

AXIS AB

Annual report 2005



Axis – market leader in network video and print servers. The company's products and solutions are used mainly for security surveillance, remote monitoring and document management.

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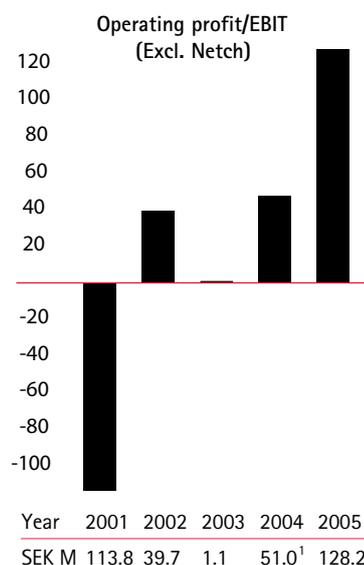
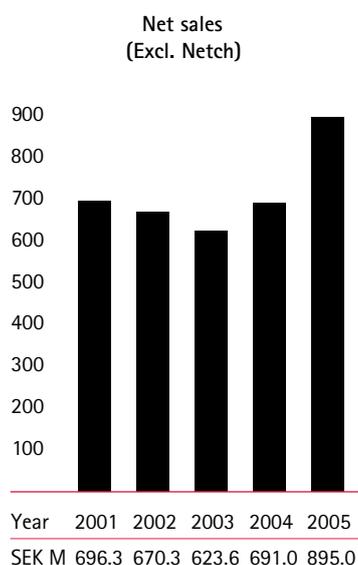


The year in brief

- Net sales amounted to SEK 895 million (691), a rise of 29 percent for the Group.
- Operating profit more than doubled, from SEK 51 million to SEK 128 million.
- Acceptance and interest in network video in the surveillance sector accelerated during the year.
- Axis consolidated its position in the network video market, and was recognised as the market leader by the market research companies JP Freeman, IMS and Frost & Sullivan.
- Axis continued its focus on video, and further expanded its product portfolio with smart and innovative products.
- Sales were satisfactory in all six customer segments in all three regions. Region Americas grew particularly strongly, and sales increased by 63 percent.
- Axis broadened its partnership efforts, and, at the end of the year, the Group had 6,000 partners and 280 ADPs (Application Development Partners).

KEY RATIOS

The Group, SEK million	2005	2004
Net sales	895	691
Operating profit	128	51
Profit before tax	128	50
Profit after tax	91	31
Earnings per share, SEK	1.32	0.44
Cash and cash equivalents at close of period	187	121



¹The figures for 2004 are adjusted in accordance with IFRS

AXIS' VISION *Everything can communicate over intelligent networks*

Shortcut to Axis

HISTORY

Axis was established in 1984 by Mikael Karlsson and Martin Gren. The basic idea was to offer customers protocol converters for printers, and by the end of the 1980s, Axis was one of the three leading global manufacturers. At the beginning of the 1990s, the portfolio was widened to include network products. A couple of years later, in 1996, Axis was the first company to launch a network camera.

AXIS IN THE WORLD

Axis is represented through its own offices in 16 locations in three regions; the Americas, EMEA (Europe, Middle East & Africa) and Asia. The Group's head office is in Lund, Sweden, and the number of employees was 391 as at 31 December 2005.



THE COMPANY

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 for security surveillance, remote monitoring and document processing.

DEVELOPMENT

Each year, 15–20 % of sales is earmarked for research and development. Its products are based on the in-house developed chips; ARTPEC and ETRAX.

The ARTPEC family consists of chips specially developed for network video applications. Their primary functions are picture processing and compressing. ETRAX is the heart of Axis' products, and is a general chip for connecting to fixed and wireless networks.

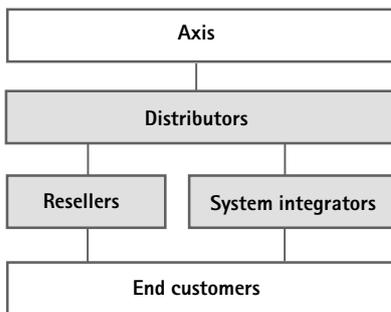
THE PRODUCTS

Axis' product portfolio consists of product areas Video and Print. Video includes monitoring cameras with the associated software and video servers, and Print consists of print servers. The company is the world leader in network video solutions, and has a strong position in print servers. The number of installed units for product area Video is more than 500,000, and for Print, 3,000,000.



BUSINESS MODEL

Axis has global sales in over 70 countries. The market is served through around 170 distributors and 6,000 system integrators and resellers. In addition to these channels, Axis acts through ADPs (Application Development Partners) who utilise Axis' products and develop software to meet their customers' requirements. Axis has approximately 280 ADPs.



SHARES

Axis is listed on the Attract 40 list on the Stockholm stock exchange's O-list. During 2005, Axis' shares rose by 224 %, ending the year at SEK 58.25 (18.00). The number of shareholders increased during the year by 2,204 to 11,295.

CUSTOMERS

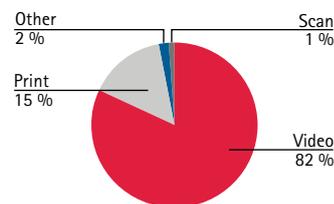
Axis has customers in six customer segments:

- Retail (*shops, fuel stations, supermarkets*)
- Education (*universities, schools, educational institutions*)
- Government (*public agencies, the police, museums, the military, healthcare, the prison service*)
- Bank & Finance (*banks, postal services, insurance companies*)
- Industrial (*process industries, engineering, construction, pharmaceuticals, energy and mining companies*)
- Transportation (*airports, railways, ports, vehicle tolls, traffic monitoring*)

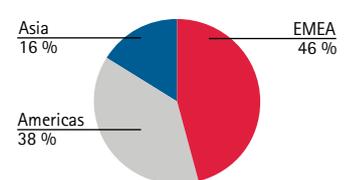
FINANCIAL

During 2005, Axis had sales of 895 million (SEK 691 million in 2004), with an operating profit of SEK 128 million (51) and a profit after tax of SEK 91 million (31). Cash flow amounted to SEK 66 million (18).

Invoiced sales per product group



Invoiced sales per region



Focus on video boosts sales

For Axis, 2005 was a year of both joy and sorrow. A major cause for sadness was the death of Mikael Karlsson, our Chairman of the Board, founder and friend, who passed away in late summer, while the strong sales trend in the network video area was a cause for celebration.

During the year, growth in the network video market matched the increasing level of acceptance of network video in the traditional analog surveillance market. During a year of strong growth, we have met the important overall target of maintaining and further underpinning our position as market leaders.

In 2005, Axis' sales increased to SEK 895 million, compared with SEK 691 million in 2004, which is equivalent to a growth of around 29 percent. The operating profit before tax was SEK 128 million for the year, which is an increase of SEK 77 million compared with 2004.

High growth in Video

The Video area experienced extremely strong growth during the year. Total growth in this area was 55 percent. The strongest regional growth was in the US market, where the technology shift appears to be more rapid than in other regions.

Axis' sales in the mature Print product area fell significantly during the year. This downturn is largely due to the maturity of the market for print servers, which has had a negative impact on our sales of OEM as well as the sale of own-brand print servers.

I am very pleased to be able to report strong growth and excellent results, but there is scope for further improvement. The technology shift in the network video area may have speeded up, but it is still in

its infancy and, to Axis, this means further massive potential for growth.

Strength through flexibility

Axis' video sales in 2000 represented 28 percent of our total sales. In 2005, this share was 82 percent. In five years, we have experienced a significant strategic repositioning of the company, from print servers to network video.

The ability to switch focus from one product area to another, and to utilise technology and sales synergies, is one of Axis' most important strengths – a strength which we have utilised on a number of occasions during the company's 21 years, as we have succeeded in changing and rebuilding our business based on new product offers. This flexibility is essential if we are to remain at the cutting edge of new technology in a new market, or if we are to drive through change in an established market.

By concentrating on network video, we have identified a market with great potential for growth. For this reason, it is essential that we maintain a strong

focus on the Video area to ensure that we benefit fully from the growth in this market, and maintain our position as market leader.

