

Annual report 2006



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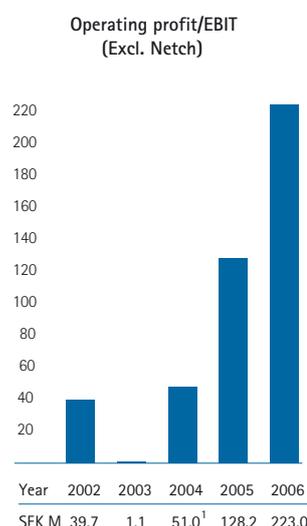
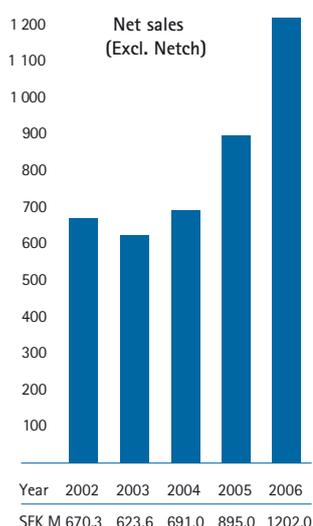
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The year in brief

- Net sales amounted to SEK 1,202 (895) million, a growth of 34 % for the Group.
- The operating profit was SEK 223 million, compared with SEK 128 million in 2005.
- The acceptance and interest in network video in the security industry accelerated during the year.
- Axis launched a number of innovative products, and these were well received on the market.
- Axis has increased its local presence in a global market. During the year, offices were opened in Johannesburg, South Africa and in Dubai. In addition, local presence on the American market was extended, by opening local offices.
- Deals have been successfully completed in all six identified customer segments, particularly in the Transportation and Retail segments.
- An increasing number of systems integrators and consultants are specifying network video as an obvious choice in more extensive security installations.
- Axis extended its partnership network, which, at the end of the year, involved 10,000 partners, systems integrators and resellers, as well as over 400 ADPs (Application Development Partners) who develop application software.
- The Board of Directors proposes a dividend of SEK 3.00 per share (1.00), of which SEK 2.25 is an extraordinary dividend.

Key ratios

The Group, SEK million	2006	2005
Net sales	1 202	895
Operating profit	223	128
Profit before tax	222	128
Profit after tax	157	91
Earnings per share, SEK	2.28	1.32
Cash and cash equivalents at close of period	313	187



¹ The figures for 2004 are adjusted in accordance with IFRS

Axis' mission

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



1984 – the company established

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 leading global manufacturers. In the mid-1990s, the product portfolio was widened to include network products, which dominate the range today.

This is network video

Network video, which is often called IP-based video surveillance in specific security and remote surveillance applications, is a system that allows the viewer to record and monitor images over an IP network, e.g. the Internet. The term network video covers both the picture and the sound sources which are part of the system.

1996 – the world's first network camera

In 1996, Axis was the first company to launch a network camera – the AXIS 200. The camera was initially used for remote access. In the late 1990's the security industry began to show an interest in the new digital technology, and a couple of years later, the switch from analogue really took off.

Focus on network video

Axis develops products which provide added value in network solutions and are mainly focused on network video. The company is market leader in the area and the products are used mainly in security systems and for remote access.

1 million units installed

Axis product portfolio consists of product areas Video and Print & Scan. Product area Video includes network cameras, accessories, application software and video servers, while product area Print & Scan consists of print and scan servers. Product area Video has over 1 million units installed.

Axis' network cameras cover the town square in the Italian town of Cuneo.



Shortcut to Axis

18 offices

Axis is well-represented throughout the world, with its own offices in 17 countries, including three regional offices in EMEA (Europe, the Middle East and Africa), Americas (North and South America) and Asia. The head office is in Lund in Sweden. During the year, new offices were opened in Dubai and South Africa. There were 446 employees on 31 December 2006.



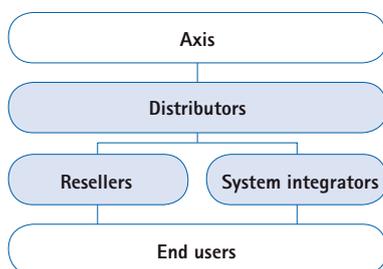
14.4 % invested in R & D

Axis is always at the cutting edge in the development of new, revolutionary products. Axis' development budget is equivalent to 14.4 percent of sales. At the heart of all the company's products is a chip technology developed in-house. ARTPEC is an image processing and image compression chip, and the ETRAX chip is used for network connection.



10,000 partners

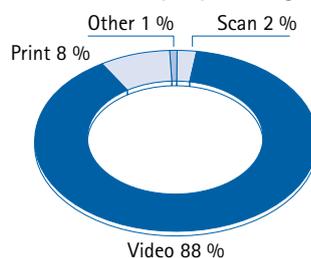
Axis has global sales in over 70 countries. The market is served through distributors to system integrators and resellers. In addition to these channels, Axis acts through ADPs (Application Development Partners) who develop software to meet their customers' requirements. Axis has over 400 ADPs.



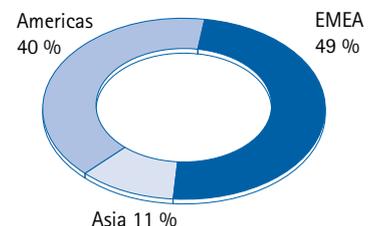
SEK 1,202 million in sales

In 2006, Axis had sales of SEK 1,202 million (2005: SEK 895 million), with an operating profit of SEK 223 (128) million, and a profit before tax of SEK 157 (91) million. Cash flow totalled SEK 126 million (2005: SEK 66 million).

Invoiced sales per product group



Invoiced sales per region



Six customer segments

Axis has customers in six customer segments: Transportation (airports, railways, traffic monitoring etc.), Education (universities, schools), Government (public authorities, police, museums etc.), Bank & Finance (bank, post, insurance companies), Industrial (process industries, engineering, construction, pharmaceuticals) and Retail (stores, filling stations, superstores etc.).

11,057 shareholders

Axis is listed on the Nordic Mid Cap list, in the Information Technology segment. Axis' share price rose by 58 percent in 2006, and ended the year at SEK 91.75. The SAX index rose by 24 percent. There were 11,057 shareholders on 29 December.

Focused work resulted in a successful year

2006 was a record year for Axis. The interest in network video products has increased further, and the current shift in technology, from analog to network technology for professional installations, continued at an undiminished rate.

Today, a growing number of consultants and end users regard network video as the obvious choice for many security installations. I am pleased to say that Axis' chosen strategy of focusing on partners and continuously launching innovative products, has allowed us to maintain our market-leading position.

In 2006, Axis' sales increased to SEK 1,202 million, compared with SEK 895 million in 2005. This is equivalent to growth of 34 percent. The operating profit before tax amounted to SEK 223 million, an increase of 74 percent on 2005.

A growing market

The estimated continuing annual growth for the network video market is 40 percent. I am very happy with the strategic decision taken a couple of years ago, to focus on network video. The result of that decision is evident today; Axis has developed into a focused network video company with 88 percent of sales in product area Video.

In the past year, growth in product area Video has been extremely strong, with sales in 2006 increasing by 45 percent. At the start of the year, we noted a very strong growth in sales in the US market while, by the

end of the year, the European market recorded relatively stronger growth. The Asian market has also experienced a positive trend in the network video area. The overall result for this region has, however, been affected by a downturn in sales in product area Print.

I am pleased with the result for the year, but the market offers other excellent opportunities for further growth. At the same time, our competitors are becoming increasingly active in the area.

Competition drives the technology shift

In 1996, when Axis was the first company to introduce the network camera, we were alone in the market. Competition is now increasing in the currently growing market, and our competitors have become more active over the past few years. Axis is still the clear global market leader in network video. Growing competition is, in general, a positive trend, since an increase in the number of players will speed up the shift from analog to digital technology. Installations involving network video products still only represent ten percent of the total number of new installations, the remainder are the older analog technology.

Global company with local presence

The opening of two new sales offices, one in Dubai and one in South Africa, has improved Axis' local market presence. The sales trend in both areas has been good. Our market presence on the American continent has been strengthened by a number of geographically diverse recruitments, with sales staff working from local offices.

During last year, we were able to add around 55 people to our workforce, and on 31 December 2006, we had a staff of 446. In response to the growing market, we will continue to recruit at a high rate. We have adopted a careful recruitment process, as we wish to safeguard our corporate culture. Consequently, Axis will continue to expand over the coming year by recruitment and establishing local sales offices.

Acting in partnership

Axis will continue to strengthen its presence in the market by working with distributors, system integrators, resellers and Application Development Partners. Within the partnership programs, members are trained in the benefits of network video in general and Axis' products in particular. This knowledge is beneficial during discussions with end users. At the end of 2006, almost 10,000 partners and more than 400 ADPs had signed up to our partnership programs. By trading effectively through our distribution and resellers channels, Axis' products and solutions reach customers in around 70 countries.

Innovative products

During the year, we have, as planned, launched a large number of new network video products. These have been well received by the market. AXIS 212 and AXIS 209FD-R are just two examples of products which attracted a lot of attention: the first as a result of its innovative implementation and use of megapixel technology, and the second because it has been specifically developed for installations in demanding locations, for example in the transport sector. A clear market trend is the growing interest in the company's newly-launched fixed dome cameras, which are discreet and have many advantages from the point of view of installation technology.

Outlook 2007

Our overall objective remains: to maintain and expand our position as the market-leading supplier of network video solutions for professional installations in a growing market.

For 2007, we see a market with excellent growth potential for Axis, while competition will intensify. In response to the competition, we will stand by our

focused strategy to:

- continue to launch products at an aggressive rate in product area Video, with a number of innovative products and solutions aimed for professional installations,
- increase our market presence through close collaboration with partners, aiming to optimise our presence on the global market in a cost-effective way, and
- continue to grow organically, attract and recruit competent staff globally within specific areas.

To meet all the challenges of the future requires a dedicated staff, and that is precisely what Axis has. The commitment demonstrated by each employee has contributed to the wonderful result in 2006. I would like to thank everyone for their efforts.

With such a focused, friendly and committed staff, global market presence and a broad, innovative product portfolio, I am looking forward to continued strong growth in 2007.

Lund February 2007

Ray Mauritsson



MISSION, OBJECTIVE AND STRATEGY

Axis' mission

Axis' mission is to offer the market intelligent network video products and solutions for professional installations. The company is primarily focused on the rapidly-growing market for network video solutions.

OVERALL GOALS

Axis is an innovative growth company, with the overall long-term financial goal of achieving total average annual growth of at least 20 percent for the Group, a profit margin of at least 10 percent and an equity/assets ratio in excess of 50 percent.

In the short term, the overall objective is to maintain and strengthen the company's position as the leader in the network video market. This is a market which analysts expect to grow by around 40 percent annually

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

OVERALL STRATEGY

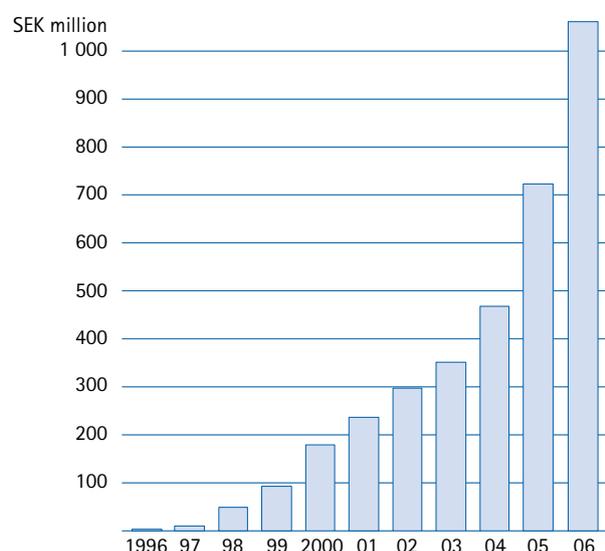
The strategy for maintaining a market-leading position is for Axis to be a company which focuses on video, with a broad portfolio and dedicated collaboration with partners.

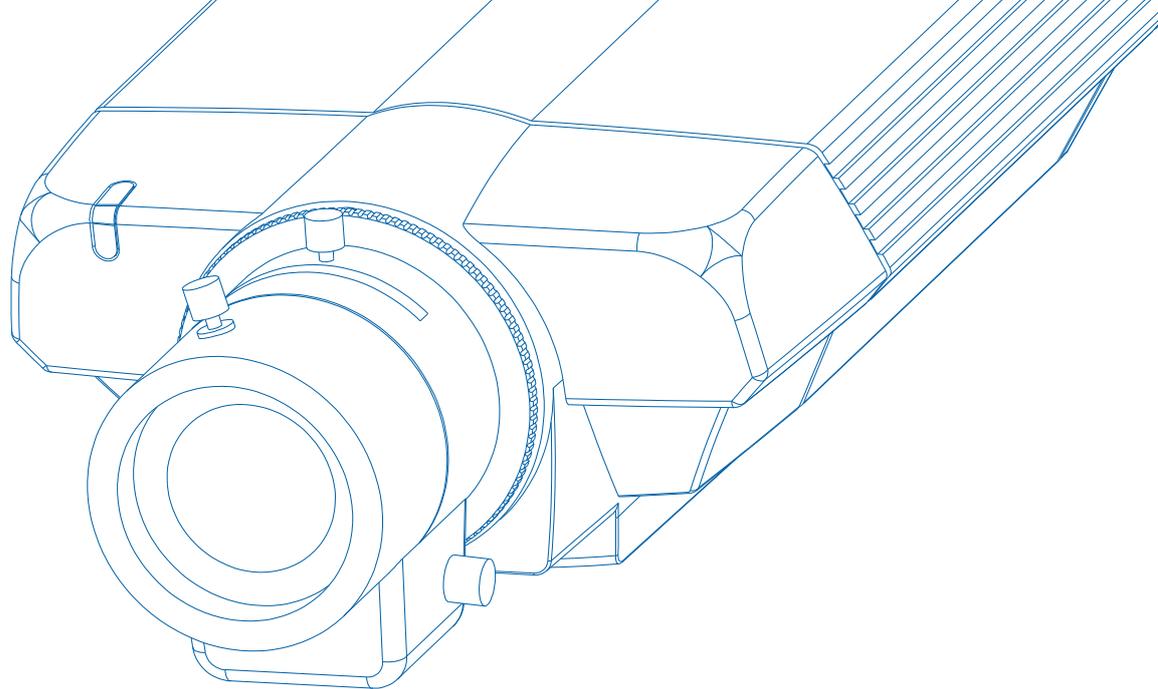
Focused product range

As a leading expert in network video, Axis develops innovative products and offers a comprehensive product portfolio.

- Axis will continue to launch products at an aggressive rate in product area Video, including a number of new products and solutions aimed at professional installations.
- Axis will offer scalable, flexible, cost-effective and intelligent network video solutions which provide increased flexibility and performance. This will make Axis the customers' supplier of choice for network video products.
- Axis will maintain its leading technological position through continued focus on investment in research and development. The basis for the products is platforms which, through optimised functions, ensure high quality and performance in all products.
- The Video product portfolio will be supplemented with additional software applications to ensure that customers are offered effective, standardized security applications and remote surveillance systems.
- All Axis products will be produced in collaboration

Sales trend for Axis' network video products





with partners who specialise in contract manufacturing electronics.

Focused business model

Axis' sales model means that the company sells through distributors on a global market. The strategy to further improve Axis' market presence involves working in close partnership with system integrators, to ensure that the company's presence on the global market is optimised in a cost-effective manner.

- Axis will continue to develop its business in the six end user segments of 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 product in all customer segments.
- In collaboration with global, strategic business partners, Axis will strengthen its presence in the expanding network video market.
- Within the Axis partnership program, the sales staff will focus on system integrators who offer the company's network video solutions to the market.
- Through courses at Axis Academy, partnership programs and marketing activities, Axis will continue its effort to drive on the transition from analog to network video solutions.

Focused company

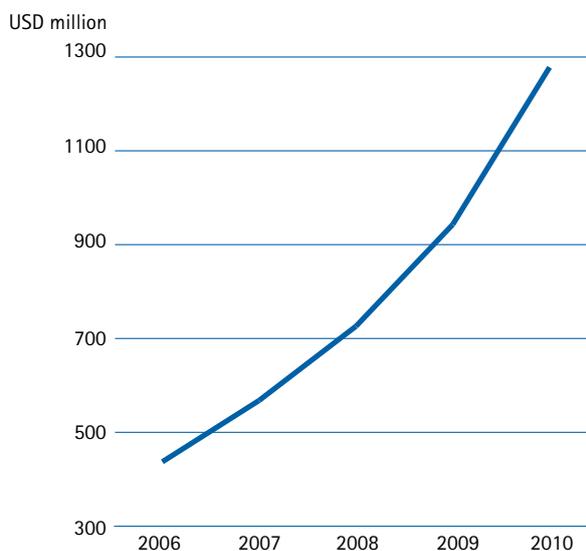
Axis strategy to focus on network video permeates the whole organisation.

- Axis' principal strategy is to continue its organic growth, but the company will not rule out acquisi-

tions in product area Video with the aim to improve Axis' product range and geographical spread.

- Axis will continue to attract and recruit competent staff within identified areas on a global basis. ■

Forecast for growth in the network camera market



Source: IMS Research

AXIS' PRODUCT PORTFOLIO

Creates added value for customers

Axis has the broadest product portfolio on the market, with a range focused on network video products for professional installations. Axis offers innovative network video cameras and video servers, adapted for installations ranging from small shops and offices to extensive global installations. The products are primarily used in security surveillance systems and remote monitoring applications.

One of the benefits of network video systems is that they can easily be integrated with other security systems. Axis works with open systems allowing the end user the opportunity to combine different security solutions, e.g. checkout systems or entry systems, and to achieve an optimal result adapted for every unique situation. Network video systems

also make it easier to add intelligent applications, such as people counters in shops, identification of registration plates and identification of changes in movement patterns. Axis has fundamental expertise in the area of image analysis and works closely with partners to offer customers intelligent solutions for systems in which network cameras and video servers are the main components.

The product portfolio is primarily divided into two product areas; Video and Print & Scan. Video covers network cameras, video servers, accessories and application software. Print & Scan consists of products for print server solutions for flexible handling of printouts and documents.

PRODUCT AREA VIDEO

Ten years ago, Axis was the first company to launch the network camera. Since the launch, Axis has been the global market leader in the area. Axis offers a broad range of network cameras and video servers. The installed base consists of more than a million network cameras and video servers throughout the world.

Axis' network cameras distribute high-quality video images via an IP network, allowing easy access to images. Axis' cameras can be independently located anywhere in a network, making the installations more effective and flexible, and facilitating the scalability of the systems. Another benefit of Axis cameras is Power over Ethernet (PoE), i.e. power is supplied via the network. This simplifies and reduces the cost of installations.

