

Note 28 Cash flow from operating activities

	The Group		The Parent Company	
	2005	2004	2005	2004
Net profit/loss for the period before financial items	128 192	51 035	-2 439	-2 519
Adjusted for:				
- depreciation on tangible assets	4 979	7 262	-	-
- depreciation on intangible assets	7 550	3 239	-	156
- other items not affecting liquidity	5 160	-272	-	-
Change in working capital				
- inventories	-32 023	-18 714	-	-
- accounts receivable and other receivables	-26 978	-11 620	73 943	91 002
- accounts payable and other liabilities	43 852	1 296	-1 889	-178
Cash flow from operating activities	130 732	32 226	69 615	88 461

Note 29 Key ratio definitions

Equity/assets ratio – Equity including minority interests as a percentage of the balance sheet total.

Return on capital employed – Profit/loss after financial items plus financial expenses divided by average balance sheet total.

Return on equity – Profit/loss after financial items less full tax divided by average equity.

Earnings per share before dilution – Net profit/loss for the year divided by the average number of shares.

Earnings per share after dilution – Net profit/loss for the year divided by the average number of shares after estimated dilution by share options.

Note 30 Transition to International Financial Reporting Standards, IFRS

With effect from 1 January 2005, Axis will prepare its consolidated financial statements in accordance with IFRS. The interim report for the first quarter of 2005 was the first which the company submitted in accordance with IFRS. Up until 31 December 2004, Axis applied the Swedish Financial Accounting Standard Council's recommendations and statements. The transition to IFRS was carried out in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards", with a transition date of 1 January 2004. IFRS 1 stipulates that accounts for the comparison year, 2004, are also to be prepared in accordance with IFRS. Financial information in respect of financial years prior to 2004 has not been recalculated. To evaluate the impact of the transition to IAS and subsequently IFRS, a project group was appointed in 2002 under the management of the company's Group Controller, with the support of the company's auditors. Significant effects which were identified, were reported continuously to the Group management team and the Board of Directors.

Even though the recommendations of the Swedish Financial Accounting Standards Council have been gradually adapted to IFRS, a number of differences remained, which did not affect Axis' financial statements until the first quarter of 2005. The differences between the accounting principles adopted by Axis in accordance with the Swedish Financial Accounting Standards Council's recommendations as at 31 December 2004 and IFRS are as follows:

Financial instruments: recognition and measurement (IAS 39)

The effects of the opening balance in accordance with IAS 39 are shown in a separate table in this report. IAS 39 has been applied with effect from 1 January 2005.

Axis holds financial assets which were previously valued at accrued acquisition value. Under the provisions of IAS 39, these assets are to be recognised at fair value. As a consequence of this,

equity as at 1 January 2005 has been adjusted by SEK 2.3 million. The changes in value of these assets are recognised from 1 January 2005 in the income statement, since they are classified as financial assets valued at fair value via the income statement.

Axis also holds financial derivative instruments, mainly currency future contracts, with the aim of protecting sales and purchases in foreign currency, as well as net assets in foreign subsidiaries. Axis applies hedge accounting. The adoption of IAS 39 means that cash flow hedges are recognised continuously in the balance sheet and income statements, while hedges in respect of the translation of net assets in foreign subsidiaries, equity hedges, are recognised together with the translation difference directly in equity.

Equity brought forward as at 1 January 2005, after adjustment for IFRS, and after taking account of the tax consequences, has been positively affected by SEK 1.2 million in respect of unrealised cash flow hedges. The change in principle in respect of equity hedges has resulted in a reversal of SEK 6.8 million within equity from non-restricted reserves to translation differences, since the consequences of the equity hedge under the former accounting principles were recognised in the income statement.

The effects of changes in foreign exchange rates (IAS 21)

The adoption of IAS 21 means that Axis has changed from its former practice of applying the monetary method to using the current method in translating foreign subsidiaries. The most significant consequence of the transition to the current method is that the translation difference along with the hedge outcome of the equity hedge is recognised directly in equity rather than via the income statement. Accumulated translation differences are recognised as a separate component of equity with effect from 1 January 2004. The transition effect as at 1 January 2004 amounted to SEK 0.7 million. IFRS is subject to continuous supervision and approval by the EU, so changes may still take place. In addition to the above-mentioned adaptations to IFRS, the same accounting principles and calculation methods as in the most recent annual report have been used. Furthermore, as part of the transition to IAS 1, provisions have been reclassified as both long-term and current liabilities.