During the year, a number of network video market research studies have been published. In these studies, Axis emerges as the clear market leader. A common factor in this research is the expectation of a 40-percent growth in network video products over the next five years. Network video is an exciting growth market for our competitors as well, and they have been more active over the past year. We believe that competition will benefit Axis, since, with a larger number of players in the market, the technology shift will progress more rapidly.

Broad product portfolio and well-developed partnerships

During 2005, we continued to focus on the video area and launched a large number of new products. At the same time, we collaborated more deeply and broadly with our partners.

We have continued to develop our partnership programme with system integrators and application development partners (ADPs). By the end of the year, almost 6,000 system integrators and 280 ADPs had joined our partnership programme.

During the year, we launched as planned a large number of new products. In total, we introduced six new camera models and four video server versions, as well as new versions of our application software.

Outlook for 2006

During the year, the number of employees at Axis increased by 44, which meant that the company had 391 employees at the end of 2005. I expect that this recruitment rate will have to increase in the future if we are to reap the greatest possible benefit from the future growth in the network video market we anticipate.

Our overall objective remains the same. To maintain, further strengthen and develop our position as a market-leading supplier of network video solutions for professional installations.

We believe that the network video market will continue to grow rapidly in 2006, and that this will

lead to increasingly fierce competition. To deal with this competition in the most effective way, it is important that we continue with our focused strategy, which means that we are:

- smart and aggressive in our product development, with innovative, high-quality products,
- focused and consistent in the development of our partnerships.

Finally, I would like to thank all the staff at Axis who have contributed to the 2005 results through their dedication and expertise. With such a wonderful staff, a strong product portfolio and a global presence in a growth market, I believe that the company will benefit from considerable future growth and excellent profitability in 2006.

Lund, February 2006

Ray Mauritsson



• – 2005 was a strong year for Axis, with growth of 29 percent for the whole group, and profits more than doubled. A strategy focused on video, a well-developed product portfolio and the increasing acceptance of digital solutions during the year are the three factors which contributed to the excellent results, says Ray Mauritsson, President and CEO.

Business idea, goals and strategy

Business idea

Axis' business idea is to offer the market intelligent network products and solutions for professional installations. The company aims primarily at the rapidly-growing market for network video solutions. In addition to this business area, Axis also has a leading position as a supplier of print servers.

Overall goals

Axis' overall goals are to maintain and further strengthen and develop its position as the market leading supplier of network video solutions for professional installations. The company is determined to defend its leading position and grow with the market, as well as to drive the technology shift from analog to network video solutions.

The financial objective can be summarised in two words: growth and profitability.

Axis' growth target

Axis' growth target is a total average annual growth of at least 20 percent for the Group, with a profit margin of at least 10 percent over the next few years and an equity/assets ratio in excess of 50 percent.

Growth, continued profitability and a stable financial base will create the conditions for a long-term growth in value for shareholders.

AXIS' LONG-TERM FINANCIAL OBJECTIVES

- Average annual growth of at least 20 %
- Profit margin of at least 10 %
- Equity/assets ratio over 50 %

Overall strategy

- By offering scalable, flexible, cost-effective and smart video solutions which give increased flexibility and performance, Axis will be the customers' obvious choice as supplier of network video products.
- Axis will maintain an aggressive launch rate in Product Area Video with a number of new products and solutions intended for professional installations.
- The Video product portfolio will be further complemented on the software side to offer customers effective and standardised security applications and remote monitoring systems.
- Axis will continue to grow its business within the six end customer segments; Retail, Education, Government, Transportation, Bank & Finance and Industrial.
- Axis will continue to deepen its collaboration with global and local partners to ensure the availability of customised solutions based on Axis' products in all customer segments.

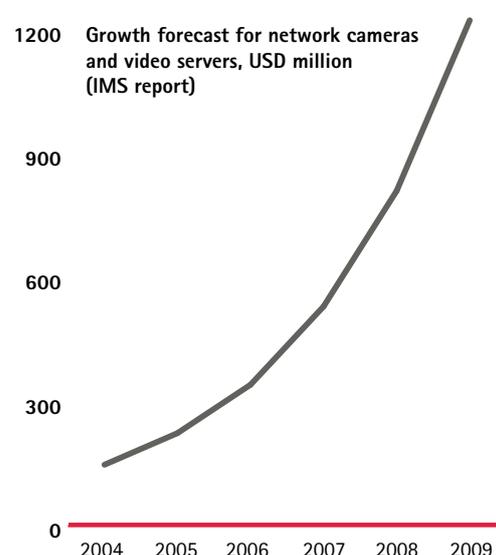
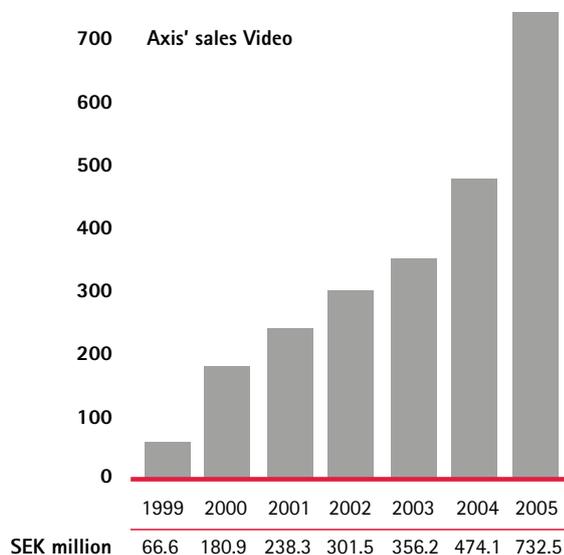
Vision

Everything can communicate over intelligent networks.

Mission

To be the driving force in bringing customers the full benefits of intelligent network video solutions.

- Axis will continue its training efforts to promote the shift from analog to network video solutions.
- Axis will strengthen its presence in the market through collaboration with global strategic business partners.
- Axis will maintain its leading technological position through continued focused investment in research and development. Our products are based on our own in-house developed chips whose optimised functionality ensures high quality and performance in both video and document products.
- All manufacture of Axis' products will be carried out in collaboration with partners specialising in contract manufacturing of electronics.
- Axis' primary strategy is continued organic growth, without ruling out acquisitions within Product Area Video with the aim of strengthening Axis' product range and geographical coverage.
- Axis will continue to attract and recruit competent staff on a global basis within identified areas. ■



Axis' product portfolio

Axis' product portfolio consists of products and solutions that add value to network solutions. The primary area of use is in applications for security surveillance, remote monitoring and document processing. The product portfolio is made up of two product areas: Video and Print. Product Area Video involves network cameras, video servers, application software and accessories. Product Area Print is made up of products for print server solutions.

PRODUCT AREA VIDEO

In 1996, Axis introduced the world's first network camera. Since then, the company has been the global market leader in the area. Axis offers a broad range of network cameras and video servers. The installed base now totals more than 500,000 Axis network cameras and video servers throughout the world.

Axis' network cameras distribute high-quality video images over IP networks, and the images are easy to access and view via a standard web browser. Axis' cameras can be connected independently anywhere in a network. This increases the effectiveness and flexibility of installations, and makes systems scalable. Another feature of Axis cameras is Power over Ethernet (PoE), which means that power is supplied over the network, making installation easier and cheaper.

During the year, Axis launched a number of new network cameras for professional installations which have generated a great deal of interest in the market.

The cameras in Axis' product portfolio can be divided into two categories: fixed cameras and movable cameras.

Axis' fixed cameras are suitable for installations

where a specific area is to be monitored. The cameras provide high-quality video and sound from indoor and outdoor locations. The product range includes cameras for indoor installations, such as the AXIS 207, as well as the more advanced AXIS 221 which is suitable for locations with variable lighting conditions. The product group also includes the AXIS 225FD which was launched in 2005. This product generated a great deal of interest in the market and was nominated the best CCTV product by the Swedish magazine, Detektor.

The moveable cameras have functions which enable them to pan over an area and zoom in wherever added security is required. The cameras provide high-quality video images and audio, which ensures quality in the surveillance system.

Network systems facilitate the addition of intelligent applications, such as customer counters in shops, identification of license plates and detection of changes in movement. Axis has in-depth expertise in the intelligent video area and is collaborating closely with its partners to provide customers with intelligent solutions for their systems.