The cameras in the Axis product portfolio fall into two categories; fixed and moving, e.g.



Fixed Dome and PTZ (Pan, Tilt, Zoom) cameras.

Axis' fixed cameras are suitable for installations where a specific area has to be monitored. The cameras provide high-quality images and sound from indoor and outdoor settings. During the year, a number of exciting products were launched. AXIS 207MW, the megapixel camera, is the world's smallest network camera of its kind, and is suitable for simple installations. As well as providing high-resolution video images, the camera also supports sound recordings.

The AXIS 223M is another megapixel camera launched during the year, when it was added to the more advanced network cameras in the product portfolio. The camera is suitable for installations in areas where the light changes over time, since it delivers images of excellent quality, even under poor light conditions. The AXIS 223M is ideal for demanding security installations, such as in banks or at airports.

The end of the year saw the launch of the AXIS 209FD-R, the world's first network camera for mobile environments. The AXIS 209FD-R copes with vibration and the high level of humidity often found in public transport environments. The camera has been specially developed for mobile installations in the transport sector. This is the first Axis camera dedicated to a specific customer segment.

Axis also offers PTZ network cameras. These cameras can both provide panoramic views of an area and zoom in whenever additional surveillance is required. The cameras supply high-quality video images and sound, and so ensure the quality of the surveillance operation. The AXIS 214, a camera equipped with day and night function, as well as bidirectional sound, was launched during the year. The revolutionary AXIS 212 PTZ is yet another compact, space-saving camera which is ideal for the surveillance of areas up to

TEN YEARS OF AXIS NETWORK CAMERA

In the mid-1990s, Axis Communications was well known for its print servers and its deep knowledge of network applications. The company's research and development engineers could not, however, let go of the idea of the potential of network video. They realised that video via local networks or the Internet offered a whole range of opportunities. The challenge was to develop a high-quality camera which could easily be connected to a network.

In 1996, Axis was the first company to launch a network camera, the AXIS 200. The camera was the first step on the road towards a shift in technology from analog to network

video. The new network camera was equipped with a built-in web server, and the images could be accessed from a web browser irrespective of the geographical distance involved. The user-friendly AXIS 200 was the first step towards convergence from analog to digital surveillance. Initially, the AXIS 200 and its successors were used primarily for showing images on the Internet, also known as web attraction, but it was not long before the advantages of using the camera in security installations became obvious. Since then, network cameras have become an increasingly important feature of professional security installations. ■





AXIS 212 PTZ



AXIS 209FD-R



AXIS 223M

150 square metres. The user can, by simply clicking on the image, zoom in on areas of particular interest. The camera is ideal for installations in the retail sector. At the end of the year, the AXIS 212 PTZ won the Swedish security magazine Detektor's award for the best CCTV product in 2006.

Both fixed and moving cameras are available in encapsulated versions known as Dome cameras. This is an area which Axis has improved further during the year, and the market has demonstrated significant interest in the cameras launched. The AXIS 216FD and AXIS 216FD-R are compact and discreet fixed dome cameras, which makes them suitable for installations in retail premises and schools.

Axis' video servers are easily installed in new and existing analog installations. The video server acts as a bridge between the analog and digital technology. The video server digitalises and transmits video from an

analog camera, allowing the video to be distributed via an IP-based network. The user benefits from the advantages offered by network cameras, such as remote access and digital storage of video, while making the most of investments already made in analog cameras. During the year, Axis successfully launched the AXIS 242S-IV, which allows users to utilise intelligent video functions, such as people counters. The high performance AXIS 243SA video server was launched during the year, suitable for installations in demanding locations, such as casinos, airports and traffic surveillance.

Axis' accessories represent an important part of the company's product portfolio. Axis offers a broad range of accessories, such as camera housing which protect cameras outdoors or in harsh environments. The category also includes various brackets and holders allowing flexibility in mounting cameras. 2006 saw the launch of the AXIS 295 Video Surveillance Joystick which has

Buses

Network cameras create a safe environment for staff and passengers on buses.

Fuel station

Axis' network cameras provide the check-out staff with a clear view of fuel pumps and car washes.

Airport

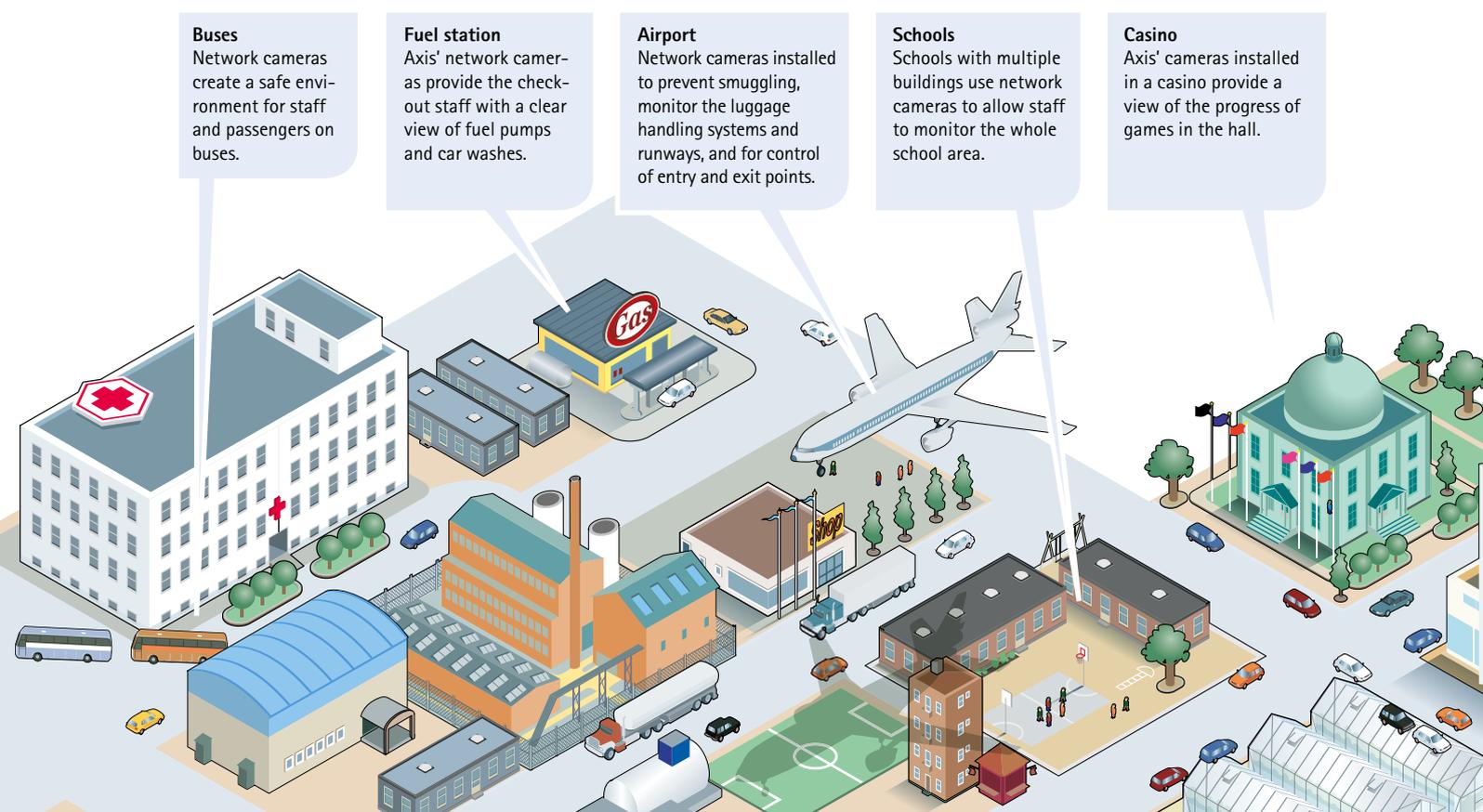
Network cameras installed to prevent smuggling, monitor the luggage handling systems and runways, and for control of entry and exit points.

Schools

Schools with multiple buildings use network cameras to allow staff to monitor the whole school area.

Casino

Axis' cameras installed in a casino provide a view of the progress of games in the hall.





AXIS 207MW



AXIS 295



AXIS 242SI-V

AXIS 243SA

been developed to give users easy control over movable cameras.

Axis' application software is an important part of security systems as a whole, since it links network cameras and video servers.

AXIS Camera Station (ACS) is an application software which allows users to monitor and record up to 25 cameras simultaneously. The user can record continuously, in accordance with a pre-determined schedule, or individual events.

Axis Camera Management (ACM) is an application which makes it easier to manage larger installations, and the user can easily see which network cameras and video servers are connected to the system. It also allows users to configure and upgrade several cameras simultaneously.

PRODUCT AREA PRINT & SCAN

Product area Print & Scan covers print and document servers. Axis has more than 20 years' experience in the field and has been a prominent brand in print servers for many years. The products facilitate cost-effective and user-friendly print functions, irrespective of the network environment and type of printer involved.

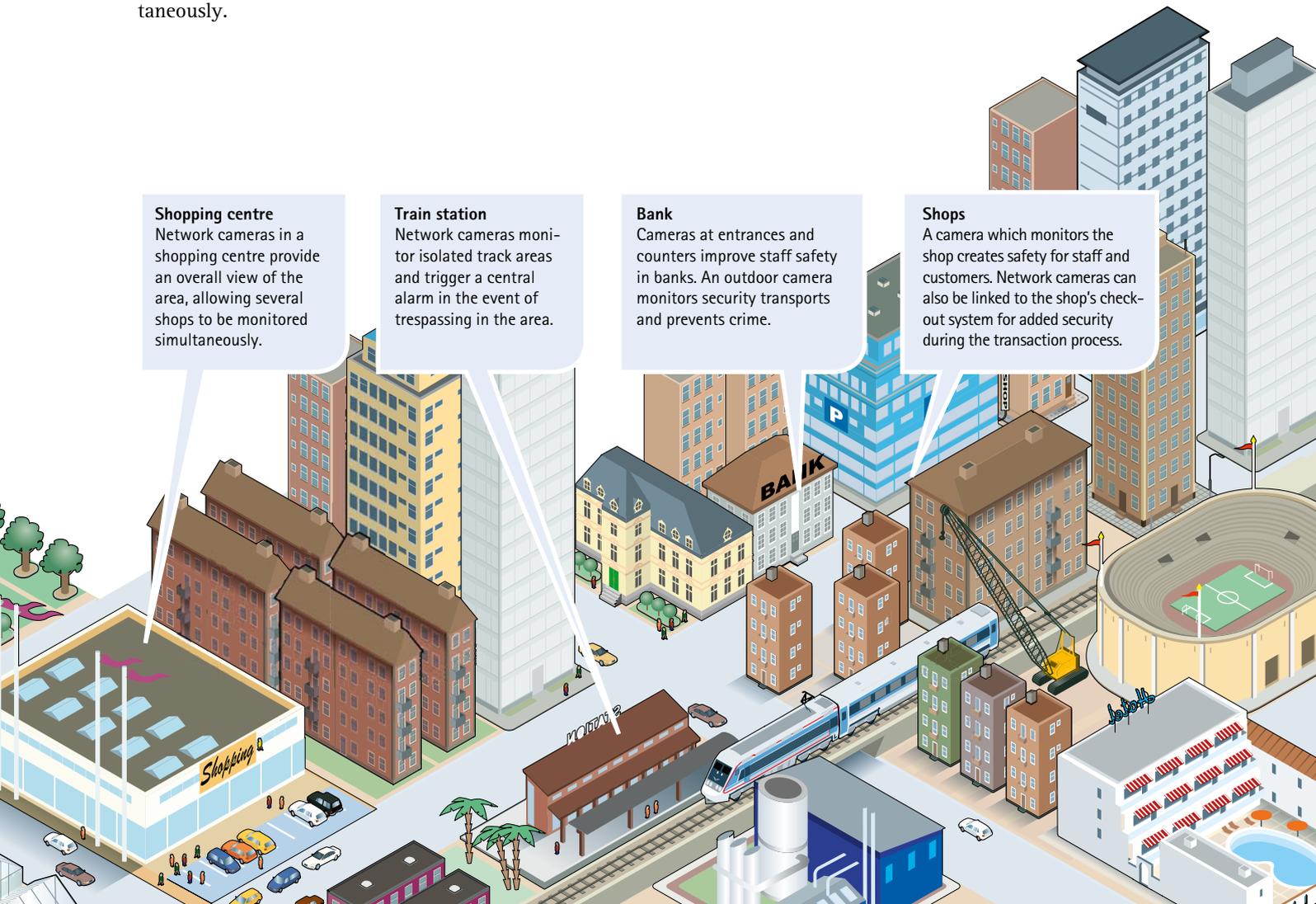
Axis' broad range meets the needs of small customers as well as large companies and organisations. At present, more than three million Axis print servers have been installed throughout the world. Within product area Scan, Axis' offers the products AXIS 70U and AXIS 7000, which facilitate document handling and the transfer of documents via the network. ■

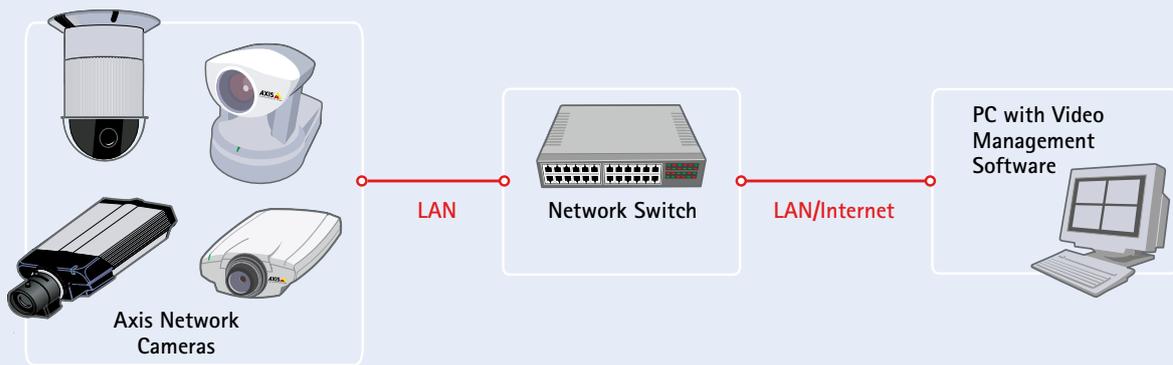
Shopping centre
Network cameras in a shopping centre provide an overall view of the area, allowing several shops to be monitored simultaneously.

Train station
Network cameras monitor isolated track areas and trigger a central alarm in the event of trespassing in the area.

Bank
Cameras at entrances and counters improve staff safety in banks. An outdoor camera monitors security transports and prevents crime.

Shops
A camera which monitors the shop creates safety for staff and customers. Network cameras can also be linked to the shop's check-out system for added security during the transaction process.





THIS IS NETWORK VIDEO

Network video, often also called IP-based video surveillance for specific security and remote surveillance applications, is a system which allows users to monitor and record video footage via an IP network (LAN/WAN/Internet). Unlike analog systems, network systems use a network, rather than a closed cable system between the different units, to transfer information. In a network video application, digitalised video footage can be transferred to any location around the world via a fixed or wireless IP network. Surveillance and recordings can be carried out from any point in the network.

Network video can normally be used in the following two categories:

Security surveillance

The advanced function of network video makes it highly suitable for security surveillance applications. For example, the possibility to install network cameras when the need arises makes the digital technology sufficiently flexible to provide security staff with more opportunity to protect individuals, property and assets. The system is, therefore, a particularly suitable alternative for companies which, at present, use CCTV systems.

Remote access

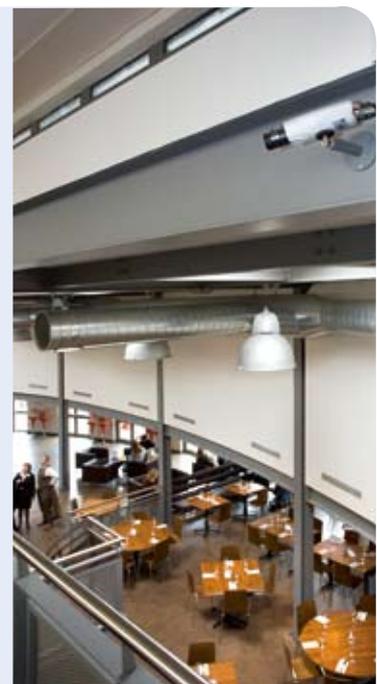
With the help of network video, users can collect information from all the important areas of an operation and watch it in real time. This makes the technology ideal for surveillance of equipment, individuals and sites, both locally and at a distance. Areas of application include traffic and production surveillance, as well as surveillance of chain stores. ■

AXIS BUILDS BUSINESS SOLUTIONS

When the rapidly expanding micro-brewery chain, Zerodegrees, became aware of the limitations of its analog CCTV cameras, a new solution was provided by Axis. By using Axis' network cameras, the company's President, Nick Desai, can keep an eye on his rapidly expanding company without having to be there in person. If required, he also wants to be able to provide the police with identification material.

When Zerodegrees opened a new restaurant in Bristol, Nick Desai decided to install sixteen Axis network cameras and four analog cameras connected to an Axis' video server. Shortly after the installation was completed, Zerodegrees was able to use the Axis network cameras to prove that one of the employees had stolen large amounts of cash out of the till. The high-quality pictures made the legal process much easier.

"The court case taught me the value of network video surveillance cameras. I realised that the cameras can be used to provide visual information about day-to-day sales in a specific restaurant. On a stressful Friday evening, I can keep an eye on how many guests we have and how quickly they are served. I regard the cameras as an excellent management tool as well as a security solution", says Nick Desai. ■



Massive growth potential for network video

In 1996, Axis was the first company in the world to launch the network camera. Ten years later, the company remains a clear global market and technology leader in the area of network video, in a market which, at present, is growing at around 40 percent annually.

VIDEO

Axis is recognised as the largest player in the professional network video market, a market where Axis leads and drives the current shift in technology. Interest in and knowledge of network video is increasing. The shift is still in its early stages, but the market is expected to have significant potential in the future.

40 percent annual growth

According to a survey carried out by the market research institute IM Research, the shift from analog to digital technology involves a new approach to the installation of security systems. The closed circuit systems of the past will give way to open and fully integrated systems, something which is possible with Axis' network video solutions. According to the same research institute, the total video surveillance market (CCTV) is expected to amount to USD 8.1 billion in 2010.