Balance sheet adjustment for IFRS

	CB 2004	IAS 21	IAS 1	IFRS
				CB 2004
Fixed assets	117 930	457		118 387
Inventories	85 788			85 788
Accounts receivable	107 032			107 032
Other receivables	37 767			37 767
Cash and cash equivalents	121 023			121 023
Total	469 540	457	-	469 997
Equity	339 387	457		339 844
Provisions	5 960		-5 960	-
Long-term liabilities	6 375		3 903	10 278
Current liabilities	117 818		2 057	119 875
Total	469 540	457	-	469 997

Income statement for 2004 adjusted for IFRS

	2004	IAS 21	IFRS 2004
Net sales	691 481		691 481
Cost of goods and services sold	-331 968		-331 968
Gross profit	359 514		359 514
Other income and changes in value	2 663		2 663
Sales and marketing expenses	-154 078		-154 078
Administrative expenses	-42 277		-42 277
Research and development expenses	-114 787		-114 787
Operating profit	51 035		51 035
Financial expenses	-760		-760
Reversal of translation differences	6 794	-6 794	-
Profit before tax	57 069	-6 794	50 275
Tax	-19 732		-19 732
Net profit for the period	37 337	-6 794	30 543
Earnings per share before dilution, SEK	0.54		0.44
Earnings per share after dilution, SEK	0.54		0.44
Number of shares before dilution, average, thousands	68 900		68 900
Number of shares after dilution, average, thousands	68 900		68 900

Effects on the opening balance sheet 1 January 2005 of accounting in accordance with IFRS

	IFRS CB 2004	IAS 39	IAS 21	IFRS IB 2005
Fixed assets	118 387	2 340		120 727
Inventories	85 788			85 788
Accounts receivable	107 032			107 032
Other receivables	37 767	1 223		38 990
Cash and cash equivalents	121 023			121 023
Total	469 997	3 563	-	473 560
Equity	339 844	3 563		343 407
Share capital	689			689
Translation differences	457		6 794	7 251
Hedging reserve	-	1 205		1 205
Restricted reserves	267 361			267 361
Non-restricted reserves	34 000	2 358		36 358
Net profit/loss for the year	37 337		-6 794	30 543
Provisions	-			-
Long-term liabilities	10 278			10 278
Current liabilities	119 875			119 875
Total	469 997	3 563	-	473 560

SIGNATURES

The Parent Company's and the Consolidated balance sheet and income statement are to be adopted at the annual general meeting on 20 April 2006.

Lund 7 February 2006

Lars-Erik Nilsson
Chairman of the Board

Ray Mauritsson
President and CEO

Patrik Tigerschiöld

Martin Gren

Nils Rydbeck

Our audit report was submitted on 7 February 2006.

Öhrlings PricewaterhouseCoopers AB

Anders Lundin
*Authorised Public Accountant
Chief Auditor*

REPORT OF THE AUDITORS

To the annual general meeting of Axis AB (publ)
Corporate ID number 556241-1065

We have examined the Annual Report, the consolidated financial statements, the accounting records, and the administration by the Board of Directors and the President and CEO of Axis AB (publ) for the trading year 2005. The Board of Directors and the President and CEO are responsible for the accounting records and the administration, and for ensuring that accounts are in conformity with the Annual Accounts Act and that the IFRS international accounting standards, as adopted by the EU, and the Annual Accounts Act have been applied in drawing up the consolidated accounts. Our responsibility is to express a view on the Annual Report, the consolidated accounts and the administration on the basis of our audit.

The audit was carried out in accordance with generally accepted auditing standards in Sweden. This means that we have planned and carried out the audit with the intention of ensuring, as far as is reasonably possible, that the Annual Report and consolidated accounts do not contain significant errors. An audit involves the examination of a selection of the supporting documents for sums and other information in the accounting records. An audit also involves checking the accounting principles and the Board of Directors' and the President and CEO's application of them, assessing any significant estimates made by the Board of Directors and the President and CEO when they prepared the Annual Report, and assessing the collected information in the Annual Report and the consolidated accounts. Before recommending the discharge from liability, we examined important decisions, actions and conditions in the company with the aim of assessing whether any member of the Board or the President and CEO are liable for damages towards the

company. We have also examined whether any member of the Board or the President and CEO have in any other way infringed the Companies Act, the Annual Accounts Act or the Articles of Association. We consider that our audit gives us reasonable grounds for our opinion below.

The Annual Report has been prepared in accordance with the Annual Accounts Act and provides a true and fair view of the company's results and position in accordance with generally accepted auditing standards in Sweden. The consolidated accounts have been drawn up in accordance with the International accounting standards, IFRS, as adopted by the EU, and the Annual Accounts Act, and provide a true and fair view of the Group's results and position. The administration report is consistent with the other sections of the Annual Report and the consolidated accounts.

We recommend that the general meeting adopts the income statement and balance sheet for the Parent Company and for the Group, appropriates the profits of the Parent Company in accordance with the proposal in the administration report, and discharges the Board of Directors and the President and CEO from liability for the financial year.