Axis' video servers are easily incorporated into



• The AXIS Camera Station, a software which facilitates recording and event management.



• The AXIS 225FD, a vandal-proof network camera for demanding environments.



• The AXIS 221 provides high-quality video in varying light conditions.



• The AXIS 241 SA, a video server that digitises analog signals.

existing analog installations. The video server acts as a bridge between the analog and digital technologies. The server digitalises signals from an analog camera and distributes video through an IP-based network. This means that customers who have already installed an analog system can invest in a future-proof network video system.

Axis' software offers customers a total solution when used with Axis cameras and video servers. AXIS Camera Station (ACS) is a video surveillance program with recording and events management functions. ACS can be set up to record continuously,

according to a predefined schedule or event-controlled recording.

Application Development Partners

As well as Axis' own product offerings, the company's Application Development Partners (ADPs) develop software which supplements Axis' product portfolio. Axis' successful ADP programme is an important part of the company's continuing investment in the professional market. The programme is an initiative aimed at linking companies which develop application software for Axis' video products more closely to Axis. This broadens

CUSTOMER COUNTER IMPROVES FLOW

To complement its own software, Axis is collaborating with companies which develop software for Axis' equipment. At present, Axis has more than 280 Application Development Partners (ADPs) throughout the world, who are developing solutions, for example, for license plate registration, traffic monitoring and customer counters. The last-mentioned function permits the number of people in a shop to be counted easily, smartly and efficiently. The solutions provides shop owners with a clear measurement of how many people visit their shops, and how many stop at a specific offer. This information is useful in designing the future shop layout, and increasing the sales of a special product. ■



the company's offering to the market. At present, the programme includes more than 280 corporate partners, including Honeywell, Milestone, Genetec and Lenel.

PRODUCT AREA PRINT

Product Area Print covers print and document servers. Axis has more than 20 years' experience in this area, and has been for many years the world's largest brand

in print servers. The print servers create cost-effective, user-friendly print functions, irrespective of network environment and printer type.

With the broadest range on the market, Axis meets the demands both of smaller customers and larger companies and organisations. To date, more than three million Axis print servers have been installed throughout the world.



NETWORK VIDEO – A BRIEF INTRODUCTION

Network video systems, also called IP-based video surveillance, allow users to monitor and record images via a fixed or wireless IP network, e.g. local or global network, or the Internet.

The network video concept involves digitalised audio and images, but can also, for example, integrate the control of moveable cameras. Digital video maintains a high image quality, irrespective of the distance involved.

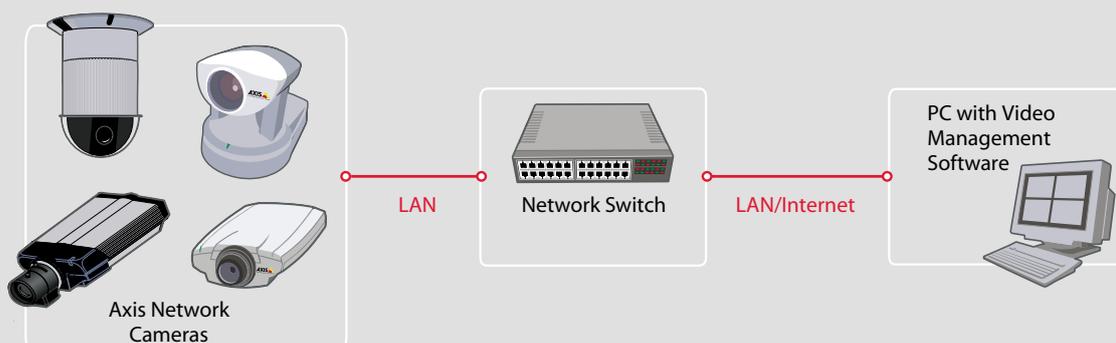
Cameras can easily be installed anywhere in the network system, a system which provides a high level of flexibility and makes it easy to tailor the number of cameras according to requirements. As a result of its scalability and its ability to integrate with other systems, a network video system is both

very flexible and cost-effective.

Network video has many different areas of use. Most areas fall within two categories: security surveillance and/or remote access.

The advanced functions of network video makes it ideal for security surveillance applications. The flexibility of digital technology gives security staff additional capabilities to protect people, property and assets. Existing analog systems can also be integrated easily with a new IP-based system, to upgrade the system with the latest technology.

Network video allows users to collect information over short and long distances, and view it in real time. This makes the technology ideal for monitoring equipment, people and locations, independently of geographical position. Application areas include, for example, traffic monitoring and monitoring in schools, hospitals and retail chains, which involve a large number of premises and buildings spread over a large area. ■



In addition to the company's own-brand products, Axis' technology is used by other players in a wide range of contexts. The central component of Axis' OEM offering is the in-house developed network chip, ETRAX, which, alongside Axis' software, ensures fast

and cost-effective development of network applications. Axis' customers are global manufacturers primarily of printers and copying equipment. These include some of the largest players on the market, such as Canon. ■



AXIS 211



AXIS 225FD



AXIS 70U



IMPROVED SECURITY IN MULTI-STORY CAR PARKS

ASAN Security Technologies has developed a new method for identifying the license plates on cars which enter or leave multi-storey car parks. A camera reads the license plate and sends the information to a central server for further processing. At ForumP, one of Finland's largest multi-storey car parks, the ASAN GateKeeper solution has been installed with excellent results. Axis network cameras are an important part of the solution.

– The picture quality is a decisive factor. Our system depends on constant, high picture quality, and

the Axis cameras was the only option on the market, says Anton Stenfors, Business Developer Director at ASAN Security Technologies.

The earlier analog surveillance system was digitalised using Axis' video servers and two ASAN servers which store and process information and the identification of license plates.

ForumP, through ASAN GateKeeper, has obtained the most secure system on the market for monitoring entrances and exits. The risk of car theft has been substantially reduced, the number of faults reported has decreased and the system is prepared for a future upgrading with intelligent video. The system has an accuracy of 99.5 %, and can identify number plates from 49 different countries. ■

Axis – the recognised market leader

The network video market is in an expanding phase, with Axis as its undisputed leader. As the first company to launch network video products, Axis has long experience of the growing market for network video systems.

VIDEO

Axis is recognised as the largest player in the professional network video market. This market is undergoing a technology shift, with Axis at the cutting edge and driving this development. The shift is still in its infancy, but the market is predicted to have great future potential.

Undisputed market leader

According to the market research company Frost & Sullivan, the value of the total video surveillance market is estimated at USD 5 billion at the production stage, with an expected annual growth of 10 percent. A summary of several surveys presented during the year indicates that the market for new installations of network video products is currently responsible for around 7–8 percent of the video surveillance market. This shows that the market is still in the early stages of the transition from analog to network installations.

Frost & Sullivan estimates an annual growth in the global network video market of approximately 40 percent, and that the market for network video cameras and video servers will be worth around USD 1.2 billion in 2010.

The technology shift from analog to digital monitoring is a clear contributing factor in the predicted

growth. Other factors are the economic climate, new legislation and the increase in security-consciousness throughout the world.

Axis is the undisputed technology leader in IP-based network video solutions, with a genuine knowledge of products and solutions, well-established sales channels, excellent relationships with its partners and the broadest product portfolio on the market.

Awards

In the beginning of the year, Axis was nominated the market leader in the network video area by the market research company Frost & Sullivan. The award was based on Axis' energetic driving and development of the network video market over a long period of time, and the fact that the company is the dominant market leader. Shortly afterwards, the same market research company awarded Axis a prize for its role as a technology leader for the development of the AXIS 231D and the AXIS 232D.

In April, the market research company JP Freeman identified Axis as a market leader. The award was based on an analysis of sales of network video in the USA. The survey shows that sales of network cameras are expected to double in comparison with analog cameras in 2008.

During the year, the market research company IMS, in its report on CCTV and video monitoring equipment, also presented Axis as a world-leader in network video cameras and video servers. Their estimate is that the network video market will experience an annual growth of 53 percent, and that the market for video servers will grow by 45 percent.

Convergence in the market

In the past, video surveillance was synonymous with security applications, but digital technology has created new business opportunities and new markets. The new, intelligent technology offers the opportunity to customise solutions. Axis has many years' experience of the field, and has cutting-edge knowledge of the intelligent video area, both through its own development work and through collaboration with its partners.