A summary of several surveys carried out by various analysis institutions, including Frost & Sullivan, JP Freeman and IMS Research, indicate that the market for new installations of network video products makes up approximately 10–12 percent of the total video surveil-

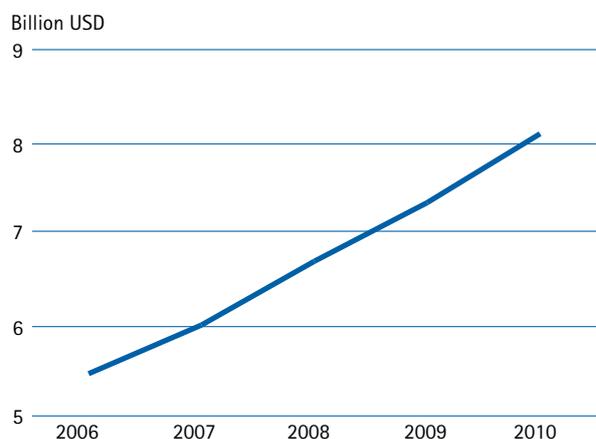
lance market (the CCTV market). This indicates that the market is still in the early stages of a transition from analog to network video installations.

Global market leader

The shift in technology, from analog to digital, is a strong contributory factor in the predicted growth. Other factors are the economic climate, new laws and regulations, and increasing security consciousness throughout the world.

IMS predicts that the most rapidly growing market will be in Asia, a natural development since the Asian market is facing expansion in many different areas. The research institute Frost & Sullivan's estimate is that the global market for network video cameras will reach USD 1.2 billion by 2010. Axis is the unchallenged leader in technology in IP-based network solutions, and benefits

Forecast for growth in the CCTV market



Source: IMS Research

from a sound knowledge of products and solutions, well-established sales channels, excellent relationships with its partners and the broadest product portfolio on the market.

Convergence in the market

In the past, video surveillance was synonymous with security applications, but digital technology is opening the door to new business opportunities and markets. The digital technology offers the opportunity to provide customised solutions which can easily be integrated with, for example, people counters, checkout systems and entry systems. An understanding of the opportunities of network video solutions has resulted in convergence between the companies' IT and security departments, aiming to integrate both physical and network-based security. This has benefited Axis, since the IT departments understand networks and often have past knowledge of Axis' products and solutions.

Competitors

Over the year, interest in network video products has increased, and this has resulted in a gradual rise in competition. The main competitors are still the analog products which represent around 90 percent of new installations. Competitors who offer network video solutions include Sony and Panasonic. The dominant manufac-

turers of traditional, analog cameras are global players, such as Panasonic, Pelco, Bosch and GE Security.

PRINT & SCAN

Axis offers a broad range of print servers and can meet the needs of small customers as well as large companies and organisations. Market development in this product area is influenced by general trends in IT investment.

In product area Scan, customers continue to show an interest in Axis products. At the end of 2005, Axis entered into a partnership with HP (Hewlett-Packard), where HP offers a package deal which includes the AXIS 70U document server and the HP Scanjet 7650 flatbed scanner for customers in the EMEA region. The collaboration continued during the year and resulted in a substantial improvement for product area Scan.

Mature market

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

FUTURE PRODUCT AND SECURITY TECHNOLOGY

The security market is powered by technical development and global customers demanding new types of IT-based security and surveillance solutions. To achieve continued growth and a cutting-edge position, it is essential to maintain the highest possible understanding of the direction in which the industry is moving and to take advantage of new opportunities. During the year, Axis Communications, Assa Abloy and Securitas Systems entered into a partnership with the University of Lund involving a Security Information Technology project. The aim of the partnership is to obtain an understanding of the trends in the security industry and the future of products, solutions and the roles of different players.

The four-year study will involve research into new business models for the security market, the management of

organisational networks and alliances, and identification of future customer needs. The research will primarily contribute to the development of methods and tools for analysts and scientists, which will aid in the understanding of future markets and services in the security industry.

"The convergence of information, communication and security technology will generate new types of security services. The security industry is one of the most exciting industrial formations, and we are very pleased that we have been given the opportunity to lead this research program alongside three of the most exciting companies in the industry", say associate professors Thomas Kalling and Konrad Tollmar from the School of Business Studies at the University of Lund. ■

Growing interest in network video products

The transition from analog to network video solutions has picked up speed, interest in network cameras is becoming more intensive and the Axis brand has, over the past year, attracted attention in a greater number of contexts than before. The level of interest in network video has seen a sharp increase, and has resulted in a 45 percent growth in product area Video.

Growth throughout the world

During the year, the sales trend for Axis has been extremely positive in all three regions: EMEA (Europe, the Middle East and Africa), Americas and Asia. Product area Video has shown the strongest growth at 45 percent. Product area Print, which operates in a mature market, has seen a fall in sales in all three regions. The reason is the general fall in demand for Print products, the fact that functionality is being integrated into printers and a drop in sales in OEM (Original Equipment Manufacturing).

The EMEA region

In 2006, the EMEA region was responsible for 49 percent of Axis' total sales, and experienced a 42 percent growth. There has been a high level of activity during the year, and Axis' products and solutions have generated a great deal of interest in the region, which includes countries with different economic conditions, knowledge of and demand for surveillance systems. Success factors of significance to the region include the intensified interest in and the current transition from analog to digital systems, as well as the increasing in-

terest in network video solutions in Eastern European countries.

During the year, Axis strengthened its market presence by opening two new offices, one in Johannesburg, South Africa, and one in Dubai.

Region Americas

Region Americas was responsible for 40 percent of Axis' total sales in 2006, and recorded growth of 44 percent. This success is partly explained by the acceleration of the shift in technology from analog to digital systems in the American market. During the year, a number of local offices have been opened and this has facilitated close collaboration with the company's partners.

Region Asia

Region Asia was responsible for 11 percent of Axis' total sales in 2006. The markets in the region are highly diversified, but there is a widespread interest in the new digital surveillance technology and in turnkey solutions in professional surveillance installations.

During the year, the markets in Region Asia became increasingly interested in network video products, and this has resulted in a strong increase in sales for product area Video. The OEM area in product area Print has shown a continuing fall in sales and this has affected total sales in the region.

Great interest at trade fairs throughout the world

Axis has continued to focus on educating the market in the transition from analog to digital technology, with

the aim of speeding up the shift in technology. The success of Axis network products at fairs throughout the world continued during 2006. At international security fairs, such as IFSEC in the UK, Security & Safety in Russia, ISC West in the USA, Global Digital Surveillance in China and the Security Show in Japan, the company's stands attracted large numbers of visitors. At many of the events, Axis has worked alongside its partners to present turnkey solutions for network video to visitors to the fairs.

Network video is gaining ground

Axis has installed products and solutions for customers in identified market segments; the retail sector, transport sector, public sector, the banking & finance sector, educational establishments and the industrial sector. Axis has successfully installed network video products in schools, but in 2006, the focus was primarily on the retail and transport sectors.

Fastest-growing area

The retail industry is currently the fastest growing area for security installations. Market surveys show that around 25 percent of all video surveillance installations can be found in this area.

During 2006, Axis has announced significant installations in this customer segment. A nationwide American chain, with a total of more than 1,000 outlets, installed Axis' network cameras for surveillance of around 200 stores. During the year, Axis has supplied more than 10,000 cameras to the chain.

Another American retail chain has installed the company's network video products for surveillance in 210 supermarkets. The network video system is used to integrate video information with data from the checkout system, which makes it possible for the shop management to monitor deviations in the sales process. The retail chain understood the advantages of changing to a digital system but did not want to forego investments already made in analog technology. Axis' video servers offered a cost-effective way of upgrading the system.

Focus on transport

The transport sector is another important customer segment where the installation of Axis products has proved successful during the year. Logan Airport in Boston, USA, has installed Axis' video servers to monitor airport



THE INTERNET – AN INTEGRATED PART OF THE BUSINESS SYSTEM

Working locally in a global market requires the adaptation of global material. During the year, the company's website, which is an important channel to the market, has been improved to ensure that it meets the growing demand for network video products and knowledge of these products. Today, the Axis website has been fully or partly translated into nine languages, and is under constant review. During the year, a website aimed at the Russian market was launched. The Axis website has had million of visitors, most of whom are looking for information on network video products.

The aim of the Axis website is that it should be a leading site for knowledge and information on network video, as well as an interactive meeting place for Axis' customers and partners. The website is an integrated part of the company's business processes and business system. Axis currently has more than half a million members in the external user data bases, and hundreds of thousands of subscribers to the electronic newsletters sent out in several languages all over the world. ■

www.axis.com

security areas. The video servers are part of an integrated security system which monitors the security, luggage, ticket sales and gate areas at one of the airport's terminals.

During the year, Storstockholms Lokaltrafik (SL) [the Greater Stockholm Public Transport Company Ltd] proceeded to install more than 1,500 network cameras

AXIS MAKES THE LONG ARM OF THE LAW EVEN LONGER

The drug squad in Dallas, USA, needed an undercover surveillance system to permit easy collection of information before and during a police raid. This required a system which was easy to move and not limited by distance. The system also had to be wireless to ensure the greatest possible flexibility.

The police in Dallas contacted Axis' partner, Mobile ID Solutions Inc, one of the largest providers of Junxion equipment. By using a Junxion box and an Axis network camera, a solution was created which offered wireless operation via the 3G network. The box can, for example, be attached to a

streetlight or hidden in a pile of garments at the rear window of a car.

Images transmitted directly from suspicious locations can be monitored 24 hours a day by police officers in the field, at police stations or at home by those off duty.

"Axis cameras are so small and lightweight that we can hide them practically anywhere. Our undercover operations are now only limited by our imagination and not by technology", says Steve Ledbetter, superintendent of the Dallas police force. ■



at subway and commuter train stations in Stockholm. The partner and system integrator involved is the Canadian company, Visual Defence. The cameras which have already been installed and will be installed in the future are the AXIS 225FD and AXIS 212 PTZ. The AXIS 212 PTZ has a unique feature which allows users to zoom in on areas of particular interest by simply clicking on the image. The AXIS 225FD is vandal-resistant and is ideal for outdoor use, which makes it highly suitable for use in subway and commuter train stations, as well as other locations where it is important that cameras can cope with tough external conditions. The installations have attracted a great deal of interest in Sweden as well as abroad.

In addition to subway and commuter train stations, SL has decided to install network cameras on all its buses to improve safety for passengers and SL's staff. The AXIS 209FD-R network camera will be installed aboard more than 2,000 buses in Stockholm. The solution is based on a platform which combines Axis' network cameras and Visual Defence's mobile system for storage of digital images. It will be administered by Visual De-

fence's centralised Management platform. Axis' network cameras provide excellent image quality and utilises Power over Ethernet technology (electrical supply via the network cable) which makes the solution cost-effective. The installation work will commence during 2007.

New areas

During the year, Axis announced that the company's network cameras will be included in a service provided by the Mexican telecoms company TELMEX. The service offers broadband customers remote surveillance of homes and offices via the Internet, storage of images and notification via e-mails and mobile phone messages if anything should occur.

Awards

Axis's position as a market leader was confirmed during the year by the Market Penetration Leadership Award from the American analysts Frost & Sullivan. This is an annual award for the company with the best strategy on issues such as product innovation, marketing and sales. ■

THE ROAD TO THE MARKET

Acting locally in a global market

During the year, Axis' market presence was strengthened, the road to the market broadened, and the company has acted locally in a global market. Collaboration with partners is one of Axis' most important success factors, and by the end of 2006, more than 10,000 partners were involved in the Axis partnership program. In addition to sales channel partners, Axis collaborates with more than 400 application development partners, or ADPs. Marketing drives which have attracted a great deal of attention and the expansion of the company's website have contributed to a growing interest in network video.

Axis has 18 offices of its own, two of which, in Dubai and Johannesburg, opened during the year. In addition to these two offices, there has been increased local presence on the American market through the establishment of local offices in a number of locations. Axis also has sales through distributors, system integrators and resellers in around 70 markets.

Axis' business model creates proximity to customers

Axis' business model is based on all sales being handled by distributors such as system integrators and resellers. This indirect business model creates geographical spread and proximity to customers while, at the same time, the effectiveness of the Axis organisation is maintained. Ingram Micro and Anixter are two of Axis' global distributors. Axis also works closely with the system integrators Honeywell, Securitas Systems and Siemens, as well as the ADPs Milestone and Lenel.

10,000 partners

Axis continues to strengthen its market presence by collaborating through, and constantly adding new distributors and system integrators to, the company's partnership program, the Axis Channel Partner Program.

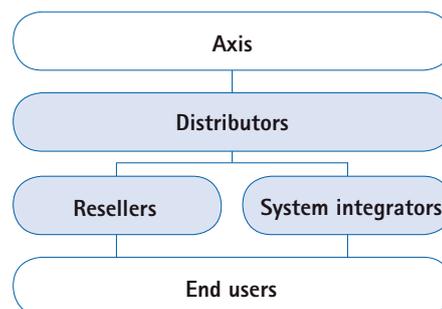
The program is designed to create close relationships and give the company's partners the opportunity to expand within the fast-growing network video area. At the end of the year, the Axis program included some 10,000 partners.

Ambitious training program

Through the ambitious training program, Axis Academy, the company continuously educate partners and other stakeholders in the advantages of network video. This ensures that end customers have access to knowledge about the latest technology in the area – knowledge which is useful in discussions with end customers. In the past year, almost 2,500 partners and stakeholders signed up for Axis Academy.

Applications which complement the product portfolio

In addition to Axis' own offer, Axis' Application De-



velopment Partners (ADP) develop application software to supplement the Axis product portfolio. Axis' successful ADP program is an important part of the company's continued investment in the professional network market. The program is an initiative which links companies involved in the development of ap-

plication software for Axis' network products more closely to Axis. This expands the company's offer to the market. At present, the program covers more than 400 companies, including Honeywell, Milestone, Genetec and Lenel. ■

THE AXIS 212 PTZ – A SUCCESSFUL PRODUCT LAUNCH

When the AXIS 212 PTZ was launched in May 2006, it was, and still is, a product completely unique in the market. The camera offers pan, tilt and zoom without any moving parts. This minimises wear and tear, and makes the camera completely silent. The discreet design makes the AXIS 212 PTZ particularly suitable for surveillance in shops, banks, reception areas and similar indoor environments.

The AXIS 212 PTZ is not only a unique investment in product development. The market launch of the product was also the largest campaign ever for Axis. In summer and autumn 2006, the company implemented a global marketing drive which included PR, direct advertising, Internet campaigns and demo-films.

For the AXIS 212 PTZ, the marketing was an important component. In addition to traditional press releases in many languages, an extensive press kit with product descriptions, photos, technical data and other information was produced. The Axis business model is based on close contacts with distributors, resellers and system integrators, as well as with various technical partners. All these players have to be extremely well coordinated and motivated to ensure a successful product launch. For the AXIS 212 PTZ, this was achieved by ensuring that the information was distributed well in time, that the players had access to material as support for their own sales and that various incentives were

introduced during the campaign period.

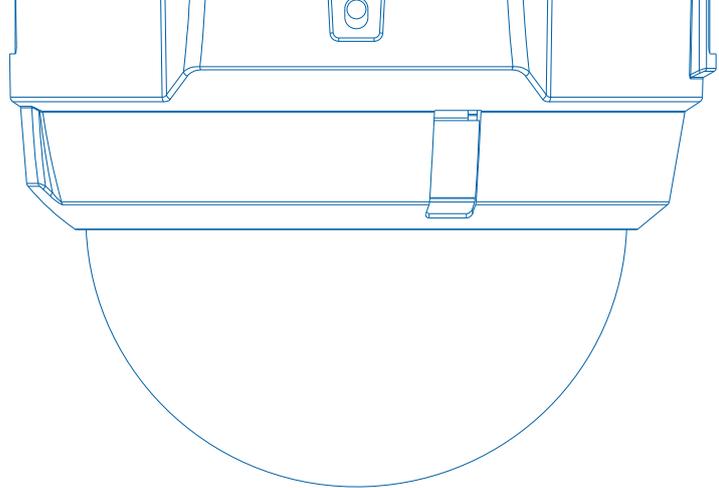
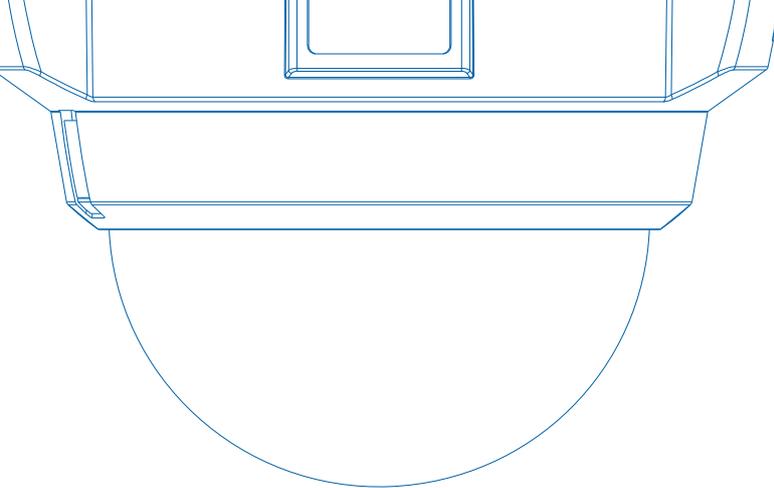
In addition, after ten years in the network video market, the company has access to an exclusive database of customers, partners and others who have expressed an interest by subscribing to the Axis newsletter. All this means that Axis can implement a world-wide product launch without delay – an opportunity which was used to the full during the launch of the AXIS 212 PTZ.

Apart from face-to-face meetings, the Internet and the newsletter are the most important channels through which Axis can reach customers and other interested parties. For the AXIS 212 PTZ, a campaign web site was set up which provided visitors with information and demonstrations. Visitors willing to register were also provided with more exclusive material, and this resulted in Axis becoming aware of a large number of new potential customers.

The AXIS 212 PTZ campaign was highly successful. It generated an enormous amount of interest, and Axis has received substantially more enquiries for the AXIS 212 PTZ than for any other product. Even more importantly, the explosion in demand resulted in significant sales of the AXIS 212 PTZ from the first day the product was available on the market. ■

Axis' successful campaign for the AXIS 212 PTZ involved adverts, web banners and material on the company's website, which stressed the advantages of the network camera, especially in retail sector installations.





RESEARCH & DEVELOPMENT

Tomorrow's products today

To improve and maintain the company's market-leading position, Axis offers cutting edge products using the latest technology within the network video area.

The basis for this is the long-term work with Axis' technology development platform, which means that the solutions for the future are analysed, assessed and developed today. Axis has more than 20 years' experience of research and development in network video products. Development is characterised by a high rate of innovation and a high level of quality.

14.4 percent of sales to R & D

In 2006, Axis invested 14.4 percent of its sales in research and development. This is a level which Axis regards as necessary to remain an innovative company in the long term.