Lund 7 February 2006

Öhrlings PricewaterhouseCoopers AB

Anders Lundin
Authorised Public Accountant
Chief Auditor

QUARTERLY DATA

Invoicing by product group (SEK 000s)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	2004	2004	2004	2004	2005	2005	2005	2005
Video	96 744	115 193	117 576	144 563	130 231	183 107	198 422	220 766
Print	43 053	45 832	39 010	41 154	39 143	36 241	29 775	30 383
Scan	1 871	935	5 824	2 932	2 038	2 327	2 387	4 298
Other	10 401	5 614	10 088	10 691	3 359	4 444	4 146	4 000
Total	152 069	167 574	172 498	199 340	174 771	226 119	234 730	259 447

Invoicing by region (SEK 000s)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	2004	2004	2004	2004	2005	2005	2005	2005
EMEA	78 058	81 019	83 022	108 038	80 459	104 242	96 524	129 163
Americas	39 713	55 127	56 530	55 241	52 934	84 164	100 331	99 733
Asia	34 298	31 428	32 946	36 061	41 378	37 713	37 875	30 551
Total	152 069	167 574	172 498	199 340	174 771	226 119	234 730	259 447

Income statement (SEK 000s)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	2004	2004	2004	2004	2005	2005	2005	2005
Net sales	152 069	167 574	172 498	199 340	174 771	226 119	234 730	259 447
Gross profit	74 915	86 585	92 368	105 646	91 659	124 744	128 764	137 806
Gross margin	49.3 %	51.7 %	53.5 %	53.0 %	52.4 %	55.2 %	54.9 %	53.1 %
Operating profit	-5 942	7 885	17 637	28 792	13 932	41 449	40 639	32 171
Operating margin	-3.9 %	4.7 %	10.2 %	14.4 %	8.0 %	18.3 %	17.3 %	12.4 %
Profit/loss after financial items	-1 644	9 001	18 597	31 115	13 772	41 306	40 418	32 044

MULTI-YEAR OVERVIEW

Income statement (SEK 000s)	1997/1998	1998/1999	1999/2000	2000,					
				8 months	2001	2002	2003	2004	2005
Net sales	521 715	559 789	695 183	493 651	696 333	670 277	623 637	691 481	895 066
<i>of which Netch</i>	-	-	60 703	42 844	20 479	-	-	-	-
Cost of goods and services sold	-245 825	-238 835	-323 429	-283 356	-340 754	-286 270	-301 906	-331 968	-412 093
Gross profit	275 890	320 954	371 754	210 295	355 579	384 007	321 731	359 514	482 973
<i>of which Netch</i>	-	-	23 108	-18 109	-5 903	-	-	-	-
Other income and changes in value	-	-	-	-	-	-	-	2 663	-2 718
Selling expenses	-174 305	-184 212	-239 229	-186 648	-212 011	-177 522	-165 062	-154 078	-176 289
Administrative expenses	-29 446	-36 950	-62 812	-53 483	-66 262	-56 334	-44 766	-42 277	-53 274
Research and development costs	-76 709	-93 657	-144 585	-133 065	-151 052	-117 847	-111 982	-114 787	-122 500
Items affecting comparability	25 959	-	-	-	-33 296	-	-	-	-
Other operating income	-	-	-	-	-	7 354	1 221	-	-
Other operating costs	-3 233	-1 163	-7 358	-2 139	-6 922	-	-	-	-
Participation in the results of associated companies before tax	-2 865	2 115	-	15	158	-	-	-	-
Operating profit	15 291	7 087	-82 230	-165 025	-113 806	39 658	1 142	51 035	128 192
<i>of which Netch</i>	-	-	-11 534	-56 877	-30 521	-	-	-	-
Net financial income/expense	-4 117	-6 274	19 901	-5 710	-35 687	11 778	7 183	-760	-651
Profit after financial items	11 174	813	-62 329	-170 735	-149 493	51 436	8 325	50 275	127 541
<i>of which Netch</i>	-	-	-12 409	-58 638	-31 691	-	-	-	-
Tax on net profit for the period	-1 700	-2 859	18 942	35 790	48 445	-15 581	-10 900	-19 732	-36 454
Minority participation in the net profit for the period	-	-	-8 281	27 091	10 941	-	-	-	-
Net profit for the year	9 474	-2 046	-51 668	-107 854	-90 107	35 855	-2 575	30 543	91 087
Balance sheet (SEK 000s)	April 30, 1998	April 30, 1999	April 30, 2000	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005
Fixed assets	32 636	37 218	79 420	148 651	136 611	122 434	132 532	118 387	107 204
Inventories	81 522	77 587	69 887	60 119	46 628	57 994	67 074	85 788	117 811
Accounts receivable	102 390	102 277	131 996	137 960	106 339	88 385	94 078	107 032	142 726
Other receivables	17 506	31 427	34 522	73 247	18 828	31 714	36 909	37 767	25 257
Cash and cash equivalents	10 203	-	12 419	195 993	180 773	129 956	102 978	121 023	187 225
Total	244 257	248 509	328 244	615 970	489 179	430 483	433 571	469 997	580 223
Equity	87 056	85 010	27 140	379 739	273 014	312 532	300 324	339 844	407 262
Minority interest	-	-	9 905	12 125	-	-	-	-	-
Provisions	12 646	11 342	549	3 707	16 125	3 826	7 081	-	-
Long-term liabilities	67 495	79 713	162 822	51 363	50 000	-	10 200	10 278	10 774
Current liabilities	77 060	72 444	127 828	169 036	150 040	114 125	115 966	119 875	162 187
Total	244 257	248 509	328 244	615 970	489 179	430 483	433 571	469 997	580 223
Cash flow statement (SEK 000s)	1997/1998	1998/1999	1999/2000	2000,					
				8 months	2001	2002	2003	2004	2005
Cash flow from operating activities before change in working capital	2 664	5 932	-79 978	-107 706	-80 502	45 819	15 279	58 881	145 678
Change in working capital	-53 921	-14 493	30 270	-6 287	54 922	-39 006	-17 119	-29 038	-15 149
Cash flow from operating activities	-51 257	-8 561	-49 708	-113 993	-25 580	6 813	-1 840	29 843	130 529
Cash flow from investing activities	14 351	-12 985	-15 232	-38 465	-12 460	-15 404	-28 462	-14 767	-29 921
Cash flow from financing activities	6 870	10 875	77 827	336 032	22 820	-42 226	3 324	2 969	-34 406
Cash flow for the period	-30 306	-10 671	12 887	183 574	-15 220	-50 817	-26 978	18 045	66 202
Cash and cash equivalents at start of period	40 509	10 203	-468	12 419	195 993	180 773	129 956	102 978	121 023
Cash and cash equivalents at end of period	10 203	-468	12 419	195 993	180 773	129 956	102 978	121 023	187 225
Operational cash flow (SEK 000s)	1997/1998	1998/1999	1999/2000	2000,					
				8 months	2001	2002	2003	2004	2005
Profit after financial items	11 174	813	-62 329	-170 735	-149 493	51 436	8 324	57 069	127 541
Depreciation	7 233	8 110	13 030	13 344	19 382	13 712	9 054	10 501	12 529
Tax	-5 658	-3 870	-1 726	-797	-2 311	-4 189	-4 071	-1 307	-44
Total	12 749	5 053	-51 025	-158 188	-132 422	60 959	13 307	66 263	140 026
Changing operating capital	-53 921	-14 493	30 270	-6 287	54 922	-39 006	-17 119	-29 038	-15 149
Net investment	-17 814	-11 831	-29 634	-38 465	-12 460	-15 404	-28 462	-14 767	-29 921
Operational cash flow	-58 986	-21 271	-50 389	-202 940	-89 960	6 549	-32 274	22 458	94 956