An understanding of the capabilities of network solutions has resulted in IT departments and security departments at companies working more closely together to integrate physical and network-based security. This trend benefits Axis, since the IT departments have an understanding of networks and are often already familiar with Axis products and solutions.

Competitors

Over the past year, the interest in network video products has increased. As a result of this, competition has

also increased. Major producers of analog monitoring cameras, such as Sony and Panasonic, are now also offering network video products. The dominant manufacturers of traditional, analog cameras are global players such as Panasonic, Pelco, Bosch and GE Security.

PRINT

Axis offers a wide range of print servers, and can meet the needs of smaller clients as well as those of larger companies and organisations.

The market trend in the product area is influenced by the general rate of investment in IT, as well as other driving forces. One of these is the transfer to USB, which has been the key to a broader area for print servers, for example, for smaller companies, departmental offices and even advanced home users. These customer groups demand cheap, easy-to-use solutions based on USB or wireless connections.

Mature market

The print server market is mature, but with a well-balanced product portfolio and a highly-developed distribution network, Axis has the strength to maintain its position in the market. The company has a large base of print servers, with three million units. Axis will continue to sell and market print servers through its existing sales partners. Axis' competitors in the print area are, primarily, Hewlett Packard and D-Link. ■



A FALL IN VANDALISM WITH VIDEO SURVEILLANCE CAMERAS

At Treviglas College in England, vandalism is commonplace. This is something which the management wanted to put a stop to. The poor image quality of the analog cameras was a major source of dissatisfaction. The infrastructure was already in place in the buildings, and a decision was made to install network cameras.

– Information about an incident is always available, and the quality of the images is sufficiently good to identify individuals, says Gary Durbin, Director of Studies, who is extremely satisfied with the result. ■

Strong global growth during the year

2005 marked another year in which Axis' expansion in the global market continued. The market's interest in network video increased and resulted in a 55 percent growth in Product Area Video. This has been a strong factor in Axis as a whole generating growth of 29 percent.

Axis was established more than 20 years ago. Its early foothold in the international market has resulted in Axis achieving exports of 95 percent. With 16 offices of its own, and the effective utilisation of existing distribution and sales channels, Axis products and solutions can be found in over 70 countries.

Local presence in a global market

Axis' business model is based on sales via distributors to system integrators and resellers. This business model creates a broad geographical base and proximity to customers, while maintaining the efficiency of the Axis organisation. Ingram Micro and Tech Data are distributors, Honeywell and Securitas are global system integrators, and these are examples of just some of the partners with whom Axis is collaborating closely.

Focusing on system integrators, Axis has developed the Axis Channel Partner programme with the aim of creating close relationships with the company's partners. The programme means that Axis' partners can benefit from Axis' market leadership, and allows them to grow within the rapidly-expanding network video area. Axis offers continuous training for partners through the ambitious Axis Academy training programme, which provides end customers with access to knowledge of the latest technology within the area.

At the end of the year, almost 1,000 partners had completed the Axis Academy training programme.

During the year, Axis' network products generated a great deal of excitement at trade fairs throughout the world. Visitors to international security and IT fairs, such as IFSEC and IIPSEC in the UK, SecuTech in Taiwan, Security Show in Japan, CeBIT in Germany, APS in France and ISC West and ASIS in the USA, have shown considerable interest in Axis' products and solutions.

Growth in all regions

During the year, Axis experienced highly positive sales trends in all three regions: EMEA (Europe, the Middle East and Africa), Americas and Asia. It is primarily Product Area Video that has grown strongly, at 55 percent. Product Area Print has, at the same time, experienced a downturn in sales in all three regions, and the market is now regarded as mature. OEM sales have also fallen during the year, as a result of the lower value-added of Axis' OEM products.

Region EMEA

In 2005, the EMEA region was responsible for 46 percent of Axis' total sales, with a growth of 17 percent. The rate of activity has been high throughout the year,

and Axis' products and solutions have generated considerable interest in a region consisting of countries with varying economic opportunities, and different knowledge of and need for network video solutions. The current transition from analog to network solutions, as well as the eastern European countries' interest in network video solutions, are important success factors. Many new partners have been added during the year, and considerable interest has been shown in participating in the Axis Channel Partner programme. Within the region, an intensive effort has been made to offer training for new and existing partners.

Region Americas

Region Americas was responsible for 38 percent of Axis total sales in 2005, with a substantial growth of 63 percent. The success is partly due to the acceleration in the technology shift from analog to network systems in the homogenous American market. A strong focus on partnerships is another important success factor, and during the year, further partners

signed up to the Axis Channel Partner programme. During the year, a settlement was reached between Axis' subsidiary in the USA and Compression Labs Inc. (CLI), to the benefit of both parties. The dispute related to the infringement of patents in the digital image compression area.

Region Asia

In 2005, Region Asia was responsible for 16 percent of Axis' total sales, a growth of nine percent. The market in the region is highly diversified, but there is broad interest in new digital network video technology, and for comprehensive solutions in the area of professional surveillance installations.

A significant proportion of sales in the region is to Japan, as a result of the company's OEM agreements, i.e. the sale of Axis products which have been integrated into and sold under another brand. The strategic collaborations with for example Canon have continued during the year, but despite this there has been a fall in OEM sales due to the saturation of the print server market.



REDUCED LOSSES FOR SPANISH SUPERMARKET CHAIN

When the Spanish La Despensa chain wanted to install a modern and flexible monitoring system, it approached Axis' partner, 2GRE2 Network. The supermarket chain was looking for a solution which could meet a number of needs, including the monitor-

ing of potential security problem areas, provide better security at check-outs, and act as another weapon in the fight against shoplifters. The installation included shops in various geographical locations in Spain.

The project started with a careful inventory of the needs and conditions in the chain's shops. The solution was then installed and training provided in its use. Since the needs of the different shops varied, a number of different Axis cameras were used: AXIS 205, AXIS 206, AXIS 206W, AXIS 210, AXIS 211 and AXIS 213 PTZ.

The result was outstanding. The number of "unidentified losses" fell radically in almost every shop where the system had been installed, and the staff felt that security at work had improved. This, in turn, resulted in increased productivity and improved customer service.

– The main benefit of this solution is that our Quality Manager can now monitor events at every shop in Spain. There are no time limits and no need to travel to different locations to ensure that products are properly displayed, says Luis Doblado, Director of Operations at La Despensa. ■



Success in all customer segments

During the year, Axis successfully completed deals in six customer segments within all three regions.

Axis continues to be successful in the Education customer segment, with more installations in schools, especially in the UK and the USA. Spotsylvania County Schools, Virginia, invested in a video surveillance system to combat violence and vandalism. The school management realised the benefits of network video surveillance, since a digital installation ensured a flexible and scalable system. Other schools and education providers have found that these systems provide benefits such as remote monitoring and cost-effective operation.

The Retail customer segment is the largest in the video monitoring industry as a whole. Axis has successfully implemented a number of installations at a Hugo Boss boutique on Champs-Élysées in Paris, for major American retail chains and at supermarkets in Spain.

For the Alaska Marine Highway System, Axis installed video servers with the aim of improving security and surveillance at ferry terminals. The project, which was financed by the Department for Homeland Security, covered nine of the largest ferry terminals in southern Alaska.

The airline catering company, FFL Airline Catering Services (FFL), chose Axis' network cameras for an installation at Gatwick Airport. FFL invested in security equipment in response to the British Department of Transport's stringent rules and regulations on the delivery of food to airlines.

In the Asian market, Axis and its partners have installed network video products for the Industrial, Bank & Finance and Transportation customer segment in particular.

The Commonwealth of Kentucky Department of Juvenile Justice (DJJ) in the USA has installed Axis' network video products to improve security at its 30 accommodation facilities. The solution means that DJJ can offer a secure environment for the education and treatment of children and young people in the authority's care, as well as better staff security.

Successful partnerships

During the year, Axis expanded its collaboration with global partners, including distributors, system integrators and resellers. The partners also include Axis Application Development Partners (ADPs) which primarily develop and integrate software solutions for Axis network video products. The collaboration with ADPs means that Axis forms close links with applications developers, and so broadens the presence in the market.