Since the company was founded, development has focused on hardware and software for network video products. Axis works with open systems, which means that Axis' products can easily be integrated with other security solutions. The focus is currently on solutions for product area Video, which includes cameras, video servers, accessories and application software. In recent years, software has become an increasingly important component. The work is aimed at four areas: image quality, image analysis, coding and network.

Chips developed in-house with a high level of security and performance

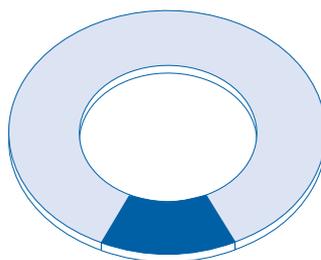
Networks form the basis for Axis' products, and the company has a great deal of experience and expertise in this area. Network security is of utmost importance, and Axis is continuously developing secure network solutions. This involves focusing efforts on retaining a cutting-edge position and ensuring a high level of performance in the chips used in the company's products.

The ETRAX chip has been developed in-house by Axis for use in network connections. It forms the basis of virtually all Axis products. The chip handles calculations, memory storage and communication with the network. The small size of this energy-efficient chip means that it can be used in compact products.

Image quality a central issue

Ten years' experience in the area has indicated a clear trend – the demands on light-sensitivity and dynamics in network cameras are becoming increasingly stringent. During the year, Axis has been involved in long-term work to develop a high image quality which meets future requirements for network video products.

ARTPEC is an image processing and image compression chip which has made a significant contribution to Axis' dominant position as the market leader in network video. The chip is built into the company's cameras and video servers. ARTPEC is an innovation which has further strengthened Axis' leading position in the network video market, since the chip is not only cost-effective



14.4 percent of Axis' sales goes to research and development.



An important part in the development process is the testing of network cameras and how they are affected by changes in temperature and atmospheric humidity. The tests are carried out to ensure that all camera components can cope with the weather conditions in the location where they will be installed by the end user.

tive but also offers great performance, good bandwidth efficiency and excellent image quality.

Image analysis

The market is facing a paradigm shift which means that active surveillance will replace passive, with intelligent video as a central feature. Intelligent video means that a network video product can, for example, identify registration plates and count the number of people.

Intelligence in cameras is central to the network cameras of the future, and this places demands on the components used in the equipment. Intelligent video means that the chips must be able to process more information and handle images with higher resolution. Axis' work on image analysis development has resulted in the company obtaining valuable experience and a high level of expertise in the area.

Optimised internal flows

Continuous improvement is important if Axis is to maintain its leading position in the network video market. During the year, product specification and the product development process have been optimised further, which has streamlined the market launches of high-quality, innovative network video products.

Patents safeguard innovations

Axis pursues an active patent strategy to protect its core technology investment and intellectual capital. During the year, applications for eight new patent families, primarily involving image processing and network technology, were submitted. Ten individual patents have been awarded. The Axis patent portfolio now contains a total of 44 active patent families.

Collaboration with colleges and universities

Since the start, Axis has collaborated actively with universities and colleges. The company continuously offers students the opportunity to carry out degree projects. Every year, the Axis Award is presented for the best degree project in the network video area.

Axis has excellent long-term relationships with research groups at the Institute of Technology at Lund University, the Royal Institute of Technology, Chalmers and Linköping Tekniska Högskola. Axis is also an active partner in CCCD (Competence Center for Circuit Design), an association made up of a number of prominent companies with a joint interest in circuit design, and the government organisation Vinnova. ■

Optimised processes focused on quality

Axis has a well-structured process for the production and delivery of products, which covers everything from the purchase of components and the production of electronics, to final assembly, quality control and delivery. By adopting a global approach to these functions, Axis ensures world-wide availability of the company's products and meets the customers' demands for flexibility and quality.

Axis selects suppliers of components and semi-manufactured goods by adopting a detailed process in which the deciding factors are price, quality and flexibility. Axis has suppliers in Europe, North America

and a number of Asian countries.

Improved flexibility

All production takes place in collaboration with partners specialised in the outsourcing of electronics. Axis produces a production pack, prepares the start-up of production and guarantees the supply of strategic components, such as the in-house ETRAX and ARTPEC circuits, and image sensors. The production of electronic equipment is then handled by contract manufacturers. The fact that Axis does not possess its own production equipment makes the company more flexible and frees up capital for other purposes. To ensure continuous and flexible production, Axis uses selected



contract manufacturers with factories all around the world.

Important quality assurance

Alongside flexibility, quality and environmental commitment are important key words. Axis requires its contract manufacturers to be certified under ISO 9000 and ISO 14000. Production is carried out in accordance with carefully drawn up production instructions, which are supplemented by quality controls during production and final assembly. Final assemblies are quality-assured at Axis' own distribution centres in Sweden and Thailand.

Improved processes

Continuous improvement work is one way to meet the demands of the market. During the year, Axis has focused on further optimisation of the internal logistics flows, with the aim of improving availability and delivery precision.

In addition to work on internal logistics flows, Axis has intensified the work of improving deliveries from the unit in Thailand which came on-stream in 2005. The new distribution centre has improved deliveries of Axis products to customers in the Asia and Americas regions.

Collaboration with contract manufacturers has been broadened during the year to include more factories. Axis' products are being produced in a number of geographically-independent locations, which reduces the risk of production problems. ■

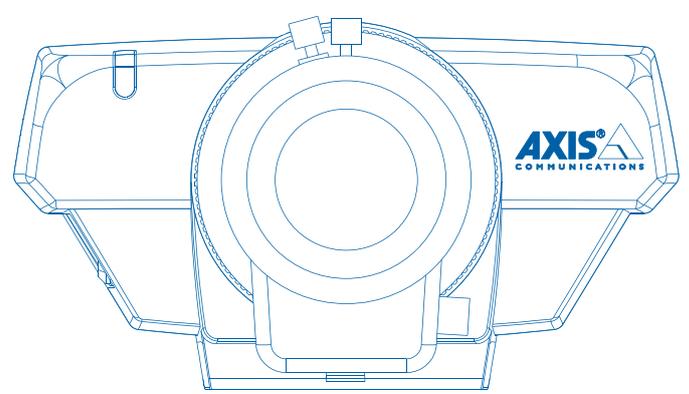
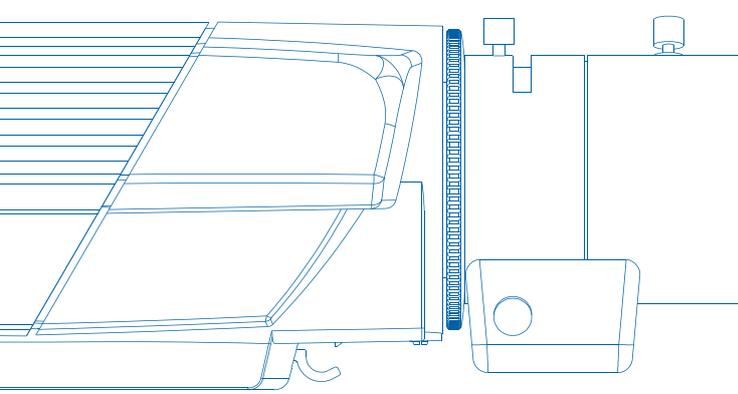


AXIS' CAMERAS AN IMPORTANT PART IN LA NUCÍA

La Nucía outside Valencia in Spain has grown substantially in the past few years. This has generated a demand for new municipal buildings which, in turn, has resulted in increased costs and more employees for the day-to-day management and surveillance of the premises. To keep costs down, the IT department at La Nucía suggested that a network video system may be the solution to the problem.

The system, which was installed by Nucisys, can be used both as a traditional surveillance system and as a tool for ascertaining where staff is needed and where work is being carried out. The system uses 3G, which means that users do not have to be at their desks. The local police chief can, for example, get images and information sent directly to his mobile phone.

"The system has been up and running for six months, and the benefits we've experienced in the municipality from the point of view of finance and security have convinced us that the project is a success. The fact is that we are planning to extend the system, since it is saving us such a lot of money", says Bernabé Cano, the Mayor of La Nucía. ■



THE ENVIRONMENT

Deep-rooted environmental responsibility



For Axis, environment issues are always important in the development of new products and the improvement of existing ones, as well as in connection with deliveries and business trips undertaken by staff. The company supplies products and solutions efficiently, with minimum impact on the environment, while, at the same time, it observes its legal obligations, environmental regulations and other requirements.

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. Axis' Environmental Council continuously works with issues aimed at minimising the environmental impact of products during manufacturing, delivery and installation. Axis maintains a continuous dialog with customers, suppliers, shareholders, staff, the authorities and the general public with the aim of improving the environmental work relating to the company's products, services and operation.

Respect for the environment throughout the value chain

Environmental considerations are an integral part of every new project. This means that no substances identified as harmful to the environment under current directives are used in any new project. A clear result of the company's environment-related work is the reduction in energy consumption of its products. For example, the consumption of energy in standby mode of

the net adapters used for the products is now 15 times lower. Axis has been working in partnership with its component suppliers to create a transition with the aim of ensuring that all existing and future products meet the requirements for the elimination of environmentally hazardous components.

Axis supports its suppliers, customers and partners in their choice of low environmental impact products. The company meets the current directive for WEEE (Waste of Electric and Electronic Equipment), which sets out how worn-out electrical products must be dealt with in future, and RoHS (Restriction on Hazardous Substances) which aims to remove hazardous substances from products.

Suppliers and transports

Axis also maintains a continuous and constructive dialog with suppliers and subcontractors to reduce or eliminate the negative impact on the environment of the production process. Axis' aim is, as far as possible, to use environmentally certified transport companies. In the logistics process, transport is the area which has the greatest impact on the environment. During the year, the increase in transport has been relatively low in comparison with the increase in sales.

Business trips

In a company which is growing globally, the number of business trips will increase. Axis' offers its staff low environmental impact alternatives and travel planning for reduced environmental impact. ■

HUMAN RESOURCES

Focus on staff

Axis needs a highly qualified workforce to meet the demands of an internationally expanding market. Axis' staff are committed, open to new ideas and see it as their task always to be at the cutting edge in their area of expertise. This is part of our corporate culture.

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 values 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 and always being open to new ideas and opportunities.

Values

Axis' values form the basis for 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. Since Axis' ability to retain and develop its staff is of immense importance to the Group, the recruitment process,

staff development and staff welfare are regarded as particularly important.

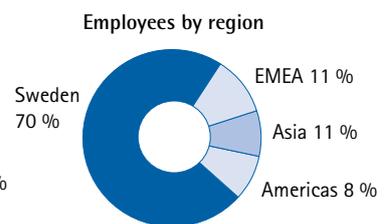
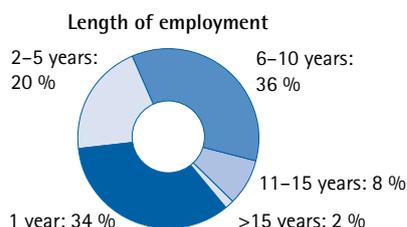
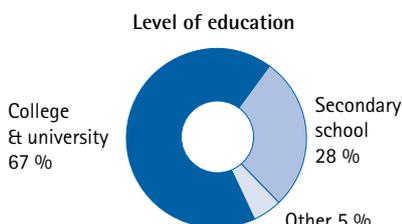
The recruitment process

In a growth company like Axis, the need to recruit staff is always intense, and during the year, the workforce increased by 55. But despite the fact that there is a significant need for expansion, the focus is on quality, skills and personality rather than on quantity. During the year, the workforce increased, particularly in sales and the sales support areas, but also in research and development. Axis encourages staff mobility within the organisation by prioritising internal recruitment over external recruitment as far as possible.

One way for the company to secure high future skills levels 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.

Performance

Axis works continuously to ensure that it has the right person in the right position. Performance appraisals



and skills analyses, which form the basis for individual staff development, are an important part of this work. Since our customers and suppliers demand a high level of professionalism and quality, we also expect our staff to do their absolute best to meet the demands of the market.

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. Examples include purpose-built company premises, subsidised fitness activities and access to the company’s gym and music room. Another example is the opportunity to take part in various cultural events and festivities. The company also regards psychosocial health as a priority, and is working actively, among other things, with staff surveys

aimed at continuously improving and changing the staff environment.

Staff statistics

During the year, the level of absence due to illness was low, at 2.1 percent (2.6). Among women, absence due to illness was 2.2 percent, and among men 2.0 percent. The figure for the 0–29 age group was 2.6 percent, for the 30–49 age group 2.0 percent and for the 50–65 age group 0.7 percent.

Staff turnover in Axis was low during the year, at 10.6 percent (9.8). The average age of staff was 36.8 years. The number of women was 111 (107) and the number of men, 327 (284). Axis is a typical salaried employee company, which is reflected by the high proportion of employees with university degrees (67 percent). ■



Ethical behaviour throughout the chain

During the year, Axis has been working on the Company's Code of Conduct. The aim of the Code is to emphasise the fundamental principles for Axis operations and relationships with employees, business partners and other stakeholders.

Both employees and business units are expected to support, contribute to and maintain the Company's values, integrity and responsibility. Axis encourages its suppliers, distributors, system integrators, consultants and other business partners to follow these principles. The principles apply to current partners and potential partners are evaluated before we work with them.

Support for international principles

Axis' Code of Conduct is based on the following inter-

national principles:

- The UN's General Declaration on Human Rights.
- The UN's Global Compact initiative, which was taken by the then General Secretary, Kofi Annan, five years ago to promote social and environmental responsibility among international companies.
- The ILO Declaration on fundamental principles and rights at work. ■

Axis' positive corporate culture creates the conditions for profitable growth.

Malin Ruijsenaars
Director Human Resources



STUDENTS WITH DIFFICULTIES GET THEIR OWN EDUCATION ROOM

The Lauderdale County School in Mississippi, USA, had to find a way to guarantee suspended students the same quality of education as other students. The aim of the school is to train all students to become competent citizens, irrespective of difficulties experienced at school.

In the past, suspended students were segregated by the school and placed in separate rooms. This led to additional costs for the schools and also caused problems in the recruitment of qualified teachers in all subjects. As a result, neither the education environment nor the quality of teaching was particularly satisfactory. In collaboration with Axis' partner, CameraWatch, a company which specialises in net-based video solutions for schools, 75 Axis network cameras and microphones were installed in six different schools. The method allows pupils to take part in lessons despite being located in a separate classroom. Axis' solution has reduced staffing costs and, at the same time, achieved better results.

"Axis' technology for network video solutions is ideal for our requirements, largely because the picture quality is extremely good. The high resolution was a deciding factor since students must have a clear view of what is written on the blackboard", says Lindsey Keene, technical coordinator

for Lauderdale County School.

The system has been so successful that the district is planning to extend the solution with an archive system – a new form of distance learning which uses recorded lessons and opens the doors to even more opportunities. ■



INVESTOR RELATIONS

Axis shares

Axis was floated on the Stockholm Stock Exchange O list on 27 June 2000. Since 2 October 2006, Axis has been listed on the Nordic List in the Mid Cap segment in the Information Technology category. As at 31 December 2006, market capitalisation amounted to SEK 6,354 million, divided over 69,252,700 shares.

Price trend

During 2006, a total of 35,727,185 Axis shares were traded, which gives an average of 142,340 shares traded per market day, with a value of SEK 9.3 million per day. Trading in shares took place on all market days. The trading rate during the year was 51.7 percent. The last price paid on 29 December 2006 was SEK 91.75. The highest price, SEK 95.50, was recorded on 11 December. The lowest price during the year, SEK 46.60, was on 3 May. The SIX All-share index rose by 23.62 percent during 2006. Affärsvärlden's IT sector index fell by 4.19 percent.

Market value

Axis' market value as at 29 December 2006 was SEK 6,354 million, an increase of 58 percent during the year.

Ownership

The number of shareholders at the year end was 11,057



Margareta Lantz
Manager Investor Relations
& Corporate Communications

(11,295). Holdings by foreign registered shares or shareholders who are not Swedish residents was 17 percent (6.5). The table below shows Axis' ownership as at 31 December 2006.

Shareholder	Number of shares	Percentage
Therese Karlsson, privately and through companies (LMK Industri AB)	15 274 658	22.1 %
Christer Brandberg, privately and through companies (Inter Indu S.P.R.L.)	9 606 957	13.9 %
Martin Gren, through companies (AB Grenspecialisten)	7 167 471	10.3 %
Swedbank Robur	4 552 200	6.6 %
SIF	2 389 300	3.4 %
Other	30 272 114	43.7 %
Total	69 252 700	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 account of the company's target for its equity/assets ratio. The board of directors proposes an ordinary dividend of SEK 0.75 per share for financial year 2006, and an extra dividend of SEK 2.25 in the light of the company's strong financial position.

Options program

Since 1989, Axis has had a number of outstanding options programs 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 46 for more information. ■

Ownership 31 December 2006

Holding	Number of shareholders	Number of shares	Holding (%)	Votes (%)	Market value (SEK thousand)
1–500	7 020	1 543 464	2.23	2.23	141 999
501–1 000	2 102	1 861 569	2.69	2.69	171 264
1 001–5 000	1 507	3 662 205	5.29	5.29	336 923
5 000–10 000	195	1 507 448	2.18	2.18	138 685
10 001–15 000	45	559 540	0.82	0.82	51 478
15 001–20 000	44	802 527	1.16	1.16	73 832
20 001–	143	59 313 947	85.63	85.63	5 409 754
Total	11 057	69 252 700	100.00	100.00	6 353 935

ANALYSTS

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

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

Subscription options

Recipients	Exercise date	Subscription price	Number of options Dec. 31, 2005	Number of options Dec. 31, 2006	Number of shares	Full dilution
Staff in Europe and Asia	Oct. 2, 2007	26.00	104 200	56 700	56 700	0.08 %
Staff in the USA	Oct. 2, 2007	26.00	64 000	56 000	56 000	0.08 %
Staff in the USA	Sept. 30, 2010	48.00	172 250	169 650	169 650	0.24 %
Total			340 450	282 350	282 350	0.41 %

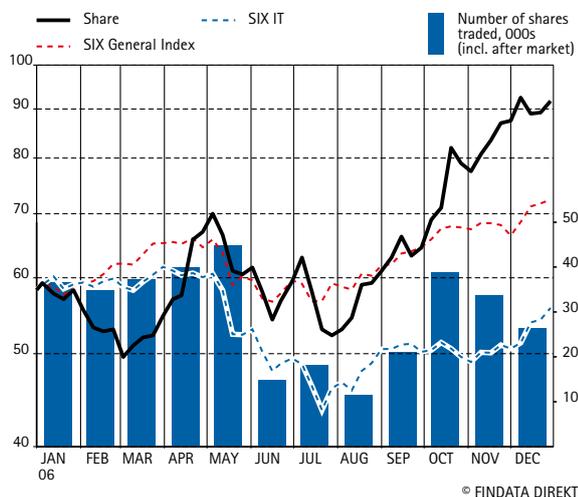
Data per share

	2006	2005
Profit after financial items, SEK	3.21	1.85
Cash flow, SEK	1.82	0.96
Equity, SEK	7.24	5.91
Share price at close of period, SEK	91.75	58.25
Price/equity, percent	1 268	986
Dividend, SEK	0.75	0.5
P/E-ratio	40	44
P/S-ratio	5.3	4.5
Number of outstanding shares (thousands)	69 253	68 925
Average number of shares (thousands)	69 084	68 906

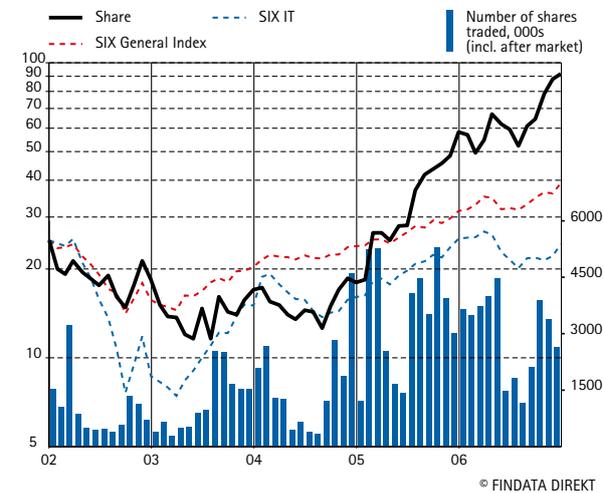
Trend in share capital

Year	Number 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
2006	69 252 700	0.01	692 527

Trend in Axis' share price during 2006



Trend in Axis' share price 2001–2006



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 and new customer segments within network video, for example, in education, commerce and the 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. Axis works with a number of subcontractors and a well-structured supply strategy, which ensure the production of the products.