KEY RATIOS					2000,					
	1997/1998	1998/1999	1999/2000	8 months	2001	2002	2003	2004	2005	
Growth in net sales, %	32.5	7.3	24.2	2.6	-1.6	-0.8	-7.0	10.9	29.4	
Gross margin, %	52.9	57.3	53.5	42.6	51.1	57.3	51.6	52.0	54.0	
Operating margin, %	2.9	1.3	-11.8	-33.4	-16.3	5.9	0.2	7.4	14.3	
Profit margin, %	2.1	0.1	-9.0	-34.6	-21.5	7.7	1.3	7.3	14.2	
Depreciation, SEK million	7	8	13	20	19	14	9	11	13	
Equity, SEK million	87	85	27	380	273	313	300	340	407	
Capital employed, SEK million	155	165	200	447	339	311	315	352	412	
Interest-bearing liabilities, SEK million	67	80	163	51	50	-	10	6	7	
Net interest-bearing liabilities, SEK million	57	80	150	-145	-131	-130	-93	-115	-180	
Balance sheet total, SEK million	244	249	328	616	489	430	434	470	580	
Return on capital employed, %	18.3	5.3	-28.8	-74.0	-26.8	16.5	2.9	15.3	33.6	
Return on total equity, %	11.2	3.4	-18.2	-50.7	-19.1	11.7	2.1	11.3	24.4	
Return on equity, %	11.4	0.9	-111.3	-125.8	-45.8	12.6	2.0	11.5	24.6	
Interest coverage ratio, times	1.7	1.1	-5.4	-14.3	-2.4	24.0	13.8	67.2	196.9	
Net debt ratio, times	0.7	0.9	5.6	-0.4	-0.5	-0.4	-0.3	-0.3	-0.4	
Equity/assets ratio, %	35.6	34.2	11.3	63.7	55.8	72.8	69.3	72.3	70.2	
Proportion of risk-bearing capital, %	40.8	38.8	11.3	63.7	57.4	73.9	69.9	72.4	70.2	
Capital turnover rate, times	3.6	3.5	3.8	2.3	1.8	2.1	2.0	2.1	2.3	
Number of employees (average for the period)	243	313	445	540	439	334	356	343	361	
Sales per employee, SEK million	2.1	1.8	1.6	1.4	1.6	2.0	1.8	2.0	2.5	
Operating profit/loss per employee, SEK million	0.1	0.0	-0.2	-0.5	-0.3	0.1	0.0	0.2	0.4	