At the beginning of 2005, Axis started collaboration with the Tech Data company Computer 2000, the leading distributor of IT products in the UK and Ireland. Computer 2000 primarily aims at small and medium-sized resellers.

During the year, Axis started working in partnership with the American company Convergent, which specialises in alarm, security and energy management. Convergent has installed Axis network cameras fitted with Power over Ethernet (PoE) on behalf of the Pasadena Independent School District in Pasadena, Texas, and at the Swedish Hospital in Seattle, Washington. Axis and Convergent have also worked together in Canada, on a network video installation for Telus, one of the country's largest telecom operators.

HID, a company in the ASSA Group and a leading producer of contact-free access control cards and card readers for the security industry, is working in partnership with Axis with the aim of developing the industry's first open interface and protocol standard for integrated network video and access control. The network-based platform allows applications developers, system integrators and OEM suppliers to expand their systems offer by integrating network video and access control

and so meet the security market's increasing demands for integrated solutions.

In 2005, Axis entered into a partnership with Singapore Telecom (SingTel) as a stage in its investment in offering network cameras for broadband operators. The Axis Subscriber Technology System (Axis ST System) is primarily aimed at telecoms operators, Internet providers and mobile phone operators which would like to offer their small and medium-sized corporate clients a cost-effective monitoring service, using network video.

Using the Axis ST System, broadband operators can offer a video monitoring system using a simple "plug and play" installation. Broadband customers can easily connect their network video cameras to a network, and so obtain video surveillance from any computer with Internet access.

The trend is for customers to move their security and surveillance systems to IP-based platforms. EMC,

one of the world's largest companies concentrating on digital storage and analysis solutions, is one of Axis' partners. The company offers systems which speed up the storage, archiving and analysis of material. The partnership provides EMC customers with access to Axis' network video products and through EMC's services to storage, archiving, search and analysis facilities for digital video surveillance data.

In the Print area, the collaboration with Canon has continued. The partnership means that Canon, as an OEM partner, integrates Axis' technology into its printers.

At the end of the year, HP (Hewlett Packard) and Axis entered into a partnership under which Axis' document server, the AXIS 70U, forms part of a package solution offered by HP to its European customers. The solution is primarily aimed at small companies which require a simple and cost-effective solutions for scanning and digitising documents. ■

AXIS CAMERAS IMPORTANT TO EXCLUSIVE BOUTIQUE

When the exclusive designer brand Hugo Boss was to open a new boutique near the Champs-Élysées in Paris, security and monitoring were high on the list of priorities. The premises, more than 2000 m² on two levels, are filled with expensive and exclusive garments. After an internal assessment, Hugo Boss' IT department selected a monitoring solution based on Axis' network cameras.

– The main attraction was the opportunity to access images from the 24 AXIS 211 cameras in real time from anywhere in the world with complete security, says Dominique Gazel, global IT Manager for the Hugo Boss boutiques.

Some of the cameras are positioned above the check-outs, as a clear sign that the boutique is under surveillance. But although security is a central issue, the system has other important uses. The accessibility of the



Axis system means that it is easy for the person in charge of displays at Hugo Boss to ensure that the displays are effective and check that customers move through the shop as planned.

For a company such as Hugo Boss, boutique design is vital. The up-to-date look of the AXIS 211s was also a key factor, since it has to blend well with some of the most exclusive products in the fashion world. ■



Research and development

A product portfolio that includes volume products as well as cutting-edge technology is one of the most important factors in strengthening and defending the company's position as market leader. Axis has more the 20 years' experience in the research and development of network-based products. This process is even more intensive than in the past, and is characterised by its dedication to quality.

The R & D staff at Axis work to renew the product portfolio and improve existing products. The launch-rate is high – in 2005, around 20 new products for professional applications were launched. The work is based on a long-term technology development platform which means that solutions for the future are being examined and evaluated today.

In 2005, Axis invested SEK 147 million in research and development, which represents 16.4 percent of sales.

Since Axis was founded, the development process has focused on hardware and software for network-based products. The current focus is on solutions for the Video product area, which includes network cameras, video servers and application software. This last has become an increasingly important component in recent years.

Image and network chips are the foundation

Axis has two in-house developed chip families, ARTPEC and ETRAX, which form the basis for the majority of Axis products.

The ETRAX chip, which is intended for connection to fixed and wireless networks, forms the base for the majority of Axis products. It handles calculations,

memory processing and all types of communication with networks. The chip is energy-efficient and compact, which means that network intelligence can be built into extremely small products.

ARTPEC is an image compression chip which has been the key to Axis' dominant position in the network video area. ARTPEC-2 is the latest generation of image compression chips, and is fitted to the majority of Axis' video products. ARTPEC-2 is an innovation which has further strengthened Axis' leading position in the network video market as a result of its cost-effectiveness, high performance level, broadband efficiency, and image quality.

Intelligent solutions

The market is facing a paradigm shift where passive video surveillance is being replaced by active video monitoring and intelligent systems.

Intelligent video increases the demands on the components used in monitoring equipment. As a result, the chips must be able to store more information and higher-quality images. Axis is developing intelligent platforms, a development process which has taken several years and which has provided the company with a high level of expertise in the area.



• – Since Axis was founded, the development process has focused on hardware and software for network-based products, says Kenneth Jonsson, Development Manager. At present, the primary focus of the work is in Product Area Video.

New network chip

2005 saw the launch of ETRAX FS, a platform that meets the demands that will be made on future products. Since it contains programmable hardware, ETRAX FS offers, among other things, considerable improvement in performance, greater flexibility and security, as well as customisation facilities. The chip was launched in the second half of 2005, and has generated a great deal of interest among Axis' OEM customers.

Optimised internal flows

During the year, the internal collaboration between Axis' product management team and the development department was further optimised through the work on a project model aimed at improving the efficiency of the flow of innovative products to the market.

Continuous improvement plays an important part in securing Axis' leading position in the network video market.

Patents

Axis has adopted an active patent strategy to protect its investment in core technology and intellectual capital.

During the year, three new patents for image processing and systems solutions were approved. Over the past years, Axis has been granted a total of 45 patents.

Partnerships with colleges and universities

Since it was founded, Axis has worked actively in partnership with universities and colleges. The company continues to offer students the opportunity of carrying out degree project work, primarily in the area of image analysis. Every year, the Axis Award is handed out for the best dissertation in the network video area.

Axis has excellent longstanding relationships with research teams at Lund University's Faculty of Engineering, the Royal Institute of Technology in Stockholm, Chalmers University of Technology in Gothenburg and the Institute of Technology at Linköping University. Axis is also an active partner in CCCD (Competence Center for Circuit Design), which is a joint project involving a number of prominent companies in the image processing area, as well as the Swedish state company Vinnova. ■

Flexibility and quality create a sure route to the market

The production and delivery of Axis products is controlled by a carefully structured process, which covers all stages including the purchase of components, the production of electronics, final assembly, quality control and delivery. By viewing these functions from a global perspective, Axis ensures reliable world-wide availability of the company's products and meets customer requirements for flexibility and high quality.

Axis selects suppliers of components and semi-manufactured goods using a tried-and-tested process which focuses on price, quality and flexibility. The company has suppliers in Europe, North America and a number of Asian countries.

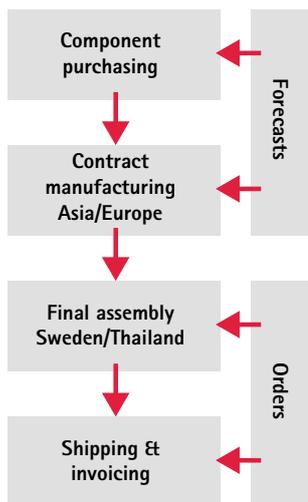
Improved flexibility

All production is carried out in collaboration with partners who specialise in the contract manufacture

of electronic goods. Axis draws up production documents, prepares for the start of production and secures strategic components. The electronic goods are then produced by the contract manufacturer. Not having its own production equipment increases Axis' flexibility and frees up capital for other purposes. To ensure continuous and flexible production, Axis uses selected global contact manufacturers with multiple production plants.