The anticipated growth, particularly within network video, will lead to increased competition from resource-rich companies currently operating in analog camera surveillance, which will become increasingly keen to establish themselves or expand their investments 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 network video solutions developed in-

house 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 and new customer segments, train its partners 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 and 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.

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 operating 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.

- 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 Kronor 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:

- Transaction risk

Transaction 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.

- Translation risk

Translation risk means the risk that exchange-rate fluctu-

AXIS SOLUTION PROTECTS THE ROYAL ACADEMY OF ARTS



After a couple of years of using traditional analog surveillance cameras, the Royal Academy of Arts in the UK decided that the old technology did not meet its current needs. The system had to be upgraded to become more flexible and up-to-date. The purpose of the upgrade was to achieve maximum security and protection for the Academy's invaluable works of art.

Axis' partner, CNL, proposed and installed a solution which involved the digitalisation of existing analog cameras using Axis' video servers, as well as the installation of a number of new Axis network cameras. The result was a cost-effective and extremely secure system, which can also

be expanded as the RAA's needs change.

The security guards working in the building can now view video either from their own control room or from two computers located at the reception and service desks. This creates greater flexibility and improves the opportunity to act quickly in an emergency.

"When we looked at the IP-based system, it became quite clear that its performance was exceptional compared with the previous analog system. We now have a reliable system with high-quality images which helps us protect works of art which are frequently worth millions of pounds each", says David Vobes of the RAA. ■

tuations in the Group's net investments in subsidiaries may have a negative impact on the Group's results.

Transaction risk

Under the finance policy, transaction 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

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 2006, 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 on credit facilities do not fluctuate by more than two percentage points over one year. The interest-rate risk for 2006 was marginal, since credit facilities were unutilised throughout the year.

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 have access at all times to ten percent of sales in cash and cash equivalents or unutilised credit facilities. On 31 December 2006, Axis had SEK 313 million in cash and cash equivalents, as well as unutilised credit facilities of SEK 60 million, compared with SEK 187 million and SEK 80 million respectively on 31 December 2005.

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 2006, SEK 225 million was invested in fixed-interest securities with an average term of 1.1 months. The corresponding figures on 31 December 2005 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 or 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 financial year 2006. Apart from currency exposure, the factors assessed as having the greatest effect on results are purchase prices and wage costs. ■

Factor	Change, %	Effects on operating result, SEK million
Currency, SEK/USD	+/- 5	+/- 7
Currency, SEK/EUR	+/- 5	+/- 19
Purchases	+/- 5	+/- 20
Personnel	+/- 5	+/- 15

ADMINISTRATION REPORT

The Board of Directors and the President & CEO submit the following Annual Report and Consolidated Financial Statements for financial year 1 January 2006–31 December 2006. Unless otherwise stated, all amounts are in SEK thousand. Information in parenthesis refers to the preceding year.

The operation

Axis is an IT company which offers network video solutions for professional installations. The company is global market leader in network video, and is the driving force behind the current shift from analog to network surveillance solutions. Axis' products and solutions are based on innovative network platforms, and our aimed at applications such as remote monitoring and surveillance. Axis is a Swedish company, established in 1984, with a presence in around 70 countries, partly through 18 offices in 17 countries and partly through close collaboration with partners. The company's shares are listed on the Nordic Mid Cap, Information Technology list.

Significant events

During the year, the network video market accelerated as the degree of acceptance of network video within the traditional surveillance sector has grown. With strong growth, 45 percent in Axis product area Video, Axis has strengthened and developed its position as market leader.

Axis's global presence has been strengthened, partly through the opening of two new sales offices in South Africa and Dubai. The office in South Africa was established through the takeover of a former distributor. On the American continent, our market presence was reinforced through a number of geographically dispersed recruitments, with the sales representatives being based in local "home offices".

The trend in sales was good in all regions. A number of new innovative products were launched, and received with great interest in the market. Key features of the new network cameras are, in addition to better performance in general, functionalities such as megapixel sensors (e.g. AXIS 207M and AXIS 223M), more durable and smaller housings, "domes" (e.g. AXIS 216FD and AXIS 216FD-V), digital panning and zoom (e.g. AXIS 212 PTZ), built-in intelligence (e.g. AXIS 242SIV) and customised housings for mobile environments (e.g. AXIS 209FD-R).

Interest in network video is well spread over a number of sectors and applications. During the year, several exciting deals were made with major US chain stores. In the transport sector, Storstockholms

Lokaltrafik and Logan Airport in Boston, USA, selected Axis' products and solutions.

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.

The close collaboration with partners, distributors, retailers and application developers continued during 2006. Within the partners programs, members were trained in the advantages of network video in general and specifically in the Axis product range. At the end of the year, almost 10,000 system integrators and 400 application developers had gone through the various programs.

The environment

With the aim of reducing the impact of the operation and our products on the environment, Axis has adopted an overall environmental policy to ensure that the company supplies products and solutions in an efficient and environmentally low-impact way, and that legal obligations and environmental regulations are complied with. During the year, logistics flows were optimised, with the result that transport increased relatively less than sales. In addition, a number of net adapters in the products were modified to reduce energy consumption during operation.

Research & development

During 2006, 14.4 percent of Group sales were invested in research and development for hardware and software. The cost of research and development rose by SEK 36 million compared with the preceding year, and amounted to SEK -158 (-123) million. SEK 15 (24) million 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 addition, Axis is developing chips for picture processing and picture compression, ARTPEC. The development of the next generation of ARTPEC continued during 2006.

Axis pursues an active patents strategy to protect its investments in its core technology and intellectual

capital. During the year, applications for eight new patent families were submitted, particularly within picture processing and network technology. Ten individual patents were granted during the year. Axis currently holds 50 patents. The exposure to intellectual property risk 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. In 2006, a dispute with the US company, Acticon, was settled through conciliation between the parties.

Research efforts are currently focused on four strategic areas: image analysis, coding and network. 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 programs.

Personnel

The rate of recruitment was high throughout 2006. At the end of the year, the number of employees was 446, a net increase of 55 since 31 December 2005. Most of the increase took place in sales and marketing. Of the staff, 310 (277) work in Sweden and 136 (113) in other countries.

Financing and cash flow

Axis had at its disposal a total of SEK 373 million on 31 December 2006, of which SEK 313 million was in cash, and SEK 60 million was in unutilised credit facilities.

Axis is, accordingly, in a very strong financial position for 2007. Cash flow from operating activities amounted to SEK 228 (131) million. Net investment for the year amounted to SEK 38 (30) million and total cash flow to SEK 126 (66) million.

Investment

Investments in tangible assets totalled SEK 14 (6) million, and in intangible assets, SEK 24 (24) million. Net investment for the year according to the consolidated cash flow statement was SEK 38 (30) million.

Ownership

Axis AB's share capital at the end of the financial year amounted to SEK 692,527, divided over 69,252,700 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 0.49 percent.

At the close of the financial year, Axis AB had 11,057 shareholders. The five largest shareholders at the end of the financial year were responsible for 56 percent of both votes and capital.

	Number of shares	Percentage of capital and votes
T Karlsson, privately and through companies (LMK Industri AB)	15 274 658	22.1 %
C Brandberg, privately and through companies (Inter Indu SPRL)	9 606 957	13.9 %
M Gren, through companies (AB Grens specialisten)	7 167 471	10.3 %
Swedbank Robur	4 552 200	6.6 %
SIF	2 389 300	3.4 %
Other	30 272 114	43.7 %
	69 252 700	100.0 %

Results and position

Sales during the year amounted to SEK 1202 (895) million, which represents a growth of 34 percent compared with the preceding year. Currency effects have had a negative impact on sales of SEK 10 million. Product area Video grew by 45 percent from SEK 733 million to SEK 1,062 million, while product area Print fell by 30 percent to SEK 95 million. The gross margin improved from 54.0 percent in 2004 to 54.8 percent for 2006.

The Group's operating profit amounted to SEK 223 (128) million, an improvement of SEK 95 million on the preceding year. The operating margin rose from 14.3 percent in 2005 to 18.6 percent in 2006. Currency effects had no significant impact on operating profit.

Profit after financial items was SEK 222 (128) million, an improvement of SEK 94 million compared with the previous year.

Income statement in summary, SEK thousands

	Q1, 2006	Q2, 2006	Q3, 2006	Q4, 2006	TOTAL
Net sales	257 081	283 072	301 319	361 019	1 202 491
Gross profit	138 222	154 573	166 772	199 441	659 007
Gross margin %	53.8	54.6	55.3	55.2	54.8
Operating profit	38 000	43 297	68 332	73 527	223 156
Operating margin %	14.8	15.3	22.7	20.4	18.6
Profit after financial items	37 898	43 106	68 060	73 342	222 406
Profit margin %	14.7	15.2	22.6	20.3	18.5

Key ratios for the Group

	2006	2005	2004	2003	2002
Net sales, SEK million	1 202	895	691	624	670
Profit after financial items, SEK million	222	128	50	8	51
Balance sheet total, SEK million	789	580	470	434	430
Equity/assets ratio	64 %	70 %	72 %	69 %	73 %
Return on capital employed	33 %	24 %	11 %	2 %	12 %
Return on equity	35 %	25 %	12 %	2 %	13 %
Profit per share before dilution, SEK	2.28	1.32	0.44	-0.04	0.52
Profit per share after dilution, SEK ¹⁾	2.27	1.32	0.44	-0.04	0.52
Number of shares before dilution, average, thousands	69 084	68 906	68 900	68 900	68 900
Number of shares after dilution, average, thousands	69 220	69 121	68 900	68 900	68 985
Number of employees at close of year	446	391	346	362	344

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 five 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 Lars-Erik Nilsson and Olle Isberg.

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.

Axis is an innovative growth company with an overall long-term financial target which involves total

average annual growth of at least 20 percent for the Group, a profit margin of at least 10 percent and an equity/assets ratio in excess of 50 percent.

In the shorter perspective, the overall goal is to maintain and strengthen the company's market-leading position in the network video market, a market which market analysts expect to grow at an annual rate of 40 percent over the next few years. Growth, continued profitability and a stable financial base will create the conditions for a long-term growth in value for the shareholders.

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 224 (100) million.

Proposed appropriation of profits for the Parent Company

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

Profit brought forward and other non-restricted reserves	SEK 360 886 156
Net profit for the year	SEK 143 096 491
Total	SEK 503 982 647

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 3.00 per share be paid to shareholders	SEK 207 758 100
Carried forward	SEK 296 224 547
Total	SEK 503 982 647

The company's non-restricted equity as at 31 December 2006 amounted to SEK 503,982,647. The Board anticipates a continuing positive trend in both results and liquidity in financial year 2007. 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	2006	2005	2004
Net sales	4	1 202 491	895 066	691 481
Cost of goods and services sold		-543 484	-412 093	-331 968
Gross profit		659 007	482 973	359 514
Other income and changes in value	8	2 534	-2 718	2 663
Selling and marketing expenses		-226 732	-176 289	-154 078
Administrative expenses		-53 485	-53 274	-42 277
Research and development costs		-158 168	-122 500	-114 787
Operating profit	6, 7, 8	223 156	128 192	51 035
Financial expenses		-750	-651	-760
Profit before tax		222 406	127 541	50 275
Tax	9	-65 025	-36 454	-19 732
NET PROFIT FOR THE YEAR		157 381	91 087	30 543
Earnings per share before dilution, SEK	10	2.28	1.32	0.44
Earnings per share after dilution, SEK		2.27	1.32	0.44
Number of shares before dilution, average, thousand		69 084	68 906	68 900
Number of shares after dilution, average, thousand		69 220	69 121	68 900
Proposed dividend, SEK		3.00	1.00	0.50

THE PARENT COMPANY'S INCOME STATEMENT

	Note	2006	2005	2004
Net sales		9 741	10 267	4 978
Gross profit		9 741	10 267	4 978
Administrative expenses		-9 776	-12 706	-7 497
Operating profit		-35	-2 439	-2 519
<i>Result from financial investments</i>				
Result from participations in Group companies	23	192 552	127 327	55 887
Interest income and similar profit/loss items	24	37 060	8 763	16 046
Interest expense and similar profit/loss items	25	-5 700	-34 070	-9 053
Profit after financial items		223 877	99 581	60 361
Change in tax allocation reserve		-24 135	-	5 036
Tax	9	-56 646	-29 083	-20 000
NET PROFIT FOR THE YEAR		143 096	70 498	45 397

CONSOLIDATED BALANCE SHEET

ASSETS	Note	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Non-current assets				
Tangible assets	5	17 957	8 750	7 733
Intangible assets	5	63 366	55 168	38 608
Deferred tax assets	11	-	38 696	69 302
Other financial assets	14	4 240	4 590	2 744
Total non-current assets		85 563	107 204	118 387
Current assets				
Inventories	12	151 690	117 811	85 788
Accounts receivable and other receivables	13	232 700	167 370	140 136
Derivative instruments	22	5 886	-	-
Current tax assets		-	613	4 663
Cash and cash equivalents	15	313 466	187 225	121 023
Total current assets		703 742	473 019	351 610
TOTAL ASSETS		789 305	580 223	469 997

THE PARENT COMPANY'S BALANCE SHEET

ASSETS	Note	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Non-current assets				
<i>Financial assets</i>				
Participations in subsidiaries	26	742	742	742
Deferred tax assets	11	-	34 724	63 807
Other financial assets		1 600	1 600	-
Total financial assets		2 342	37 066	64 549
Total non-current assets		2 342	37 066	64 549
Current assets				
<i>Receivables</i>				
Receivables from Group companies		297 600	291 987	284 056
Other receivables		2 315	14	2 120
Prepaid expenses and accrued income		6 205	1 340	7 166
Total receivables		306 120	293 341	293 342
<i>Cash and bank balances</i>				
Cash and bank balances	15	253 263	105 928	37 792
Total cash and bank balances		253 263	105 928	37 792
Total current assets		559 383	399 269	331 134
TOTAL ASSETS		561 725	436 335	395 683

CONSOLIDATED BALANCE SHEET

EQUITY & LIABILITIES	Note	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Equity				
<i>Capital and reserves</i>				
Share capital	16	692	689	689
Other paid-up capital		271 686	266 421	260 567
Other reserves	17	17 445	16 915	7 251
Profit brought forward		211 246	123 237	71 337
Total equity		501 069	407 262	339 844
Liabilities				
<i>Non-current liabilities</i>				
Borrowing	18	5 780	6 780	6 375
Pension obligations	19	126	200	325
Deferred tax liabilities	11	5 193	-	-
Other provisions	20	4 633	3 794	3 578
Total non-current liabilities		15 732	10 774	10 278
<i>Current liabilities</i>				
Accounts payable and other liabilities	21	253 564	161 152	119 875
Current tax liabilities		18 940	-	-
Derivative instruments	22	-	1 035	-
Total current liabilities		272 504	162 187	119 875
Total liabilities		288 236	172 961	130 153
TOTAL EQUITY AND LIABILITIES		789 305	580 223	469 997
MEMORANDUM ITEMS				
<i>Pledged assets</i>		NONE	NONE	NONE
<i>Contingent liabilities</i>		NONE	NONE	NONE

THE PARENT COMPANY'S BALANCE SHEET

EQUITY & LIABILITIES	Note	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Equity	16			
<i>Restricted equity</i>				
Share capital		692	689	689
Statutory reserve		-	293 319	294 324
Total restricted equity		692	294 008	295 013
<i>Non-restricted equity</i>				
Share premium reserve		5 265	-	-
Reserve for the reduction of the statutory reserve		293 319	-	-
Profit brought forward		62 302	60 772	46 280
Net profit for the year		143 096	70 498	45 397
Total non-restricted equity		503 982	131 270	91 677
Total equity		504 674	425 278	386 690
Untaxed reserves				
Tax allocation reserve		24 135	-	-
Total untaxed reserves		24 135	-	-
Liabilities				
<i>Current liabilities</i>				
Liabilities to Group companies		8 208	8 306	8 306
Tax liabilities		21 922	-	-
Accrued expenses and deferred income		2 786	2 751	687
Total current liabilities		32 916	11 057	8 993
Total liabilities		32 916	11 057	8 993
TOTAL EQUITY AND LIABILITIES		561 725	436 335	395 683
MEMORANDUM ITEMS				
<i>Pledged assets</i>		NONE	NONE	NONE
<i>Contingent liabilities</i>	27	6 003	7 973	7 513

CHANGE IN EQUITY – GROUP

	Attributable to The Parent Company's shareholders				Total equity
	Share capital	Other paid-up 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)	-	457	-	-	457
VAT refund on issue expenses	-	1 748	-	-	1 748
Exchange rate fluctuations on own holdings ¹⁾	-	18	-	-	18
Vesting of stock options in Axis Inc. USA ²⁾	-	132	-	-	132
Exchange rate differences	-	-7 251	7 251	-	-
Other adjustments	-	55	-	-227	-172
Total transactions recognised direct in equity	-	-5 298	7 251	-227	1 726
Net profit for the year	-	-	-	37 337	37 337
Closing balance as at 31 December 2004	689	260 567	7 251	71 337	339 844
Adjustments due to transition to IFRS	-	6 794	1 205	-4 436	3 563
Opening balance as at 1 January 2005	689	267 361	8 456	66 901	343 407
New issue on exercise of subscription options	-	449	-	-	449
Elimination of issue expenses in respect of expired option scheme	-	-1 005	-	-	-1 005
Elimination of issue expenses in respect of exercised 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	-	-	-6 760	-	-6 760
Exchange rate differences	-	-	17 333	-	17 333
Total transactions recognised direct in equity	-	-940	8 459	-301	7 218
Net profit for the year	-	-	-	91 087	91 087
Dividend in respect of 2004	-	-	-	-34 450	-34 450
Closing balance as at 31 December 2005	689	266 421	16 915	123 237	407 262
New issue on exercise of subscription options	3	5 265	-	-	5 268
Other adjustments	-	-	1	-404	-403
Cash flow hedges, after tax	-	-	3 419	-	3 419
Hedging of net investment, after tax	-	-	6 571	-	6 571
Exchange rate differences	-	-	-9 461	-	-9 461
Total transactions recognised direct in equity	3	5 265	530	-404	5 394
Net profit for the year	-	-	-	157 381	157 381
Dividend in respect of 2005	-	-	-	-68 968	-68 968
Closing balance as at 31 December 2006	692	271 686	17 445	211 246	501 069

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

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

In previous annual reports, Other paid-up capital was recognised in Other reserves.