DATA PER SHARE					2000,					
	1997/1998	1998/1999	1999/2000	8 months	2001	2002	2003	2004	2005	
Profit/loss after financial items, SEK	0.14	-0.03	-1.10	-3.89	-2.17	0.75	0.12	0.73	1.85	
Cash flow, SEK	-0.54	-0.19	0.23	4.19	-0.22	-0.74	-0.39	0.26	0.96	
Equity, SEK	1.54	1.51	0.20	5.50	3.96	4.53	4.36	4.93	5.91	
Share price at close of period, SEK	-	-	-	17.50	25.00	18.40	17.00	18.00	58.25	
Share price/equity, percent	-	-	-	318	631	406	390	365	986	
Dividend, SEK	-	-	-	-	-	-	0.15	-	0.50	
P/E-ratio	-	-	-	neg	neg	35	neg	41	44	
P/S-ratio	-	-	-	1.6	2.5	1.9	1.9	1.8	4.5	
Earnings per share before dilution, SEK	0.17	-0.04	-0.92	-2.60	-1.31	0.52	-0.04	0.44	1.32	
Earnings per share after dilution, SEK	0.17	-0.04	-0.92	-2.60	-1.31	0.52	-0.04	0.44	1.32	
Number of shares before dilution, average, thousands	56 400	56 400	56 400	65 775	68 900	68 900	68 900	68 900	68 906	
Number of shares after dilution, average, thousands	56 400	56 400	56 400	65 775	68 900	68 985	68 900	68 900	69 121	
Number of outstanding shares (thousands)	56 400	56 400	56 400	68 900	68 900	68 900	68 900	68 900	68 925	
Average number of shares (thousands)	56 400	56 400	56 400	65 775	68 900	68 900	68 900	68 900	68 906	

DEFINITIONS

Capital employed

Total assets less non-interest-bearing liabilities including deferred tax liability.

Capital turnover rate

Net sales divided by average capital employed (adjusted to twelve months for 2000).

Cash flow per share

Cash flow for the year divided by the average number of shares (adjusted to twelve months for 2000).

Earnings per share

Profit for the period after net financial items divided by the average number of shares (adjusted to twelve months for 2000).

Equity/assets ratio

Shareholders' equity including minority interests as a percentage of total assets.

Equity per share

Shareholders' equity divided by the number of shares outstanding.

Gross margin

Gross profit as a percentage of net sales.

Interest coverage ratio

Profit after net financial items plus financial expenses divided by financial expenses.

Net debt/equity ratio

Net interest-bearing liabilities divided by shareholders' equity.

Net interest-bearing liabilities

Interest-bearing liabilities reduced by liquid funds.

Operating margin

Operating profit as a percentage of sales.

Operating margin after depreciation of tangible fixed assets

Operating profit after depreciation of tangible fixed assets as a percentage of sales.

P/E

Market value divided by profit after full tax.

P/S

Market value divided by net sales (adjusted to twelve months for 2000).

Profit margin

Profit/loss after net financial items as a percentage of sales.

Profit/loss per employee

Operating profit after depreciation divided by the average number of annual employees.

Return on capital employed

Profit after net financial items plus financial expenses divided by average capital employed.

Return on equity

Profit after net financial items less full tax divided by average shareholders' equity.

Return on total capital

Profit after net financial items plus financial expenses divided by the average total assets.

Sales per employee

Sales divided by the average number of annual employees.

Share of risk-bearing

Capital shareholders' equity plus minority interests and deferred tax liabilities as a percentage of total assets.

Board of Directors and Auditors



Lars Erik Nilsson

Chairman of the Board

Born 1943. Chairman of the Board of IT-Hantverkarna and Informationsförlaget Heimdahls AB, Luvit AB and Teligent AB. Director of Consellar AB and Oleinitec AB. Member of the Board since 2003 and Chairman of the Board since September 2005.

Shares in Axis: 10,000



Patrik Tigerschiöld

Vice Chairman

Born 1964. President of Skanditek Industriförvaltning AB. Chairman of the Board of a number of companies, including CMA Microdialysis AB, Bure Equity AB and Vitrolife AB. Director of a number of companies, including H Lundén Kapitalförvaltning AB, Mydata Automation AB, PartnerTech AB, and Skanditek Industriförvaltning AB. Member of the Board since 2001. Shares in Axis: 5,000



Martin Gren

Born 1962. Chairman of the Board of Itact AB. Director of Netwise. Member of the Board since 1984.

Shares in Axis: 7,157,471 (through AB Grenspecialisten)



Nils Rydbeck

Born 1946. Director of Anoto AB, Agellis Group AB, Opera Software ASA and Blekinge Institute of Technology. Member of the Royal Swedish Academy of Engineering Sciences and the Royal Physiographic Society in Lund. Member of the Board since 1997.

Shares in Axis: 0

Auditors

Öhrlings PricewaterhouseCoopers

Senior auditor: Anders Lundin, born 1956. Authorized Public Accountant. Assigned to Axis since 1996.

DEAR SHAREHOLDER,

Mikael Karlsson, Axis' Chairman of the Board, passed away in September 2005, after a brief illness.

After graduating from the Stockholm School of Economics in 1984, he founded Axis in partnership with Martin Gren. From its launch and until 1999, Mikael was the President of the company, and he continued to act as the Chairman of the Board until his death.