- Axis products are produced in collaboration with partners who specialise in the contract manufacture of electronic goods. Axis products are produced in accordance with carefully developed production instructions that are supplemented by quality controls during both production and final assembly.



Important quality assurance

If flexibility is one of the company's watchwords, quality is another. Axis requires all its contract manufacturers to be certificated in accordance with ISO 9000 and ISO 14000. Production follows carefully developed production instructions which are supplemented by quality controls during both production and final assembly.

The final assembly is quality assured at Axis' own distribution centre in Sweden and, since 2005, in Thailand as well. In the USA, transport logistics and reloading are handled by a logistics partner.

Refined processes

Working on continuous improvement is one way of meeting the demands of the market. In 2005, Axis has focused on optimising its internal logistics flows, with the aim of continuously improving accessibility and delivery precision.

The opening of the new distribution centre in Asia was a measure aimed at handling current and future volumes. During the year, a number of system improvements have also been implemented with the aim of improving demand forecasts, refining the production process and controlling the flow of orders. Great emphasis has also been placed on improved information processes, and this has resulted in, for example, a product availability newsletter and further development of the web tracking system, which allows customers to monitor their orders via the Internet. ■

GREAT PICTURE QUALITY IMPROVED SECURITY AT HOSPITAL

The managers at Stafford General Hospital in England began to question the picture quality of their analog surveillance cameras. At the same time, they wanted to make the most of the hospital's new computer network. For this reason, the hospital decided to introduce an IP-based monitoring system.

Axis Communications was asked to supply the new network cameras. After a successful three-month trial period, the new network system was installed. The DISCOVERe software was used to view the images. The software allows image size and resolution to be varied. Image speed can also be regulated, which is important in the registration and identification of all visitors. The images are saved in the system for up to 15 days, something which Giles Perry, the hospital's Security Manager, is extremely pleased with.

– During all the years I've worked as Security Manager, I've never been asked to produce evidence of incidents which took place more than two weeks earlier, he says.

The success of the IP-based surveillance system resulted in an additional 19 cameras being added to the network, to cover the hospital's parking areas. ■





● Axis supplies products and solutions efficiently, with minimum impact on the environment.

The environment

Axis aims, as far as possible, to reduce the impact of its operations and products on the environment. In line with this, the company has adopted a comprehensive environmental policy. The aim of this policy is to ensure that the company supplies products and solutions in an efficient and environmentally low-impact way, and that it observes its legal obligations and any environmental regulations.

Axis' aim is to maintain and expand a deep-rooted feeling of environmental responsibility among its staff, and ensure that the staff receives training in Axis' environmental policy and implements it in their day-to-day work.

Broad environmental commitment

Respect for the environment is an integral part of every new project, and this means, for example, that no substances are used in new projects which, according to EU directives, are harmful to the environment. Even in existing product series, less environmentally-compatible substances have been replaced by more environmentally-sustainable alternatives.

Axis provides customers, suppliers, the authorities and the general public with clear environmental information on the company's products, services and operations. Axis encourages and supports customers and partners in their choice of low environmental impact products.

Suppliers and transport

Axis also maintains a continuous and constructive dialog with suppliers and subcontractors to reduce or eliminate the negative impact on the environment of

the materials selected in the production process. Axis' aim is, as far as possible, to use environmentally-certificated transport companies. In the logistics process, transport is the area which has the greatest impact on the environment. Over the years, the increase in transports has been relatively low in comparison with the increase in sales. A contributory factor to this is the fact that the company has focused on improving its logistics flows and on more efficient coordination of transports.

Axis was chosen as the industry winner in the Folksam climate index. The award was a recognition of the company's model approach to environmental issues.

Activities in 2005

During the year, the following environment-related work was carried out at Axis:

- A project started in 2004 with the aim of modifying all existing products to ensure that they meet the requirements of both RoHS (Restriction of Hazardous Substances) and WEEE (Waste Electrical and Electronic Equipment) was completed in a number of countries.
- Business trips undertaken by Axis staff have been optimised to reduce their environmental impact. ■

Focus on staff

Axis needs a highly qualified workforce to meet the demands of an internationally expanding market, as well as the various requirements of its customers.

This means that, as a market leader, Axis has to continuously attract skilled staff. The aim is always to be at the cutting edge, not only as a market leader but as a leading innovator in the network video area.

To enable the company to attract, retain and develop members of staff, Axis is working on a number of staff development targets and guidelines with clear leadership and a positive working environment as their focal point. The basis for these targets and guidelines is the company's core values, which emphasise giving the individual freedom and confidence in his/her work.

Values

Axis' values form the basis of an attractive working environment and create the conditions for profitable growth. The values encourage all Axis employees to adopt a creative and innovative approach. They also create respect for individual differences and promote positive development.

At Axis, everyone is encouraged to question, take responsibility and always aim for the same goals with the mottos "dare to win" and "never be satisfied". Since Axis' ability to retain and develop its staff is of immense importance to the Group, the recruitment process and staff welfare are regarded as particularly important.



• – Axis' values and corporate culture form the basis of an attractive working environment and create the conditions for profitable growth, says Malin Ruijsenaars, HR Manager.

The recruitment process

Axis is continuously recruiting qualified staff and aims for a good balance which ensures growth as well as quality. During the year, the workforce was increased, particularly in the sales and sales support areas, but also in research and development. Axis encourages staff mobility within the organisation by, as far as possible, prioritising internal recruitment over external recruitment.

One way for the company to secure high future skills level and to attract new graduates is through Axis' partnership with the Institute of Technology at Lund University, which goes back a number of years.

Axis supervises around ten degree projects every year, and also gives the annual Axis Award to one or more students who have made an active contribution to knowledge in the network video area.

Staff welfare

Staff welfare is important to Axis, and the company places great importance on being able to offer its staff a pleasant working environment. One example are the airy, practical company premises, subsidised keep-fit activities and access to the company's gym and music room. Another example is the opportunity to take part in various cultural events. The company also regards



• Axis' core values create respect for individual differences and promote positive development.

psychosocial health as a priority, and is working actively, among other things, with staff surveys aimed at continuously improving the staff environment. Employees also benefit from medical insurance.

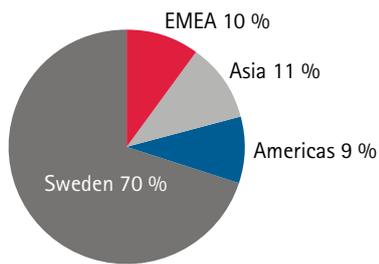
Staff statistics

During the year, the level of absence due to illness was low, at 2.6 percent in total (12.8). Among women, ab-

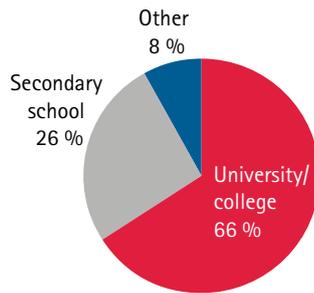
sence due to illness was 3.3 percent, and among men 2.4 percent. The figure for the 0–29 age group was 5.1 percent, for the 30–49 age group 2.1 percent, and 2.5 percent for the 50–65 age group.

Staff turnover in the Group was 9.8 percent (12.8) during the year. The average age of staff was 35.2 years. ■

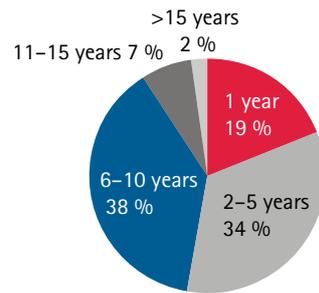
Employees by region



Level of education



Length of employment



DIGITAL VIDEO MONITORING DAY AND NIGHT

FFL is a catering service company which has been working in partnership with a number of airlines at Gatwick Airport in England since 1997. In 2004, the company relocated to larger premises. To meet the British Department for Transport’s safety regulations, FFL now had to install a surveillance system.

FFL had to decide whether to use ordinary analog cameras or network cameras. The company found the lack of automatic functions on analog cameras a deterrent.

– The thought of having to spend all day changing videotapes made me shudder. Ours is not the kind of company that switches off the lights and locks the doors at five o’clock. This is a 24-hour operation, says Mark Matthews, FFL’s CEO.