CHANGE IN EQUITY – PARENT COMPANY

	Share capital	Statutory reserve	Share premium reserve	Reserve for the reduction of the statutory 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 refund in respect of issue expenses	-	-	1 748	-	-	-	1 748
Transfer of Share premium reserve to Statutory reserve in accordance with 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 on 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 subscription options	-	449	-	-	-	-	449
Elimination of expenses in respect of expired subscription option scheme	-	-1 005	-	-	-	-	-1 005
Elimination of issue expenses in respect of exercised subscription 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
Reversal of net profit for the year	-	-	-	-	70 498	-70 498	-
New issue on exercise of subscription options	3	-	5 265	-	-	-	5 268
Dividend	-	-	-	-	-68 968	-	-68 968
Reduction of statutory reserve	-	-293 319	-	293 319	-	-	-
Net profit for the year	-	-	-	-	-	143 096	143 096
Equity 31 December 2006	692	-	5 265	293 319	62 302	143 096	504 674

Number of shares as at 31 December 2006 was 69,252,700. Par value was SEK 0.01 per share.

At the annual general meeting on 18 April, a dividend of SEK 3.00 per share in respect of 2006 will be proposed. During 2006, SEK 1.00 per share was paid in respect of financial year 2005.

CONSOLIDATED CASH FLOW STATEMENT

	Note	Jan. 1–Dec. 31 2006	Jan. 1–Dec. 31 2005	Jan. 1–Dec. 31 2004
<i>Operating activities</i>				
Cash flow from the operation	28	233 750	130 732	32 226
Financial expenses paid		-491	-159	-1 076
Taxes paid		-6 326	-44	-1 307
Cash flow from operating activities		226 933	130 529	29 843
<i>Investing activities</i>				
Acquisition of tangible assets		-14 226	-5 970	-3 619
Sale of tangible assets		-	-	240
Acquisition of intangible assets		-23 766	-24 110	-12 290
Investments in other financial assets		-	159	902
Cash flow from investing activities		-37 992	-29 921	-14 767
<i>Financing activities</i>				
New issue		5 268	449	-
Amortisation of loan		-	-	-3 400
Dividend paid		-68 968	-34 450	-
Other		1 000	-405	6 369
Cash flow from financing activities		-62 700	-34 406	2 969
Cash flow for the year		126 241	66 202	18 045
Cash and cash equivalents at start of year		187 225	121 023	102 978
Change in cash and cash equivalents		126 241	66 202	18 045
Cash and cash equivalents at end of year	15	313 466	187 225	121 023

CASH FLOW STATEMENT – PARENT COMPANY

	Note	Jan. 1–Dec. 31 2006	Jan. 1–Dec. 31 2005	Jan. 1–Dec. 31 2004
<i>Operating activities</i>				
Cash flow from the operation	28	-21	45 109	93 045
Net interest income/expense		24 217	1 141	2 093
Group contribution received		195 161	129 871	59 743
Shareholders' contribution		-2 609	-2 544	-3 856
Adjustment for cash flow not affecting Group contribution		-5 713	-71 440	-75 300
Cash flow from operating activities		211 035	102 137	75 725
<i>Financing activities</i>				
New issue		5 268	449	-
Dividend paid		-68 968	-34 450	-
Cash flow from financing activities		-63 700	-34 001	-
Cash flow for the year		147 335	68 136	75 725
Cash and cash equivalents at start of year		105 928	37 792	-37 933
Change in cash and cash equivalents		147 335	68 136	75 725
Cash and cash equivalents at end of year		253 263	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 systems, remote surveillance 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 Nordic Mid Cap, Information Technology list. The company operates globally through its own offices in 17 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 financial statements 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 financial statements, are specified where appropriate in the relevant note.

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 32:05.

From 1 January 2005, Axis' consolidated financial statements have been drawn up in accordance with IFRS. The interim report for the first quarter of 2005 was the first the company published in conformity with IFRS. Prior to and including 2004, Axis applied the Swedish Financial Accounting Standard Council's recommendations and statements. The transition to IFRS was reported in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards", for which the transition date is 1 January 2004. IFRS 1 lays down that the comparison year, 2004, is also to be reported in conformity with IFRS. Financial information relating to financial years prior to 2004 has not been recalculated. To evaluate the effect of the transition to IAS and subsequently to IFRS, a project group was organised in 2002 under the chairmanship of the company's Group Controller, with the assistance of the company's auditors. Identified significant effects were reported on a current basis to the Group management team and the Board of Directors.

Reporting in accordance with IAS 39 has taken place since 1 January 2005.

Axis holds financial assets which were previously valued at accrued acquisition value. Under IAS 39, these assets are to be valued at fair value. As a consequence of this, equity as at 1 January 2005 has been adjusted by SEK 2.3 million. With effect from 1 January 2005, changes in the value of these assets has been reported through the income statement, since they are classified as financial assets value at fair value through the income statement.

Axis also holds financial derivatives, primarily forward currency contracts, for the purpose of hedging purchases and sales in foreign currencies, as well as net assets in foreign subsidiaries. Axis applies hedge accounting. The adoption of IAS 39 means that

cash flow hedging is recorded in the balance sheets and income statements, while hedging in respect of the translation of net assets in foreign subsidiaries, equity hedge, is reported along with the translation difference directly in equity.

Initial equity as at 1 January 2005, adjusting for IFRS and allowing for tax effects, has been affected positively by SEK 1.2 million for unrealised cash flow hedges. The change in policy in relation to equity hedging has resulted in a reversal of SEK 6.8 million within equity from non-restricted reserves to translation differences, since the effects of equity hedging in accordance with the previous accounting policy was reported in the income statement.

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.

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.

2.3 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.

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. 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
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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 development 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
Client register	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). Capitalised development work is tested annual in respect of impairment needs before it is finally taken into use.

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. All financial instruments are recognised from the transaction 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 12 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 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.

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 specific 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 tax assets 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 tax assets or deferred tax liabilities to the same tax authority are recognised net in the balance sheet. Deferred tax assets 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 to 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, and are treated as operational for accounting purposes.

2.15 Income recognition

Net sales are recognised when the goods are delivered and accepted by the customer, i.e. when the material risks and benefits are transferred to the purchaser. 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 2006, 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

Recognition is at acquisition value, with the exception of financial instruments, which are valued at fair value. No significant differences exist between the recoverable amount and the fair value.

2.20 New accounting principles from 2007

Axis' preliminary judgement is that the new recommendations which take effect from January 2007 will affect the formulation of and information in the 2007 annual report.

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 2006, there were unutilised credit facilities of SEK 60 million shared between two agreements. The credit agreements run until 31 May 2007 and 27 February 2007 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 6 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. For the Group's cash flow hedging, hedging for the next two months will be in the range 60–100 percent of exposure, and the next 3 to 12 months, in 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.

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 2006 is given below.

Currency type	Equity hedge			Cash-flow hedges		
	Exposure	Total derivative	Proportion hedged	Exposure	Total derivative	Proportion hedged
EUR	-	-	-	42 129	22 500	53 %
JPY	157 563	130 000	83 %	-	-	-
USD	10 192	8 200	80 %	19 543	12 600	64 %

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 geographical market	2006	2005	2004
EMEA (Europe, the Middle East, Africa)	581 412	410 387	350 137
North & South America	485 202	337 162	206 611
Asia	135 877	147 517	134 733
	1 202 491	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 ten percent of the Group's total assets.

	Assets			Investments		
	2006	2005	2004	2006	2005	2004
EMEA (Europe, the Middle East, Africa)	376 409	237 381	179 620	36 645	29 844	13 427
North & South America	256 163	169 736	97 851	779	30	8
Asia	75 239	69 204	63 278	799	206	1 332
	707 811	476 321	340 749	38 223	30 080	14 767

Note 5 Fixed assets

	Plant ft equipment	Capitalised develop- ment costs	Rights/ customer register	Other	Total
As at 1 January 2004					
Acquisition value	75 278	20 324	12 100	7 686	40 110
Accumulated deprecia- tion 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 deprecia- tion 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
As at 31 Dec 2005					
Acquisition value	83 661	56 724	12 100	7 686	76 510
Accumulated deprecia- tion and impairment	-74 911	-4 548	-9 108	-7 686	-21 342
Carrying amount	8 750	52 176	2 992	-	55 168
1 Jan–31 Dec 2006					
Carrying amount brought forward	8 750	52 176	2 992	-	55 168
Revaluation	-215	-	-	-	-
Acquisitions	14 458	15 217	8 548	-	23 765
Sales and disposals	-17	-	-	-	-
Depreciation and impairment	-5 019	-10 914	-4 653	-	-15 567
Carrying amount carried forward	17 957	56 479	6 887	-	63 366
As at 31 Dec 2006					
Acquisition value	90 134	71 941	20 648	7 686	100 275
Accumulated deprecia- tion and impairment	-72 177	-15 462	-13 761	-7 686	-36 909
Carrying amount	17 957	56 479	6 887	-	63 366

Note 6 Costs divided by cost type

	2006	2005	2004
Depreciation and impairment (note 5)	-20 586	-12 529	-10 501
Cost of payments to employees (note 19)	-295 205	-257 349	-209 362
Cost of purchasing and handling goods for resale	-543 484	-412 093	-331 968
Other external costs	-122 994	-82 185	-91 279
	-982 269	-764 156	-643 110

Note 7 Audit fees

	2006	2005	2004
Audit fees to Öhrlings Pricewaterhouse- Coopers	664	615	500
Other fees to Öhrlings Pricewaterhouse- Coopers	538	430	346
Audit fees to other auditors	734	599	564
	1 936	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

	2006	2005	2004
<i>Financial assets valued at fair value</i>			
Fair value, realised and unrealised losses	2 142	-740	-
<i>Derivative instruments</i>			
Cash flow hedges	-3 552	-6 704	-
Operational exchange rate differences ¹⁾	-	2 957	-
Interest income	3 944	1 769	2 663
	2 534	-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		
	2006	2005	2004	2006	2005	2004
Current tax	-25 879	-4 093	-1 610	-20 274	-	-
Deferred tax	-39 146	-32 361	-18 121	-36 372	-29 083	-20 000
	-65 025	-36 454	-19 732	-56 646	-29 083	-20 000
Recognised profit before tax	222 406	127 541	50 275	199 742	100 786	65 397
Theoretical tax, 28 percent	-62 274	-35 711	-14 077	-55 928	-28 220	-18 311
Recognised tax	-65 025	-36 454	-19 732	-56 646	-29 083	-20 000
Difference between theoretical and recognised tax	-2 751	-743	-5 655	-718	-863	-1 689
<i>Due</i>						
Non-deductible expenses	-837	-695	-1 096	-718	-900	-1 689
Taxable temporary differences	-108	-560	-427	-	-	-
Differences in tax rates	-1 789	-927	281	-	-	-
Deferred tax consequences in respect of Group adjustments and changes in Group structures	-57	-162	-5 549	-	-	-
<i>Deductible</i>						
Taxable temporary differences	23	60	44	-	37	-
Deductible temporary differences	17	1 541	1 092	-	-	-
	-2 751	-743	-5 655	-718	-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.

	2006	2005	2004
Earnings attributable to the Parent Company's shareholders	157 381	91 087	30 543
Weighted average of the number of outstanding ordinary shares, thousands	69 084	68 906	68 900
Earnings per share before dilution, SEK	2.28	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 282,350 shares.

	2006	2005	2004
Earnings attributable to the Parent Company's shareholders	157 381	91 087	30 543
Weighted average of the number of outstanding ordinary shares, thousands	69 084	68 906	68 900
Potential dilution effect of outstanding share options	136	215	-
Weighted average of the number of ordinary shares after dilution, thousands	69 220	69 121	68 900
Earnings per share after dilution, SEK	2.27	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		
	2006	2005	2004	2006	2005	2004
<i>Deferred tax assets</i>						
Tangible and intangible assets	839	-	878	-	-	-
Financial assets	-	1 717	9 091	-	-	9 091
Inventories	2 526	2 471	2 381	-	-	-
Accumulated loss carry forwards ²⁾	598	34 767	56 567	-	34 724	54 716
Other items	-	-	749	-	-	-
	3 963	38 955	69 666	-	34 724	63 807
<i>Deferred tax liabilities</i>						
Tangible and intangible assets	-	259	-	-	-	-
Financial assets	2 378	-	-	-	-	-
Tax allocation reserve	6 758	-	-	-	-	-
Other items	20	-	364	1 648	-	-
	9 156	259	364	-	-	-
Deferred tax assets/tax liabilities	-5 193	38 696	69 302	-1 648	34 724	63 807

¹⁾ Deferred tax liabilities to the same tax authority are recognised net in deferred income taxes recoverable.

²⁾ 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

	2006	2005	2004
Goods for resale	151 690	117 811	85 788
	151 690	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 10,652,000 (SEK 8,304,000).

Note 13 Accounts receivable and other receivables

	2006	2005	2004
Accounts receivable	203 922	143 402	108 416
Provision for fall in value of receivables	-1 303	-676	-1 384
Accounts receivable – net	202 619	142 726	107 032
Other receivables	11 860	9 521	11 697
Prepaid expenses and deferred income	18 221	15 123	21 407
	232 700	167 370	140 136

Note 14 Other financial assets

	2006	2005	2004
Aptilo Networks AB	1 600	1 600	-
Other	2 640	2 990	2 744
	4 240	4 590	2 744

In connection with the transition to IFRS, the holding in Aptilo Networks AB was valued as at 1 January 2005 at SEK 2,340,000. All non-current receivables fall due within five years of the balance sheet date.

Note 15 Cash and cash equivalents

	The Group			The Parent Company		
	2006	2005	2004	2006	2005	2004
Cash and bank balances	88 466	127 225	61 023	28 263	45 928	-22 208
Short-term bank investments	225 000	60 000	60 000	225 000	60 000	60 000
	313 466	187 225	121 023	253 263	105 928	37 792

The effective rate of interest for short-term bank investments was 3 percent (1.6). These investments have an average due date of 34 days. Axis has an unutilised credit facility of SEK 60 million (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 below 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	Acquisition price	Funds received	Number of options Dec. 31, 2005	Number exercised	Number of options Dec. 31, 2006	Number of shares	Full dilution
Staff in Europe and Asia	Oct. 2, 2007	26.00	5.50	573 100	104 200	47 500	56 700	56 700	0.08 %
Staff in the USA	Oct. 2, 2007	26.00	5.50	352 000	64 000	8 000	56 000	56 000	0.08 %
Staff in the USA	Sept. 30, 2010	48.00	15.50	2 669 875	172 250	2 600	169 650	169 650	0.24 %
				3 594 975	340 450	58 100	282 350	282 350	0.41 %

The funds paid to the Parent Company amount in total to SEK 12,500,000. 327,000 share options were exercised during financial year 2006. During 2006, the third scheme from 2001 expired above the target price at SEK 18. The average volume-weighted price of the shares during 2006 was SEK 65.36 per share.

Non-assigned options will be eliminated against equity in the Group.

The company's share capital consists of 69,252,700 (68,925,000) 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	-	-7 983
Tax relating to cash flow hedges	672	-	672
Tax relating to the hedging of net investment, equity hedge	1 223	-	1 223
Translation differences	-	17 334	17 334
Balance carried forward as at 31 December 2005	-7 670	24 585	16 915
Cash flow hedges	4 749	-	4 749
Hedging of net investment, equity hedge	9 127	-	9 127
Tax relating to cash flow hedges	-1 330	-	-1 330
Tax relating to the hedging of net investment, equity hedge	-2 555	-	-2 555
Translation differences	-	-9 461	-9 461
Balance carried forward as at 31 December 2006	2 321	15 124	17 445

The amount in respect of cash flow hedges which has been transferred from equity to the income statement during the year was SEK 352,000 (SEK 6,704,000).

Note 18 Borrowing

	2006	2005	2004
Long-term portion	5 780	6 780	6 375
	5 780	6 780	6 375

Note 19 Personnel

Distribution of the average number of employees:

	Women			Men			Total		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
The Parent Company	-	-	-	-	-	-	-	-	-
Denmark	-	-	-	1	2	2	1	2	2
France	5	4	4	9	9	7	14	13	11
Japan	7	7	8	6	8	9	13	15	17
The Netherlands	1	1	1	3	3	3	4	4	4
Singapore Et Asia Pacific	12	11	12	17	16	16	29	27	28
Spain Et Italy	4	4	3	10	8	8	14	12	11
Great Britain	2	1	1	6	4	4	8	5	5
Sweden	68	57	54	227	195	183	295	252	237
South Africa	2	-	-	2	-	-	4	-	-
Germany	4	2	2	4	6	5	8	8	7
The USA	9	8	8	28	15	13	37	23	21
The Group total	114	95	93	313	266	250	427	361	343

Salaries and remuneration amounted to:

	The Board of Directors & President and CEO			Other			Total		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
The Parent Company	-	-	-	-	-	-	-	-	-
Denmark	-	-	-	691	980	920	691	980	920
France	-	-	-	8 495	10 488	6 265	8 495	10 488	6 265
Japan	-	-	-	6 983	8 572	8 947	6 983	8 572	8 947
The Netherlands	-	-	-	2 423	2 737	2 077	2 423	2 737	2 077
Singapore Et Asia Pacific	-	-	-	8 826	9 365	7 798	8 826	9 365	7 798
Spain Et Italy	-	-	-	6 123	5 918	4 442	6 123	5 918	4 442
Great Britain	-	-	-	6 611	4 621	4 175	6 611	4 621	4 175
Sweden	7 984	4 504	3 198	141 441	113 125	93 362	149 425	117 629	96 560
South Africa	-	-	-	2 031	-	-	2 031	-	-
Germany	-	-	-	5 568	5 874	4 592	5 568	5 874	4 592
The USA	-	-	-	23 215	21 572	15 854	23 215	21 572	15 854
The Group total	7 984	4 504	3 198	212 407	183 252	148 432	220 391	187 756	151 630

Salaries and remuneration to the Board of Directors and the President and CEO were paid through the subsidiary company, Axis Communications AB. Four of the members of the Board and the President and CEO are, as in preceding years, men. The fifth of the Board of Directors this year is a woman. The table above does not include Directors' fees.

