

Annual report 2006



CONTENTS

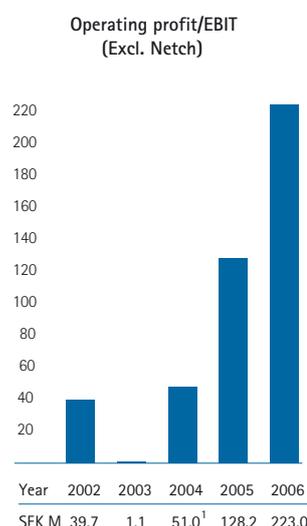
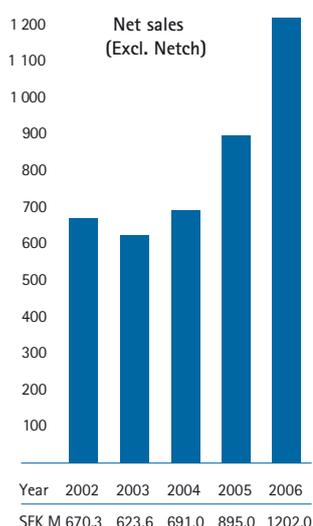
THE YEAR IN BRIEF	
SHORTCUT TO AXIS	
COMMENTS BY THE PRESIDENT Focused work resulted in a successful year	2
MISSION, OBJECTIVE AND STRATEGY Axis' mission	4
AXIS' PRODUCT PORTFOLIO Creates added value for customers	6
AXIS' NETWORK PRODUCTS ON THE MARKET Massive growth potential for network video	11
THE NETWORK VIDEO MARKET Growing interest in network video products	13
THE ROAD TO THE MARKET Acting locally in a global market	16
RESEARCH & DEVELOPMENT Tomorrow's products today	18
PRODUCTION & LOGISTICS Optimised processes focused on quality	20
THE ENVIRONMENT Deep-rooted environmental responsibility	22
HUMAN RESOURCES Focus on staff	23
ETHICAL BEHAVIOUR THROUGHOUT THE CHAIN	25
INVESTOR RELATIONS Axis shares	26
OPPORTUNITIES AND RISKS	28
ADMINISTRATION REPORT	31
INCOME STATEMENTS	34
BALANCE SHEETS	35
CHANGE IN EQUITY	37
CASH FLOW STATEMENTS	39
NOTES	40
AUDIT REPORT	52
QUARTERLY DATA	53
MULTI-YEAR SUMMARY	54
DEFINITIONS	55
BOARD OF DIRECTORS AND AUDITORS	56
MANAGEMENT TEAM	56
CORPORATE GOVERNANCE	58
WORD LIST	63
INVITATION TO THE ANNUAL GENERAL MEETING, FINANCIAL INFORMATION 2007	64
ADDRESSES	

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.



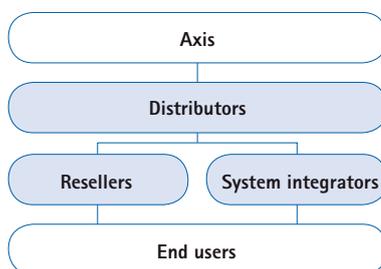
14.4 % invested in R & D

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

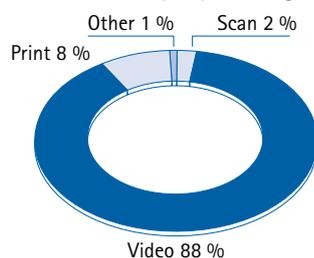
Axis has global sales in over 70 countries. The market is served through distributors to system integrators and resellers. In addition to these channels, Axis acts through ADPs (Application Development Partners) who develop software to meet their customers' requirements. Axis has over 400 ADPs.