By using Milestone Xprotect Professional Version 4 software, the system can monitor and control the cameras from any computer, a function much appreciated by Mark Matthews.

As a bonus, the new surveillance system has made it easier for the company to ascertain who is responsible in the event of staff accidents. FFL is extremely pleased with the surveillance system, and the company installed a further nine cameras during the summer of 2005. ■



Opportunities and risks

OPPORTUNITIES

Axis' growth potential is interwoven with the ongoing technology shift from analog monitoring systems to network video solutions. In addition, there are opportunities related to new areas of application within Video, for example, in healthcare, education, commerce and manufacturing industry. As the established market leader in network video solutions, Axis is well positioned to take advantage of the growth opportunities generated by both the technology shift and the new areas of application.

RISKS

Over and above the operational risks linked to macro-economic trends, Axis is exposed to risks associated with the technology shift and to Axis' position in a relatively young market with an early product. The anticipated growth, particularly within network video, will lead to increased competition from resource-rich companies currently operating in analog camera monitoring, which will become increasingly keen to establish themselves or increase their investment in network video. Among these players are companies such as Panasonic, Sony and Bosch.

STRENGTHS

Axis' special strength is the company's technological and market lead in network solutions and products within Product Area Video. The combination of long experience with in-house developed network video

solutions and a global network of distributors and strategic partners gives Axis a strong foundation to build on. To maintain and strengthen its leading position, Axis is working continuously to develop the technology, maintain customer relationships, develop new partnerships and expand into new markets.

RISK MANAGEMENT

Operational risks

The commercial risks to which the operation is exposed include credit risks from sales, political risks, delivery risks as well as property risks and the risk of damages. Credit risks from operating flows are handled at local level. The Group's credit policy provides a framework for handling these risks. Political risks are primarily associated with the local regulations covering camera monitoring. There are at present no known changes in respect of legal restrictions in this area. Risks in the legal area are handled by Axis' specialists in cooperation with external lawyers and advisers.

Intellectual property risks

Exposure to intellectual property risks in the patents, IT and personnel areas is managed by Axis' specialists in collaboration with external lawyers and advisers.

Axis pursues an active patents strategy to protect its investments in its core technology and intellectual capital. Exposure to intellectual property risks in the patents area is managed by Axis' specialists in collaboration with external lawyers 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.

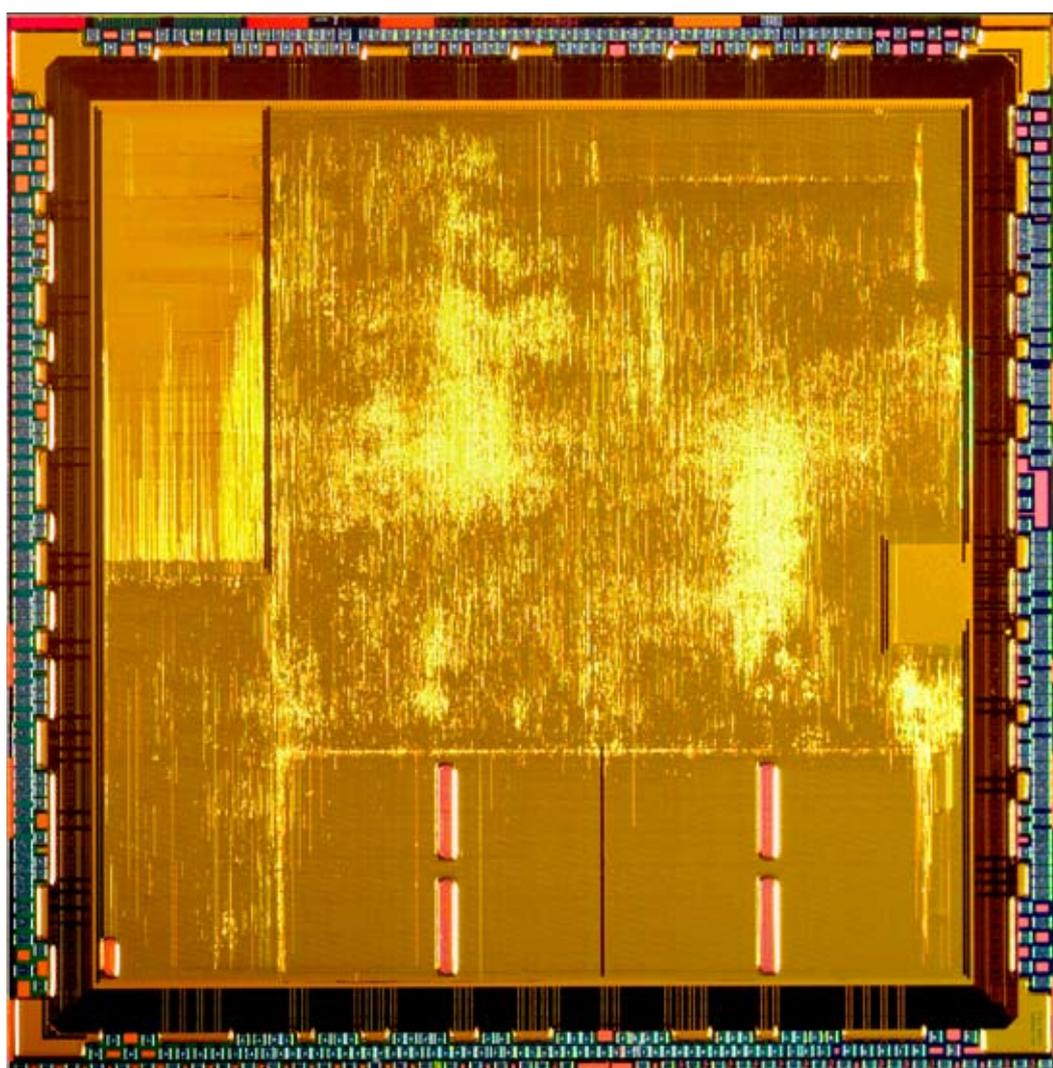
FINANCIAL RISKS

Axis' finance policy lays down how responsibility for financing activities is allocated within the Group, which financial risks the Group is prepared to accept, as well as guidelines for limiting these risks. The Treasury Department within Axis AB has principal responsibility for the Group's financial activities and for ensuring that the finance policy is adhered to. The Treasury Department operates as an intra-Group bank, with the task of ensuring that the Group has credit facilities, that the subsidiaries have the required oper-

ating liquidity and that the Group's currency risks are minimised. The Treasury Department does not have its own risk mandate. All currency hedging within the Group is carried out via the Treasury Department.

Financial risks are divided into the following groups:

- Currency risk
The risk that currency fluctuations may have a negative impact on the Group's results.
- Interest rate risk
The risk that fluctuations in market interest rates may have a negative impact on the Group's results.
- Financing risk
The risk that it may not be possible to renew loan facilities, and that this would affect the Group's liquidity.



• The foundation of Axis' equipment is the ARTPEC and ETRAX chips, which were developed in-house. The photograph shows ETRAX FS through an artist's eye, and not actual size.



• During the year, Axis continued to launch products which excited a great deal of interest in the market. One of these was the AXIS 225FD, a vandal-proof camera designed for demanding environments especially in customer segments Transportation, Government and Education.

- Counterparty risk

The risk that the Group's financial counterparties may not be able to fulfil their obligations, and that this would have a negative impact on the Group's results.

Currency risk

The Group has a strong international profile, with a substantial percentage of its sales and purchases in currencies other than Swedish Kronor. Fluctuations in exchange rates affect the Group in several different ways, but primarily through sales and purchases in non-Swedish currencies, in the translation of foreign subsidiaries' income statements and balance sheets, and in investments in currencies other than Swedish Kronor. The Group is particularly exposed to fluctuations in the exchange rates of the Swedish Krona against the US Dollar, the Euro and the Yen. The Treasury Department is responsible for hedging the Group's net exposure.

Axis' finance policy lays down how currency risk is to be minimised.

Currency risk is divided into two main groups, transactions risk and translation risk.

Transactions risk

Transactions risk means the risk that fluctuations in exchange rates on the net cash flow in foreign currencies may have a negative impact on the Group's results.