	Salaries and remuneration			Social security contributions			(of which pension expenses)		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
The Parent Company	-	-	-	-	-	-	-	-	-
Subsidiaries	220 391	187 756	151 630	74 814	69 593	57 732	19 816	16 201	16 230
The Group total	220 391	187 756	151 630	74 814	69 593	57 732	19 816	16 201	16 230

Remuneration to the Board of Directors:

	The Group		
	2006	2005	2004
Directors' fees	755	688	600
	755	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.

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 six 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 financial year 2006, the actual bonus was calculated on the basis of a combination of operating margin, the capital turnover rate and the average annual growth over two years. The accounts for financial year 2006 have been charged with SEK 5,000,000 in bonus for the President and CEO, and a total of SEK 6,325,000 for the other key management personnel. Of the six key management personnel, five are men (p.y. four) and one a woman (p.y. one).

Remuneration and other benefits in respect of key management personnel are shown in the table below.

	Basic salary/ Fees	Bonus	Other benefits	Pension expenses	Other remuner- ation	Total
Chairman of the Board	400	-	-	-	-	400
President and CEO	1 794	5 000	9	1 959	51	8 813
Other key management personnel	5 512	6 325	17	2 075	191	14 120
Employed members of the Board	738	52	-	162	47	999
	8 444	11 377	26	4 196	289	24 332

The bonus shown in the table refers to the bonus due for financial year 2006, which will be paid during financial year 2007. The bonus in respect of financial year 2005 was paid during 2006 and amounted to SEK 2,103,000 for the President and CEO, and a total of SEK 2,296,000 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 2006	Maturity/subscription for shares during 2006
	Number, 31 December 2006	Number
The Board of Directors	-	-
President and CEO	-	-
Other key management personnel	6 000	-8 000
	6 000	-8 000

During 2006, neither the President and CEO nor other key managing personnel acquired share options in Axis AB. Of the total change in 2006, all share options were converted to shares.

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 2006, 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 15 (12) million during the year. SPP's surplus may be allocated to the policyholder and/or the beneficiaries.

	The Group		
	2006	2005	2004
Cost of defined contribution plans	21 294	14 441	16 230
Cost of special employer's contribution	4 082	3 261	3 250
	25 376	17 702	19 480

Severance pay

Termination of employment for the President and CEO is subject to a mutual period of notice of 6 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 five of the other leading key management personnel. For the sixth 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 man-

agement personnel was decided by the President and CEO in consultation with the Remuneration Committee.

Note 20 Other provisions

	The Group		
	2006	2005	2004
Anticipated additional purchase price, software rights ¹⁾	-	3 794	3 578
Anticipated additional purchase price, customer register	4 633	-	-
	4 633	3 794	3 578

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

	The Group		
	2006	2005	2004
Provisions brought forward	3 794	3 578	4 948
Change during the year	839	216	-1 370
Provisions carried forward	4 633	3 794	3 578

Note 21 Accounts payable and other liabilities

	The Group		
	2006	2005	2004
Accounts payable	117 464	68 635	56 498
Other liabilities	12 483	7 175	8 530
Social security contributions and other taxes	14 468	18 902	11 973
Accrued expenses	109 149	66 440	42 874
	253 564	161 152	119 875

Note 22 Derivative instruments

2005	The Group		
	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
2006	Assets	Liabilities	Net
Currency swaps – equity hedge	254	-73	181
Currency futures – equity hedge	540	-43	497
	794	-116	678
Currency futures – cash flow hedge	5 208	-	5 208
	6 002	-116	5 886

Note 23 Results from participations in Group companies

	The Group		
	2006	2005	2004
Group contributions received	195 161	129 872	59 743
Impairment of shares in subsidiaries (related to Group contribution made and shareholders' contribution made)	-2 609	-2 545	-3 856
	192 552	127 327	55 887

Note 24 Interest income and similar profit/loss items

	The Group		
	2006	2005	2004
Interest income	4 907	1 862	2 118
Interest income from Group companies	253	297	302
Liquidation funds received in respect of impaired shares	-	-	422
Exchange rate differences	31 900	6 604	13 204
	37 060	8 763	16 046

Note 25 Interest expense and similar profit/loss items

	The Group		
	2006	2005	2004
Interest expense	-266	-132	-159
Interest expense to Group companies	-1 116	-718	-
Exchange rate differences	-4 175	-32 315	-8 620
Other financial expenses	-143	-905	-274
	-5 700	-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, 2006	Dec. 31, 2005	Dec. 31, 2004
Axis Communications AB	Sweden, Lund	556253-6143	100 %	1 600	160	342	342	342
Gren & Karlsson Firmware AB	Sweden, Lund	556304-6209	100 %	500	100	50	50	50
Axis Technologies AB	Sweden, Lund	556485-0765	100 %	500	100	50	50	50
Axis Alfa AB	Sweden, Lund	556599-4547	100 %	500	100	100	100	100
Axis Beta AB	Sweden, Lund	556599-4588	100 %	500	100	100	100	100
Axis Gamma AB	Sweden, Lund	556599-4562	100 %	500	100	100	100	100
Total						742	742	742

Shares owned by subsidiaries	Registered office	Corporate ID number	Proportion of capital
Axis Communications SA	France		100 %
Axis Communications (UK) Ltd	UK		100 %
Axis Communications GmbH	Germany		100 %
Axis Communications BV	The Netherlands		100 %
Axis Attento Aps	Denmark		100 %
AxerNet Communications SA	Spain		100 %
Axis Communications (SA) (Pty) Ltd	South Africa		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 %
Shanghai Axis Communication Equipment Trading Co. Ltd	China, 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

	The Parent Company		
	2006	2005	2004
Contingent liabilities on behalf of other Group companies	6 003	7 973	7 513
	6 003	7 973	7 513

Note 28 Cash flow from operating activities

	The Group			The Parent Company		
	2006	2005	2004	2006	2005	2004
Net profit/loss for the period before financial items	223 156	128 192	51 035	-35	-2 439	-2 519
Adjusted for:						
- depreciation on tangible assets	5 019	4 979	7 262	-	-	-
- depreciation on intangible assets	15 568	7 550	3 239	-	-	156
- other items not affecting liquidity	3 680	5 160	-272	-	-	-
Change in working capital						
- inventories	-33 879	-32 023	-18 714	-	-	-
- accounts receivable and other receivables	-71 475	-26 978	-11 620	-21	49 437	95 586
- accounts payable and other liabilities	91 681	43 852	1 296	35	-1 889	-178
Cash flow from operating activities	233 750	130 732	32 226	-21	45 109	93 045

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.

SIGNATURES

The Parent Company's and the Consolidated balance sheet and income statement are to be adopted at the annual general meeting on 18 April 2007.

Lund 8 February 2007

Lars-Erik Nilsson
Chairman of the Board

Ray Mauritsson
President and CEO

Nils Rydbeck

Martin Gren

Charlotta Falvin

Olle Isberg

Our audit report was submitted on 8 February 2007.

Öhrlings PricewaterhouseCoopers AB

Anders Lundin
*Authorized Public Accountant
Chief Auditor*

AUDIT REPORT

To the annual meeting of the shareholders of Axis AB (publ)

Corporate identity number 556241-1065

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Axis AB (publ) for the year 2006. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRS as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether

any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRS as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Lund, February 8, 2007

Öhrlings PricewaterhouseCoopers AB

Anders Lundin
Authorized Public Accountant
Chief Auditor

QUARTERLY DATA

Invoicing per product group (SEK thousand)	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Full year 2006
Video	130 231	183 107	198 422	220 766	219 598	249 253	268 667	324 092	1 061 610
Print	39 143	36 241	29 775	30 383	27 856	24 192	20 939	22 326	95 313
Scan	2 038	2 327	2 387	4 298	4 113	6 230	6 946	9 711	27 000
Other	3 359	4 444	4 146	4 000	5 514	3 397	4 767	4 890	18 568
Total	174 771	226 119	234 730	259 447	257 081	283 072	301 319	361 019	1 202 491

Invoicing per region (SEK thousand)	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Full year 2006
EMEA	80 459	104 242	96 524	129 163	115 880	134 447	139 505	191 580	581 412
Americas	52 934	84 164	100 331	99 733	108 590	117 246	129 422	129 944	485 202
Asia	41 378	37 713	37 875	30 551	32 611	31 379	32 392	39 495	135 877
Total	174 771	226 119	234 730	259 447	257 081	283 072	301 319	361 019	1 202 491

Income statement (SEK thousand)	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Full year 2006
Net sales	174 771	226 119	234 730	259 447	257 081	283 072	301 319	361 019	1 202 491
Gross profit	91 659	124 744	128 764	137 806	138 222	154 573	166 772	199 441	659 008
Gross margin	52.4 %	55.2 %	54.9 %	53.1 %	53.8 %	54.6 %	55.3 %	55.2 %	54.8 %
Operating profit	13 932	41 449	40 639	32 171	38 000	43 297	68 332	73 527	223 156
Operating margin	8.0 %	18.3 %	17.3 %	12.4 %	14.8 %	15.3 %	22.7 %	20.4 %	18.6 %
Profit after financial items	13 772	41 306	40 418	32 044	37 898	43 106	68 060	73 342	222 406

MULTI-YEAR SUMMARY

INCOME STATEMENT (SEK thousand)	2001	2002	2003	2004	2005	2006
Net sales	696 333	670 277	623 637	691 481	895 066	1 202 491
<i>of which Netch</i>	20 479	-	-	-	-	-
Cost of goods and services sold	-340 754	-286 270	-301 906	-331 968	-412 093	-543 484
Gross profit	355 579	384 007	321 731	359 514	482 973	659 007
<i>of which Netch</i>	-5 903	-	-	-	-	-
Other income and changes in value	-	-	-	2 663	-2 718	2 534
Sales and marketing expenses	-212 011	-177 522	-165 062	-154 078	-176 289	-226 732
Administrative expenses	-66 262	-56 334	-44 766	-42 277	-53 274	-53 485
Research and development expenses	-151 052	-117 847	-111 982	-114 787	-122 500	-158 168
Items affecting comparability	-33 296	-	-	-	-	-
Other operating income	-	7 354	1 221	-	-	-
Other operating expenses	-6 922	-	-	-	-	-
Participation in the results of associated companies before tax	158	-	-	-	-	-
Operating profit/loss	-113 806	39 658	1 142	51 035	128 192	223 156
<i>of which Netch</i>	-30 521	-	-	-	-	-
Net financial income/expense	-35 687	11 778	7 183	-760	-651	-750
Profit/loss after financial items	-149 493	51 436	8 325	50 275	127 541	222 406
<i>of which Netch</i>	-31 691	-	-	-	-	-
Tax on profit/loss for the period	48 445	-15 581	-10 900	-19 732	-36 454	-65 025
Minority participation in the results for the period	10 941	-	-	-	-	-
Net profit/loss for the year	-90 107	35 855	-2 575	30 543	91 087	157 381
	Dec. 31,					
BALANCE SHEET (SEK thousand)	2001	2002	2003	2004	2005	2006
Non-current assets	136 611	122 434	132 532	118 387	107 204	85 563
Inventories	46 628	57 994	67 074	85 788	117 811	151 690
Accounts receivable	106 339	88 385	94 078	107 032	142 726	202 619
Other receivables	18 828	31 714	36 909	37 767	25 257	30 081
Cash and cash equivalents	180 773	129 956	102 978	121 023	187 225	313 466
Total	489 179	430 483	433 571	469 997	580 223	783 419
Equity	273 014	312 532	300 324	339 844	407 262	501 069
Minority interest	-	-	-	-	-	-
Provisions	16 125	3 826	7 081	-	-	-
Long-term liabilities	50 000	-	10 200	10 278	10 774	15 732
Current liabilities	150 040	114 125	115 966	119 875	162 187	272 504
Total	489 179	430 483	433 571	469 997	580 223	789 305
	2001	2002	2003	2004	2005	2006
CASH FLOW STATEMENT (SEK thousand)						
Cash flow from operating activities before change in working capital	-80 502	45 819	15 279	58 881	145 678	240 606
Change in working capital	54 922	-39 006	-17 119	-29 038	-15 149	-13 673
Cash flow from operating activities	-25 580	6 813	-1 840	29 843	130 529	226 933
Cash flow from investing activities	-12 460	-15 404	-28 462	-14 767	-29 921	-37 992
Cash flow from financing activities	22 820	-42 226	3 324	2 969	-34 406	-62 700
Cash flow for the period	-15 220	-50 817	-26 978	18 045	66 202	126 241
Cash and cash equivalents at start of period	195 993	180 773	129 956	102 978	121 023	187 225
Cash and cash equivalents at end of period	180 773	129 956	102 978	121 023	187 225	313 466
	2001	2002	2003	2004	2005	2006
OPERATIONAL CASH FLOW (SEK thousand)						
Profit/loss after financial items	-149 493	51 436	8 324	57 069	127 541	222 406
Depreciation	19 382	13 712	9 054	10 501	12 529	20 587
Tax	-2 311	-4 189	-4 071	-1 307	-44	-6 326
Total	-132 422	60 959	13 307	66 263	140 026	236 667
Change in operating capital	54 922	-39 006	-17 119	-29 038	-15 149	-13 673
Net investment	-12 460	-15 404	-28 462	-14 767	-29 921	-37 992
Operational cash flow	-89 960	6 549	-32 274	22 458	94 956	185 002

KEY RATIOS	2001	2002	2003	2004	2005	2006
Net sales growth, %	-1.6	-0.8	-7.0	10.9	29.4	39.1
Gross margin, %	51.1	57.3	51.6	52.0	54.0	55.2
Operating margin, %	-16.3	5.9	0.2	7.4	14.3	20.4
Profit margin, %	-21.5	7.7	1.3	7.3	14.2	20.3
Depreciation, SEK million	19	14	9	11	13	20
Equity, SEK million	273	313	300	340	407	501
Capital employed, SEK million	339	311	315	352	412	517
Interest-bearing liabilities, SEK million	50	-	10	6	7	6
Net interest-bearing liabilities, SEK million	-131	-130	-93	-115	-180	-302
Balance sheet total, SEK million	489	430	434	470	580	789
Return on capital employed, %	-26.8	16.5	2.9	15.3	33.6	63.3
Return on total capital, %	-19.1	11.7	2.1	11.3	24.4	43.0
Return on equity, %	-45.8	12.6	2.0	11.5	24.6	46.5
Interest coverage ratio, multiple	-2.4	24.0	13.8	67.2	196.9	397.4
Net debt/equity ratio, multiple	-0.5	-0.4	-0.3	-0.3	-0.4	-0.6
Equity/assets ratio, %	55.8	72.8	69.3	72.3	70.2	63.5
Proportion of risk-bearing capital, %	57.4	73.9	69.9	72.4	70.2	64.1
Capital turnover rate, multiple	1.8	2.1	2.0	2.1	2.3	3.1
Number of employees (average for the period)	439	334	356	343	361	442
Sales per employee, SEK million	1.6	2.0	1.8	2.0	2.5	3.3
Operating profit per employee, SEK million	-0.3	0.1	0.0	0.2	0.4	0.7
DATA PER SHARE	2001	2002	2003	2004	2005	2006
Profit after financial items, SEK	-2.17	0.75	0.12	0.83	1.85	3.21
Cash flow, SEK	-0.22	-0.74	-0.39	0.26	0.96	1.82
Equity, SEK	3.96	4.53	4.36	4.93	5.91	7.24
Share price at close of period	25.00	18.40	17.00	18.00	58.25	91.75
Price/equity, percent	631	406	390	365	986	1268
Dividend	-	-	0.15	-	0.50	1.00
P/E ratio	neg	35	neg	41	44	40
P/S ratio	2.5	1.9	1.9	1.8	4.5	5.3
Profit per share before dilution, SEK	-1.31	0.52	-0.04	0.44	1.32	2.28
Profit per share after dilution, SEK	-1.31	0.52	-0.04	0.44	1.32	2.28
Number of shares before dilution, average, thousands	68 900	68 900	68 900	68 900	68 906	69 084
Number of shares after dilution, average, thousands	68 900	68 985	68 900	68 900	69 121	69 220
Number of outstanding shares (thousands)	68 900	68 900	68 900	68 900	68 925	69 253
Average number of shares (thousands)	68 900	68 900	68 900	68 900	68 906	69 084

DEFINITIONS

Proportion of risk-bearing capital

Equity plus minority interests and deferred tax liabilities as a percentage of the balance sheet total.

Return on equity

Profit after financial items with full tax deducted divided by average equity.

Return on capital employed

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

Return on total capital

Profit after financial items plus financial expenses divided by average balance sheet total.

Gross margin

Gross profit as a percentage of net sales.

Equity per share

Equity divided by the number of outstanding shares.

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).

Net debt/equity ratio

Net interest-bearing liabilities divided by equity.

Net interest-bearing liabilities

Interest-bearing liabilities less cash and cash equivalents.

Sales per employee

Sales divided by the average number of full-time employees.

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 per employee

Operating profit after depreciation divided by the average number of full-time employees.

Earnings per share

Profit after financial items divided by the average number of shares.

Interest coverage ratio

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

Operating margin after depreciation of tangible assets

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

Operating margin

Operating profit as a percentage of sales.

Equity/assets ratio

Equity including minority interest as a percentage of the balance sheet total.

Capital employed

The balance sheet total less non interest-bearing liabilities including deferred tax liability.

Profit margin

Profit after financial items as a percentage of sales.