Mikael Karlsson was a visionary and business entrepreneur with great drive, deep involvement in social issues and a strong belief in opportunity. His curiosity and ability to see and understand trends has characterised the business operations of Axis, and these properties were of great benefit when Mikael acted as CEO during the first sixteen years of the company's existence. During this period, Mikael established the company in Europe, Asia and the USA. Japan was a country which Mikael was very fond of. The establishment of Axis in Japan gave Mikael the opportunity to live there for a while and, as appropriate when spending time in a foreign country, he also learned some Japanese.

Throughout his career, he was recognised for his ability to inspire people and realise his visions. In 1994, he was awarded the Businessman of the Year Award by the Swedish business newspaper, Dagens Industri. In the same year, Mikael won the magazine Datavärlden's Swedish IT-company of the Year Award. A couple of years later, he was nominated for the "1997 Honorary listing of Europe's 500, the association for dynamic entrepreneurs".

Mikael's drive and constant hunger for knowledge meant that, over the years, he was involved in many different operations. These included the Vice Chairmanship of Ekonomisentrum at the University of Lund, and directorships of Beijer Electronics AB, Björkliden fjällby AB, G&L Beijer AB, G&L Beijer Industriteknik AB, SEB in Lund, Telligent AB, Visionalis AB and Ystad Studio Holding. By being involved in so many different operations, he established a wide network of contacts in many different business sectors. As a result of his broad interests, deep knowledge of IT and dedication to knowledge and social development, Mikael was in 1999 asked to head the Danish-Swedish association, IT Öresund, as its first chairman. The curiosity which drove him to search for new challenges, as well as his great instinct for trends, also benefited Axis.

Mikael's last major project was the acquisition of Björkliden fjällby. The skiing and wilderness complex, first



established in 1926, was, according to Mikael himself, a business decision governed by the heart. He really enjoyed skiing and loved travelling around the world in the company of his family, which he always placed first despite the demands of the company, the community and the business sector.

Everyone who worked with Mikael could see how much dedication, spirit and heart he put into every project. Mikael was a visionary with great plans for the future. This, however, never prevented him from noticing, encouraging and lending a helping hand to those he worked with. Axis, his life's work, is made up of people educated in Mikael's philosophy of improvement through curiosity, in a culture where mistakes are not only tolerated but are often essential in a company where the driving force is based on innovation.

Mikael was a long-term, industrially-driven owner. He established Axis as a responsible and warm-hearted company, and viewed business as an opportunity to make a lasting, positive contribution to the Öresund region, Sweden, Europe and the world.

A positive, strong and generous visionary has passed away. Those of us who had the privilege of working alongside him will ensure that our work continues to reflect his spirit.

The Board of Directors, Axis AB

Management team



Ray Mauritsson

Born 1962. President and Chief Executive Officer. Employed by Axis since 1995.

Shares in Axis: 22,000

Share options in Axis: 0



Anders Laurin

Born 1960. Executive Vice President, Corporate Strategy. Employed by Axis since 1997.

Shares in Axis: 16,000

Share options in Axis: 0



Bodil Sonesson Gallon

Born 1968. Vice President, Sales & Marketing. Employed by Axis since 1996.

Shares in Axis: 2,750

Share options in Axis: 0



Johan Lembre

Born 1966. Vice President, Product Management. Employed by Axis since 1999.

Shares in Axis: 2,750

Share options in Axis: 2,000



Per Ädelroth

Born 1966. Vice President, Operations. Employed by Axis since 1994.

Shares in Axis: 17,250

Share options in Axis: 0



Fredrik Sjöstrand

Born 1969. Vice President and Chief Financial Officer. Employed by Axis since 1998.

Shares in Axis: 12,000

Share options in Axis: 12,000

Corporate governance

The Swedish code for corporate governance was published in December 2004. The code, which is based on self-regulation on the "observe or explain" principle, deals primarily with the organisation and work of the annual general meeting, the Board of Directors and the company management, and the inter-relationship among them.

The Swedish code for corporate governance includes rules on the appointment of the Board and the auditors, the responsibility of the Board for internal controls, the process of appointing and remunerating the company's management and information on corporate governance.

The annual general meeting

The annual general meeting of Axis AB (publ) is the highest decision-making body in the company, and the forum through which the shareholders can exercise their influence over the company. The duties of the annual general meeting are laid down in the Swedish Companies Act and in the Articles of Association of the company. The annual general meeting was held in Lund on 19 April 2005. The meeting re-elected the sitting Board. The meeting resolved to adopt the Board's proposal of an ordinary dividend of SEK 0.20 per share for the financial year 2004, and an additional dividend of SEK 0.30 in the light of the company's strong financial position.

The Board

During the period between annual general meetings, the Board of Directors of Axis AB (publ) constitutes the highest decision-making body within the company. The duties of the Board of Directors are laid down in the Swedish Companies Act and in the Articles of Association of the company. The work of the Board is controlled in addition by the formal work plan adopted

annually by the Board itself. This formal work plan also determines the division of work and responsibility between the Board, its Chairman and the President and CEO, and also includes the financial reporting procedures for the President and CEO.