Under the finance policy, transactions risk is to be minimised through currency hedging all of the next twelve months' expected net cash flow. Currency hedging for the next two months will take place within the range 60–100 percent of exposure, and for the next 3–12 months within the range 0–50 percent. The finance policy states that a five-percent movement in the exchange rate in relation to the Swedish Krona should not affect results by more than SEK 0.5 million. Historical exchange-rate flows are followed up monthly in arrears.

Translation risk

Translation risk means the risk that exchange-rate fluctuations in the Group's net investments in subsidiaries may have a negative impact on the Group's results.

The Group's equity is affected among other things by exchange rate fluctuations on investments in subsidiaries. To minimise the risk of negative effects, the finance policy lays down that 80–100 percent of the exposure is to be hedged. During 2005, net investment in subsidiaries in Japan and the USA was hedged.

Interest-rate risk

The finance policy lays down that the Treasury Department must minimise interest-rate cost as much as possible. The average fixed-term period for short-term financing must not exceed six months. Under the finance policy, the Treasury Department may employ interest-rate derivatives to ensure that interest rates do not fluctuate by more than two percentage points over one year. The interest-rate risk for 2005 was marginal, since credit facilities were unutilised throughout 2005.

Financing risk

The finance policy lays down that the Treasury Department must ensure that the Group always has credit facilities with a number of banks, and that these do not fall due within the same quarter. Axis must at all times have access to 10 percent of sales in cash and cash equivalents or unutilised credit facilities. On 31 December 2005, Axis had SEK 187 million in cash and

cash equivalents, as well as unutilised credit facilities of SEK 80 million, compared with SEK 121 million and SEK 80 million respectively on 31 December 2004.

Surplus cash and cash equivalents are invested in fixed-interest securities with a maximum remaining term of two years, and an average term of no more than six months. On 31 December 2005, SEK 60 million was invested in fixed-interest securities with an average term of 16 days. The corresponding figures on 31 December 2004 were SEK 60 million and 1.3 months.

Counterparty risk

The management of counterparty risk is controlled by the finance policy which states that the long-term rate must not be below Moody's A or Standard & Poor's A. The short-term rating must be Moody's P-1, Standard & Poor's K-1 or A-1.

Sensitivity analysis

The table below indicates the effect of the most important factors on Axis' results for the financial year 2005. Apart from currency exposure, the factors assessed as having the greatest effect on results are purchase price and wage costs. ■

Factor	Change, %	Effects on operating results, SEK million
Currency, SEK/USD	+/- 5	+/- 2
Currency, SEK/EUR	+/- 5	+/- 14
Purchases	+/- 5	+/- 15
Personnel	+/- 5	+/- 12



● Margareta Lantz, Manager Investor Relations & Corporate Communications

Axis shares

Axis was floated on the Stockholm stock exchange O-list on 27 June 2000, and has been listed on the Attract40 list since January 2005. As at 31 December, the share capital amounted to SEK 689,250, divided between 68,925,000 shares.

Price trend

During 2005, a total of 41,612,900 Axis shares were traded, which gives an average of 164,478 shares traded per market day. Shares were traded on all days on which the market was open. The trading rate during the year was 52 percent, compared with 87 percent for the O-list as a whole. The last price paid on 30 December 2005 was SEK 58.25. The highest price, SEK 58.25 was recorded on 30 December. The lowest price during the year, SEK 17.90, was on 25 January. During the year, the company's share price rose by 224 percent. The OMX All-share index rose by 31 percent during 2005.

Market value

Axis' market value as at 30 December 2005 was SEK 4,015 million, an increase of 224 percent during the year.

Ownership

The number of shareholders at the year-end was 11,295 (9,091). Holdings by foreign shareholders were 6.5 percent (4.7). The table below shows Axis' ownership as at 31 December 2005.

Shareholder	Number of shares	Percentage
Therese Karlsson, privately and through companies (LMK Industri AB)	15 308 408	22.2 %
Christer Brandberg, privately and through companies (Inter Indu S.P.R.L.)	10 756 957	15.6 %
Martin Gren, through companies (AB Grens specialisten)	7 157 471	10.4 %
Robur	3 595 000	5.2 %
SIF	2 421 500	3.5 %
Other	29 685 664	43.1 %
Total	68 925 000	100.0 %

Dividend and dividend policy

Axis' dividend policy is to issue a dividend amounting to approximately one-third of the net profit for the year after tax, taking into account the company's target for its equity/assets ratio. The Board of Directors proposes an ordinary dividend of SEK 0.50 per share for financial year 2005, and an extra dividend of SEK 0.50 in the light of the company's strong financial position.

Options programme

Since 1999, Axis has had an outstanding options programme covering all members of staff to encourage long-term commitment to the profits growth of the company. The conditions, the number of options and the dilution a full exercise of the options would involve, are given in the accompanying table. See also Note 16 on page 43 for more information. ■

Ownership structure Dec. 31, 2005

Holding (No of shares)	Number of shareholders	No of shares	Holding (%)	Votes (%)	Market value (SEK 000s)
1-500	6 818	1 702 028	2.47	2.47	99 143
501-1,000	2 154	2 000 600	2.90	2.90	116 535
1,001-10,000	2 096	6 346 675	9.24	9.24	346 150
10,001-50,000	149	3 223 972	4.68	4.68	187 796
50,001-100,000	26	1 888 438	2.74	2.74	110 002
100,001-	51	53 763 287	77.97	77.97	3 155 255
Total	11 295	68 925 000	100.00	100.00	4 014 881

Share options

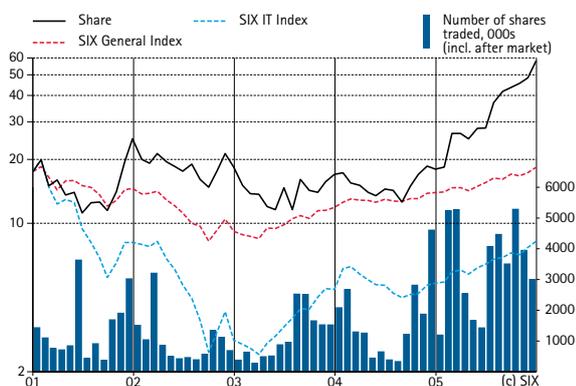
Recipients	Exercise date	Subscription price	Number of options Dec. 31, 2004	Number of options Dec. 31, 2005	Number of shares	Full dilution
Staff in Europe and Asia	Oct. 2, 2006	18.00	221 600	197 600	197 600	0.29 %
Staff in Europe and Asia	Oct. 2, 2007	26.00	104 200	104 200	104 200	0.15 %
Staff in the USA	Oct. 2, 2006	18.00	89 000	88 000	88 000	0.13 %
Staff in the USA	Oct. 2, 2007	26.00	64 000	64 000	64 000	0.09 %
Staff in the USA	Sept. 30, 2010	48.00	172 250	172 250	172 250	0.25 %
Total			651 050	626 050	626 050	0.91 %

Data per share

	2005	2004
Profit/loss after financial items, SEK	1.85	0.73
Cash flow, SEK	0.96	0.26
Equity, SEK	5.91	4.93
Share price at close of period, SEK	58.25	18.00
Share price/equity, percent	986	365
Dividend, SEK	0.5	-
P/E-ratio	44	41
P/S-ratio	4.5	1.8
Number of outstanding shares (000s)	68 925	68 900
Average number of shares (000s)	68 906	68 900

Trend in share capital

Year	No of shares	Nominal amount (SEK)	Share Capital (SEK)
1984	500	100.00	50 000
1985	5 040	100.00	504 000
1987	5 640	100.00	564 000
1997	564 000	1.00	564 000
1999	56 400 000	0.01	564 000
2000	68 900 000	0.01	689 000
2001	68 900 000	0.01	689 000
2002	68 900 000	0.01	689 000
2003	68 900 000	0.01	689 000
2004	68 900 000	0.01	689 000
2005	68 925 000	0.01	689 250



● Axis share price trend 2001-2005

ANALYSTS

A number of analysts follow and analyse Axis' shares. These are:

Enskilda Securities	Lars Sveder
E. Öhmans j:or Fondkommission	Susanna Westman
Handelsbanken Capital Market	Stefan Wård
Kaupthing Bank	Mikael Laséen
Redeye	Urban Ekelund,
	Greger Johansson