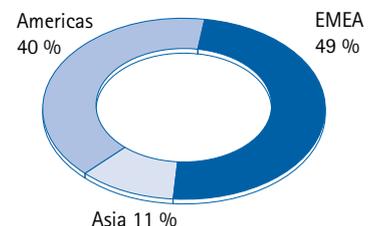
SEK 1,202 million in sales

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

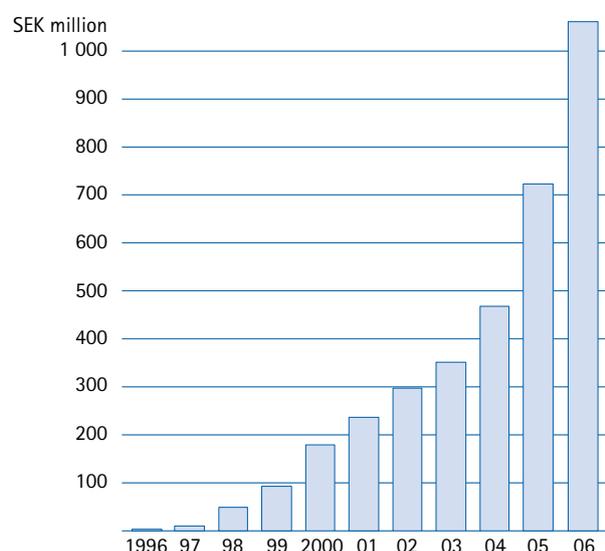
The strategy for maintaining a market-leading position is for Axis to be a company which focuses on video, with a broad portfolio and dedicated collaboration with partners.

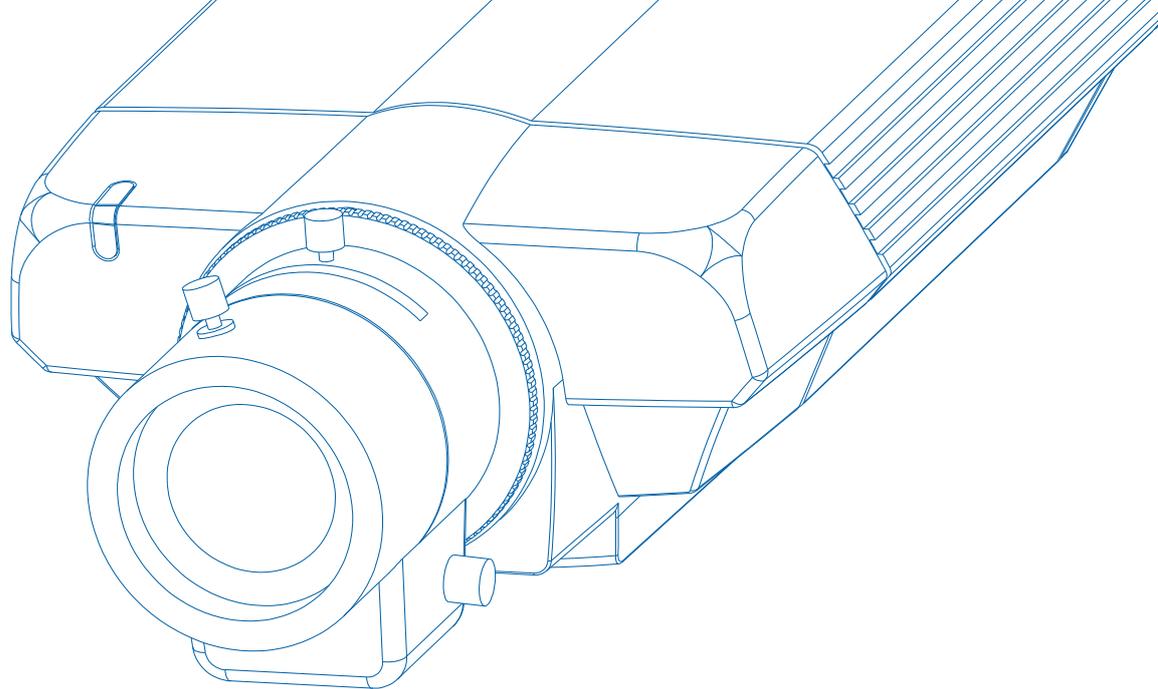
Focused product range

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

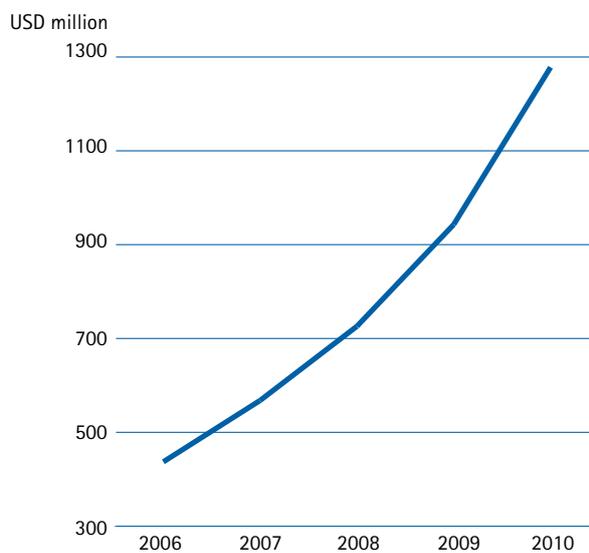
Axis strategy to focus on network video permeates the whole organisation.