Board of Directors and Auditors

Lars-Erik Nilsson

Chairman of the Board. Member of the Board since 2003. Born 1943. Chairman of the Board of IT-Hantverkarna, Luvit AB and Telligent AB. Director of Consellar AB. Education: Graduate engineer. Working experience: Ericsson, Thomson CSF Skandinavien, Compaq Computer. Principal employment: Various directorships. Shares in Axis: 10,000 Share options in Axis: 0



Charlotta Falvin

Member of the Board since 2006. Born 1966. Director of Plast AB Orion. Education: Graduate in Economics and Business Administration, University of Lund. Working experience: Lars Weibull AB, Axis Communications AB, Decuma AB. Principal employment: CEO TAT (The Astonishing Tribe AB). Shares in Axis: 10,750 Share options in Axis: 0



Martin Gren

Member of the Board since 1984. Born 1962. Chairman of the Board of Itact AB. Director of Mitronics and Netwise. Education: Studied electronics at the Institute of Technology, University of Lund. Working experience: Founder and employee of Axis. Principal employment: Employed by Axis Communications AB. Shares in Axis: 7,167,471 (through AB Grenspecialisten) Share options in Axis: 0



Management Team

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: 18,000 Share options in Axis: 6,000



Ray Mauritsson

Born 1962. President and Chief Executive Officer. Employed by Axis since 1995. Shares in Axis: 22,000 Share options in Axis: 0



Olle Isberg

Member of the Board since 2006. Born 1961. Chairman of the Board of Awardit AB, Björkliden Fjällby AB, Visionalis AB, Anerem AB and Hotel Stureplan AB. Director of Teligent AB.

Education: Stockholm School of Economics.

Working experience: Öhman Fondkommis-sion, Ratos, H&B Capital.

Principal employment: CEO Visionalis AB.

Shares in Axis: 0

Share options in Axis: 0



Nils Rydbeck

Member of the Board since 1997. Born 1946. Director of Agel-lis Group AB and Blekinge Institute of Technology. Member of the Royal

Swedish Academy of Engineering Sciences and the Royal Physiographic Society in Lund.

Education: Ph.D.

Working experience: Ericsson.

Principal employment: Consultant.

Shares in Axis: 0

Share options in Axis: 0



Auditors

Öhrlings Pricewaterhouse-Coopers. Chief auditor: Anders Lundin, born 1956. Authorized Public Accountant. Assigned to Axis since 1996.

Johan Lembre

Born 1966.

Vice President, Product Management.

Employed by Axis since 1999.

Shares in Axis: 5,350

Share options in Axis: 0



Bodil Sonesson Gallon

Born 1968.

Vice President, Sales & Marketing.

Employed by Axis since 1996.

Shares in Axis: 850

Share options in Axis: 0



Kenneth Jonsson

Born 1960.

Vice President, Research & Development.

Employed by Axis since 1985.

Shares in Axis: 10,750

Share options in Axis: 0



Anders Laurin

Born 1960.

Executive Vice President, Corporate Strategy.*

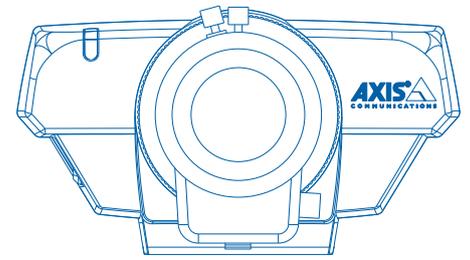
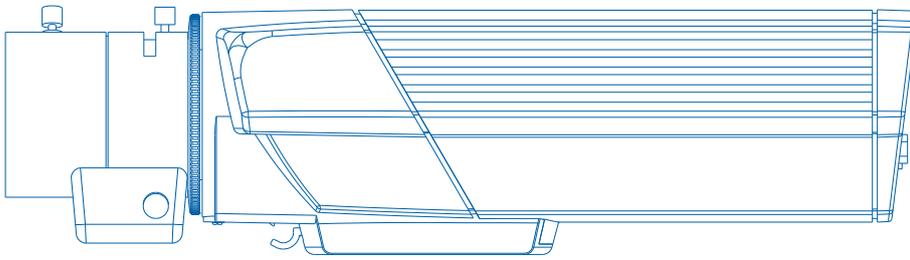
Employed by Axis since 1997.

Shares in Axis: 16,000

Share options in Axis: 0

* As of 1 January 2007, Executive Vice President, Product Management.





Corporate governance

The Swedish code for corporate governance came into force on 1 July 2005. The code, which is based on self-regulation on the "follow 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 between 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 implementation of the corporate code will be completed with the annual general meeting relating to 2006. The corporate governance report has not been reviewed by the auditors.

CORPORATE GOVERNANCE REPORT

During the period between the 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.

The corporate governance report in its entirety is available at www.axis.com/investor. The current corporate governance report was adopted at the annual general meeting in 2005.

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 ordinary general meeting for 2005 was held in Lund on 20 April 2006. All the nominated ordinary members of the Board, with the exception of Nils Rydbeck, were present. In accordance with the Articles of Association, the meeting elected five ordinary members of the Board, with no deputies. The Board members Martin Gren, Nils Rydbeck and Lars-Erik Nilsson were re-elected, and Charlotta Falvin and Olle Isberg were elected for the first time. Lars-Erik Nilsson was re-elected Chairman of the Board.

The meeting further resolved:

- that a dividend of SEK 1.00 per share be paid, of which SEK 0.50 is an additional dividend in the light of the company's strong financial position.
- to authorize the Board to resolve on a new issue. In addition, the Board was authorized, during the period until the next annual general meeting, deviating from the shareholders' right of first refusal, on one or more occasions to make a new issue of a maximum of 6,823,500 shares in total. The purpose of the authorisation is to facilitate corporate acquisitions with payment wholly or partly in Axis shares.
- to reduce the company's statutory reserve by SEK 293,319,079 from SEK 293,319,079 to SEK 0, and to transfer an amount equivalent to the reduction to non-restricted equity.

- that the Articles of Association be amended to comply with the new Companies Act which came into force on 1 January 2006.

THE RESPONSIBILITY OF THE BOARD OF DIRECTORS

Under the Swedish Companies Act and the formal work plan of the Board of Directors, the Board is responsible for drawing up and evaluating Axis' overall, long-term strategies and goals, adopting the budget and taking decisions affecting the operation and major investments in the Axis organisation and operation.

THE FORMAL WORK PLAN OF THE BOARD

The formal work plan of the Board is adopted annually by the Board at an inaugural meeting after the annual general meeting. This formal work plan sets out the division of work and responsibility between the Board and the President and CEO. It is incumbent on the President and CEO, in consultation with the Chairman of the Board, to prepare the decision data, the notification and the agenda for each meeting. The notification and decision data are to be circulated to the members of the Board in good time. The minutes are to be circulated to the members of the Board after the meeting, and a copy stored securely by the company.

THE ROLE OF THE 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.

THE WORK OF THE BOARD DURING 2006

During the year, the Board devoted a great deal of its work to advancing the focused strategy in the network video area. 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 product area video
- organisational matters to meet the expected strong growth, and
- continuous monitoring of the performance of the Group's sales channels.

During the period between the annual general meeting

and the adoption of this annual report, the Board held seven meetings including the inaugural Board meeting following election. There is a presentation of the Board of Directors on page 56.

ATTENDANCE AT BOARD MEETINGS

Member	Meeting	1	2	3	4	5	6	7
Lars-Erik Nilsson		•	•	•	•	•	•	•
Nils Rydbeck	By telephone	•	•			•		
Martin Gren		•	•	•	•	•	•	•
Charlotta Falvin (elected at annual general meeting, 2006)				•	•	•	•	•
Olle Isberg (elected at annual general meeting, 2006)				•	•	•	•	•
Patrik Tigterskjöld (retired at annual general meeting, 2006)		•	•					

Information on outstanding share and share-price related incentive schemes is on page 48.

THE CEO AND THE MANAGEMENT TEAM

Axis' management team consists of seven members, and is led by the President and CEO, Ray Mauritsson. Ray Mauritsson is a graduate engineer, with a degree in Technology and Physics from the University of Lund, and an Executive MBA from the Business School at the University of Lund. He joined Axis in 1995, and took over as President and CEO in 2003. Ray Mauritsson has no appointments with other companies outside the Axis Group, and has no significant holdings in associated companies.

The President and CEO manages the day-to-day work of the operation, and is responsible for keeping the Board informed of the progress of the operation, and that it is being carried on in accordance with the Board's guidelines and instructions. The Managing Director keeps the Board and the Chairman informed of the company's and the Group's financial position and progress. The company management team held 13 formal and a large number of informal meetings during the year.

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 Chief Auditor. Öhrlings PricewaterhouseCoopers AB have been Axis' auditors since 1996. At the annual general meeting relating to financial year 2006, a new Chief Auditor will be elected.

COMPOSITION OF THE NOMINATIONS COMMITTEE

Axis' Nominations Committee consists of representatives from the three largest shareholders. The three largest shareholders in the company on 31 August of the year before the annual general meeting shall, on 30 September of the year before the annual general meeting or at the latest six months before the annual general meeting, each appoint a representative to be a member of the Nominations Committee. The Nominations Committee shall appoint one of its members Chairman. In the event that one of the three largest shareholders waives its right to appoint a member to the Nominations Committee, the fourth largest shareholder shall appoint a member instead. If the fourth largest shareholder also waives its right, the right of appointment will pass down the shareholders in order of size of shareholding until three members have been appointed.

In the event that a member leaves the Nominations Committee before the committee's work has been completed, the shareholder who appointed that member shall appoint a new member. Should that shareholder waive its right to appoint a new member, the fourth largest shareholder shall appoint a member, or, if the fourth largest shareholder also does not appoint a member, the right of appointment will pass down the shareholders in order of size of shareholding until a new member has been appointed. Information on the composition of the Nominations Committee shall be published in the company's interim report for the third quarter and on the company's website six months before the annual general meeting.

The Nominations Committee shall present a report of its work to the annual general meeting.

NOMINATIONS COMMITTEE 2006

During the year, the Nominations Committee consisted of Therese Karlsson (LMK Industri AB), Christer Brandberg (Inter Indu S.P.R.L) and Martin Gren (AB Grenspecialisten). Christer Brandberg is Chairman and Convener. The Nominations Committee held two physical meetings during the year and three review meetings by telephone. After an inaugural meeting by telephone in September, physical meetings were held, at which the Nomination Committee evaluated the Board and identified requirement profiles. Suitable candidates were then identified and interviewed by members of the Nomination Committee.

Proposals and observations from shareholders in respect of the composition of the Board may be made

either in writing to: Axis AB, attn. Adrienne Jacobsen, Emdalavägen 14, 223 69 Lund, Sweden, or by telephone on +46 46 272 18 00.

REMUNERATION COMMITTEE

The task of the Remuneration Committee is to prepare matters relating to salary and employment conditions for the President and CEO and key management personnel. The committee is appointed at the inaugural Board meeting after the annual general meeting. In 2006, the committee consisted of Lars-Erik Nilsson and Olle Isberg. During the year, the Remuneration Committee held three minuted meetings.

AUDIT COMMITTEE

The company has decided not to appoint an Audit Committee. These matters will be dealt with by the full Board.

INTERNAL CONTROL REPORT

Introduction

Under the provisions of the Companies Act and the Swedish Code of Corporate Governance, the Board of Directors is responsible for internal controls at Axis AB. This report is drawn up in accordance with sections 3.7.2 and 3.7.3 of the *Swedish Code for Corporate Governance*, and has, therefore, been limited to covering only internal controls of financial reporting. The company's processes and systems for ensuring effective internal controls have been designed with the intention of managing and limiting the risks of material errors in the reporting of financial data, and, consequently, lead to both operational and strategic decisions being based on accurate financial information.

Axis process for the internal control of financial reporting is structured in accordance with the COSO framework (Committee of Sponsoring Organizations of the Treadway Commission), with the control environment as a base for other components and activities; risk assessment, control activities, information and communication and follow ups.

Control environment

The Board of Directors has overall responsibility for establishing and maintaining an effective system for risk assessment and internal control. The Board has adopted a formal work plan for its activities, in which

the mutual division of work between the members of the Board is defined. The day-to-day work of maintaining an effective internal control environment and continuous risk assessment in respect of financial reporting has been delegated to the President and CEO, who in turn has delegated function-specific responsibility to managers at appropriate levels within the Group.

The Board of Directors of Axis AB has drawn up a detailed delegation plan, with well-defined attestation and decision levels. This is applied throughout the Axis Group.

Operational management

Axis management team (Group management) consists, in addition to the President and CEO, of the managers of the various central functions within the Group, such as sales and marketing, product management, research and development, operations, strategy and finance. Within and between the various functions there are a number of control groups, committee and project groups, formed with the aim of creating short decision paths and ensuring that the operation is managed effectively towards the attainment of the Group's defined goals.

Corporate culture

Axis has a strong and firmly-established corporate culture, which fundamentally encourages all employees to think creatively and innovatively, and to show respect for each

other's diversity. Everyone is encouraged to question, take the initiative and take responsibility, and to strive at all times towards the common goals, guided by our watchwords – "dare to win" and "never satisfied". The corporate culture is founded on confidence, trust and personal responsibility. In the recruitment process, great weight is placed on ensuring that the applicants appointed share the fundamental values on which the corporate culture is built. During 2006, a Group-wide project aimed at updating and embedding the corporate culture was initiated.

Guidelines and policies

Responsibility and authority are defined in the delegation plan adopted by the Board, instructions for attestation, handbooks, other policies and codes. The Group's most important guidelines and policies relate to financial control, communications, business ethics and environmental matters. The basis for financial control and follow-ups consists of the Group's overall finance and accounting policies. The aim of Axis' communications policy is to ensure that external and internal information provision is based on facts, is accurate and uniformly structured. Part of the communications policy deals with Investor Relations, IR, and is intended to ensure compliance with the appropriate laws and stock exchange rules, and to give a reliable and accurate picture of Axis and its operations to players in the financial market. During the year,



Axis' network cameras produce high-quality video and a clear overview of the area, independently of geographical location. An excellent computer interface makes surveillance from the control room easy.

Axis revised the company's Code of Conduct. The purpose of the Code is to set out the approach, values and guidelines Axis' personnel will apply in business ethics and in human freedom and human rights. The objective of Axis' environmental policy is to ensure that the company supplies products and solutions in an efficient and environmentally low-impact way, and that legal obligations and environmental regulations are complied with.

Risk assessment

Risk assessment involves identifying, measuring and recording the sources of risk. The significant risks which affect the internal control of financial reporting are identified at Group and company level, as well as at regional level. The process of risk assessment also includes risks of impropriety and undue favouritism to another party at the company's expense. The risk assessment procedure results in measures to strengthen the level of control and to aid in the fulfilment of the fundamental requirements of financial reporting.

Control activities

There are both overall and more detailed control activities, aimed at preventing, discovering and correcting faults and deviations. The activities include manual controls, controls embedded in IT systems and controls in the underlying IT environment, i.e. general IT controls.

Axis does not have a separate internal audit function. The Board has decided that there are no special factors in the operation or other circumstances which would justify setting up such a function.

Information and communication

Important guidelines, handbooks and similar information relating to financial reporting is updated and communicated to the staff involved on a continuous basis. There are both formal and informal information channels to the company management and to the Board for important information from staff. The Board meets regularly with representatives of the various central functions in the Axis Group, partly by them attending Board meetings and partly through individual meetings. The President and CEO and the CFO keep the Board continuously informed of the Group's financial position, progress and any areas of risk.

The company's auditors attend at least two Board meetings per year, at which the auditors give their assessment and observations on the business processes,

accounts and reports. The Chairman of the Board also maintains continuous contact with the auditors.

Financial reporting and follow up

Financial reporting and financial control is carried on in accordance with well-defined guidelines and policies. The various processes are thoroughly supported by complex, purpose-designed IT systems. The company's financial performance is monitored continuously by the Board through comprehensive monthly report packages, and through reports by the CFO at all Board meetings. Compliance with the company's finance policy is followed up quarterly in special reports. A high level of transparency in the report material and financial processes enables deficiencies in internal control to be identified and rectified.

The reporting structure is based on two principal dimensions, geographical and functional. A monthly income statement is prepared for each dimension, and these are followed up with the appropriate managers and controllers. At present, the geographical dimension consists of four regions and 19 sub-regions. The smallest components of the functional dimension are the cost centres which, in aggregate, add up to the three functions of Marketing and Sales, Research and Development and Administration. The total number of cost centres with individual income statements and separate follow up is around 130. The company's geographical spread creates ideal conditions for comparative analyses between the regions. The key ratios for the regions and sub-regions constitute a central part of the follow up and analysis procedure.

Another significant Group-wide factor in internal control is the rolling forecast process. Monthly sales forecasts are prepared, with a twelve-month horizon and at product level, by the managers of the various regions. The sales forecasts are consolidated and validated by the Group's Finance Department. Detailed forecasts for the whole operation are produced three times a year, in April, August and November, and refer to the next twelve-month period. These are built up from each cost centre in the Group's companies, and then combined with the monthly sales forecasts, and are consolidated, analysed and compiled by the Group's Finance Department. The forecast drawn up in November, which relates to the next calendar year, is ratified by the Board meeting in December. In addition to twelve-month forecasts, the Group management team works continuously on overall strategic 3–5 year scenarios. ■

WORD LIST

ASIC (Application Specific Integrated Circuit)

ASIC is 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 safety and reduce costs.

CCTV (Closed Circuit Television)

CCTV is a closed video system within a building or installation which is used for visual surveillance for security or industrial purposes.

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.

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.

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 software application which 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 which deals with inquiries from clients to read and write files on the disk.

Printer server

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

IP (Internet Protocol)

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

TCP/IP (Transmission Control Protocol over 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.

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.

INVITATION TO THE ANNUAL GENERAL MEETING

The annual general meeting of the company will be held at Edison Park, Emdalavägen 4, Lund, on Wednesday 18 April 2007 at 17.00. Shareholders who wish to participate in the general meeting must be registered in their own names in the printout of the share register which will be made by the Swedish Securities Register Centre, VPC, on Thursday 12 April 2007. 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 2007. The notification of participation must be received by Axis AB no later than 16.00 on Friday 13 April

2007. The notification should include the shareholder's name, Swedish civil registration or corporate ID number (where appropriate), 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. Adrienne Jacobsen, Emdalavägen 4, 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 2007

Three-month report	17 April
Annual general meeting	18 April
Half-yearly report	9 July
Nine-month report	19 October
Accounting report	9 February 2008
Annual report 2007	to be published in March 2008

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

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Axis is an IT company offering network video solutions for professional installations. The company is the global market leader in network video, driving the ongoing shift from analog to digital video surveillance. Axis products and solutions focus on security surveillance and remote monitoring, and are based on innovative, open technology platforms.

Axis is a Swedish-based company, operating worldwide with 18 offices and cooperating with partners in more than 70 countries. Founded in 1984, Axis is listed on the Nordic List, Mid Cap and Information Technology exchanges. For more information about Axis, please visit our website at www.axis.com.



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