During the year, the Board devoted a great deal of its work to developing a strategy for Axis' two product areas: Video and Print. Through monthly reports and submissions by the Group's Chief Financial Officer at all Board meetings, the Board has carefully followed the Group's financial progress during the year. In addition, the Board has dealt with questions such as;

- the strategy for growth within Video to meet the market's increased interest in network video
- organisational matters to meet the expected strong growth
- continuous monitoring of the performance of the video sales channels, and
- the strategy for the mature Product Area Print.

During the period between the annual general meeting and the adoption of this annual report, the Board held eight meetings including the Board meeting following

election. During the Board meeting following election, on 13 May 2004, the Board re-elected Mikael Karlsson as Chairman. Mr Karlsson held the post of Chairman of the Board until his death on 4 September. At an extraordinary Board meeting on 4 September, Lars-Erik Nilsson was appointed Chairman of the Board.

The role of the Chairman of the Board of Axis AB is to monitor the progress of the business and to be responsible for ensuring that the other Directors receive the information they require to carry out the work of the Board effectively and in accordance with the Companies Act.

In addition, during the year, the Chairman and another Director assisted in certain projects focusing on strategy, commercial matters and product development.

The Board has appointed a Remuneration Committee whose principal task is to prepare decisions and guidelines affecting salaries and other terms of employment for the staff, the President and CEO, and those members of the Board who receive remuneration other than the fees set by the annual general meeting.

The Remuneration Committee consists of Patrik Tigrerschiöld and Lars-Erik Nilsson, with Olle Isberg as a co-opted member.

As the Board consists of only five members (four as of September 2005), it has been decided not to appoint an audit committee. These control matters will be handled by the entire Board. To ensure that the required information is available, the company's auditors report to the Board on two occasions per year giving their assessment and observations on the reports, accounts and business processes.

The Chairman of the Board maintains continuous contact with the auditors during the year.

The President and CEO and the company management

The President and CEO leads the operation in accordance with the Board's guidelines and instructions. The President and CEO keeps the Board and the Chairman informed of the company's and the Group's financial

position and progress. The company management team, which consists of six members, had 13 formal and a large number of informal meetings during the year.

Internal controls

The operation is carried on in line with well-defined guidelines and policies. The various processes within the Group are properly supported by complex and effective IT systems. The management team and key members of staff, just like the rest of the staff, are competent and highly-experienced within their respective areas of responsibility. Axis' operation is controlled through well-defined processes for both the development of products and deliveries to the company's customers. The Board monitors the activities of the various departments within the Group continuously through briefings from the individual heads of department.

Audits

Axis' auditors are elected by the company's general meeting for a period of four years. The company's auditors are Öhrlings PricewaterhouseCoopers AB, with Anders Lundin as senior auditor. Öhrlings PricewaterhouseCoopers AB has held the audit assignment for Axis since 1996, and the current mandate period expires at the 2007 annual general meeting.

Nominations committee

Axis' nominations committee consists of 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 observations from shareholders in respect of the composition of the Board may be made in writing to: Axis AB, attn. Åsa Haapasaari, Emdalavägen 14, 223 69 Lund, Sweden, or by telephone on +46 46 272 18 00. ■

WORD LIST

ASIC Application Specific Integrated Circuit. A chip designed for one specific application rather than a chip with more general functions, such as a microprocessor. The use of an ASIC as a component in electronic products can improve performance, reduce power consumption, increase security and reduce costs.

CCTV Closed Circuit Television, is a closed video system within a building or installation which is used for visual monitoring for security or industrial purposes.

IP Internet Protocol. A communications transport protocol used to transfer data via the Internet. See also TCP/IP.

Linux Linux is an "open source" operating system within the UNIX family. Thanks to its stability and accessibility, Linux has become popular both within the open source world and for commercial applications.

MCM Multi chip module. A number of chips within the same casing.

Network camera A digital camera with built-in Ethernet network connection and Web server. The digitally compressed video from the camera can be viewed in real-time on all computers linked to the network.

OEM Original Equipment Manufacturer. The designation of a company which manufactures equipment which is then marketed and sold by other companies under their own names.

Print server A thin server which connects a printer to a network and which allows users to share the printer. It can be a separate box or a plug-in board in the printer.

Protocol A set of formal rules which describe how data is transferred over a network. Low-level protocols define electrical and physical standards, and high-level protocols handle data formatting. TCP and IP are examples of high-level protocols.

Server A computer, or a software application, that provides services to other computers connected to the server via a network. The most common example is a file manager which has a local disk and deals with requests from clients to read and write files on the disk.

TCP/IP Transmission Control Protocol/Internet Protocol. The TCP/IP protocol defines how data can be securely transferred between networks. TCP/IP is the most widely used communications standard, and is the basis for the Internet.

USB Universal Serial Bus. External data bus for data transfer.

Video server A video server includes a built-in network connection and a Web server. Its job is to receive analog video (PAL/NTSC) from traditional analog cameras, digitalise and compress the video, and make the digital video stream accessible over a computer network.



● Axis head office, Lund.

INVITATION TO THE ANNUAL GENERAL MEETING

The company's annual general meeting will be held at Edison Park, Emdalavägen 4, Lund, on Thursday 20 April 2006 at 17.00. Shareholders who wish to participate in the general meeting must be registered in the share register held by the Swedish Securities Register Centre, VPC, no later than 12 April 2006. Shareholders whose shares are held through nominees must ensure, in good time, that the bank or stockbroker who holds the shares arranges temporary shareholder registration, "voting right registration", two banking days before 12 April 2006. Notification of participation must be received by Axis AB no later than 16.00 on Thursday 13 April 2006. The notification should include the shareholder's name, Swedish civil registration or corporate ID number, address and telephone number. If participation is through power of attorney, the power of attorney must be submitted before the general meeting. The notification must also state the number of assistants the shareholder wishes to bring to the general meeting.

The notification can be made

- in writing to Axis AB, attn. Åsa Haapasaari, Emdalavägen 14, 223 69 Lund, Sweden
- by telephone on +46 46 272 18 00 to Axis AB's head office, or
- by e-mail to bolagsstamma@axis.com

FINANCIAL INFORMATION 2006

Three-month report	19 April
Annual general meeting	20 April
Half-yearly report	10 July
Nine-month report	19 October
Accounting report	9 February 2007
Annual report 2006	March 2007

Reports may also be ordered from Axis AB, Emdalavägen 14, 223 69 Lund, Sweden, tel +46 46 272 18 00, fax +46 46 13 61 30, e-mail ir@axis.com

Axis' financial information is available in both Swedish and English on Axis' web site:

<http://www.axis.com/corporate/investor/>

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Sweden**Head office**

Axis Communications AB
Emdalavägen 14
223 69 Lund
Tel: +46 46 272 1800
Fax: +46 46 13 61 30

The Netherlands

Axis Communications BV
Benelux
Glashaven 38
NL-3011 XJ Rotterdam
Tel: +31 10 444 34 34
Fax: +31 10 750 46 99

Spain

Axernet Communcations S.A.
Sector Oficios 31, 1
ES-28760 Tres Cantos
Madrid
Tel: +34 91 803 46 43
Fax: +34 91 803 54 52

Italy

Axis Communications
Via Roma 47
10025 Pino Torinese
Torino
Tel/Fax: +39 011 841 321

USA

Axis Communications Inc.
100 Apollo Drive
Chelmsford, MA 01824
Tel: +1 978 614 2000
Fax: +1 978 614 2100

9191 Towne Centre Drive
Suite #420
San Diego, CA 92122
Tel: +1 978 614 2000
Fax: +1 858 455 9190

Canada

Axis Communications, Inc.
117 Lakeshore Road East
Suite 304
Mississauga ON L5G 4T6
Tel: +1 800 444 AXIS (2947)
Fax: +1 978 614 2100

Australia

Axis Communications Pty Ltd
Level 25, 367 Collins Street
Melbourne VIC 3000
Tel: +613 9221 6133
Fax: +613 9221 6161

Taiwan

Axis Communications Ltd
8F-11,101 Fushing North Road
Taipei
Tel: +886 2 2546 9668
Fax: +886 2 2546 1911

Singapore

Axis Communications (S) Pte Ltd
541 Orchard Road
#18-03/04 Liat Towers
Singapore 238881
Tel: +65 6 836 2777
Fax: +65 6 836 3106

Japan

Axis Communications KK
Shinagawa East-One Tower 13 F
2-16-1 Konan, Minato-ku
Tokyo 108-0075
Tel: +81 3 6716 7850
Fax: +81 3 6716 7851

South Korea

Axis Communications Korea Co., Ltd.
Rm 407, Life Combi B/D.
61-4 Yoido-dong
Yeongdeungpo-Ku
Seoul
Tel: +82 2 780 9636
Fax: +82 2 6280 9636

China

Axis Communications Ltd
Rm. 001, 6/F, Novel Building
887 Huai Hai Zhong Rd.
Shanghai 200020
Tel: +86 21 6431 1690
Fax: +86 21 6433 8264

Great Britain

Axis Communications (UK) Ltd.
Suite 2, Ladygrove Court
Hitchwood Lane
Preston, Nr Hitchin
Hertfordshire SG4 7SA
Tel: +44 870 162 0047
Fax: +44 870 777 8620

France

AXIS Communications S.A.S.
7-9 avenue Aristide Briand
94230 CACHAN
Tel: +33 1 49 69 15 50
Fax: +33 1 49 69 15 59

Germany

Axis Communications GmbH
Lilienthalstr. 25
DE-85399 Halbergmoos
Tel:+49 811 555 08 0
Fax: +49 811 555 08 69



Corporate ID number 556241-1065
Axis AB
Emdalavägen 14
SE-223 69 Lund
www.axis.com