- 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

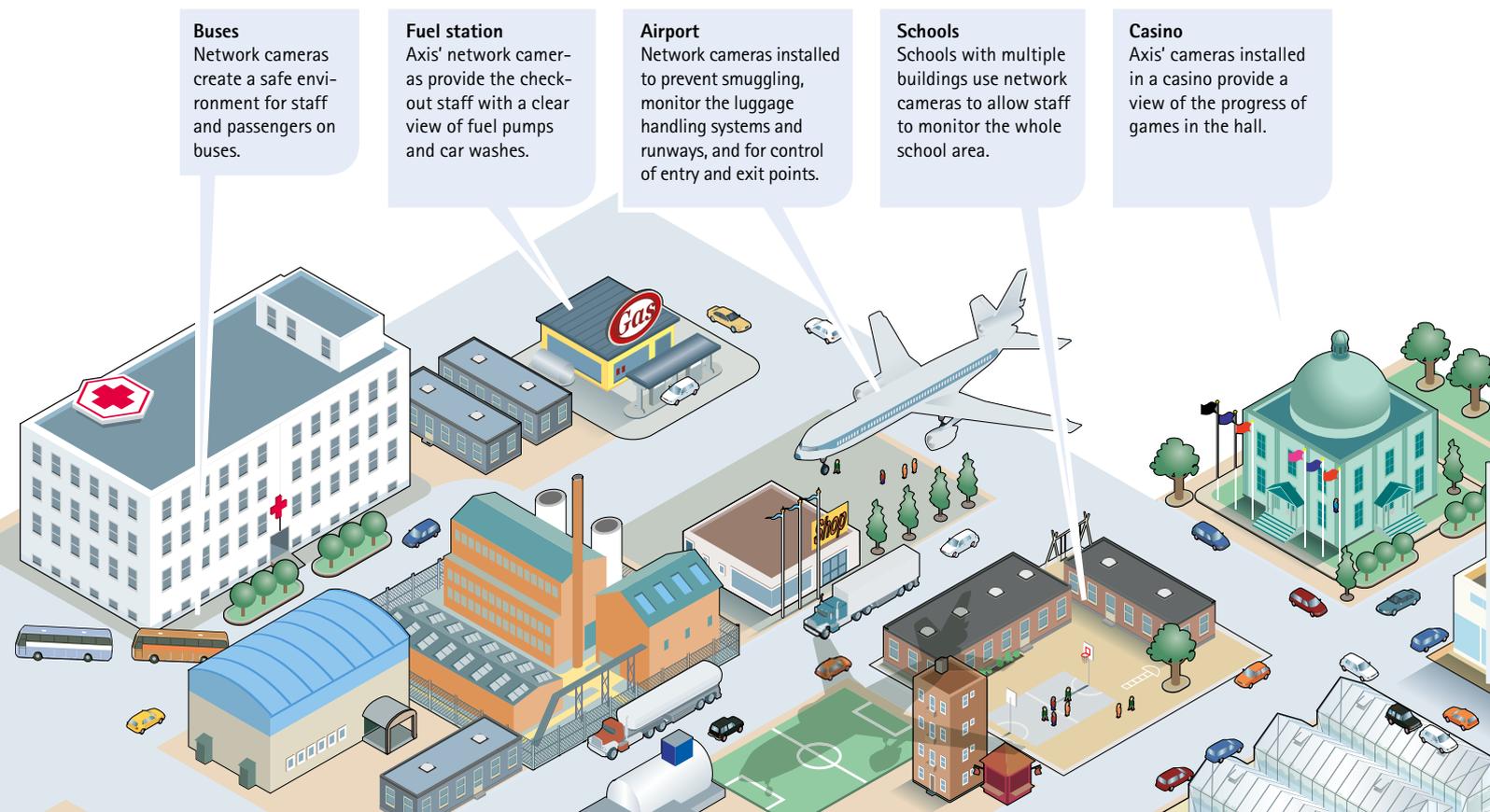
Network cameras installed to prevent smuggling, monitor the luggage handling systems and runways, and for control of entry and exit points.

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.

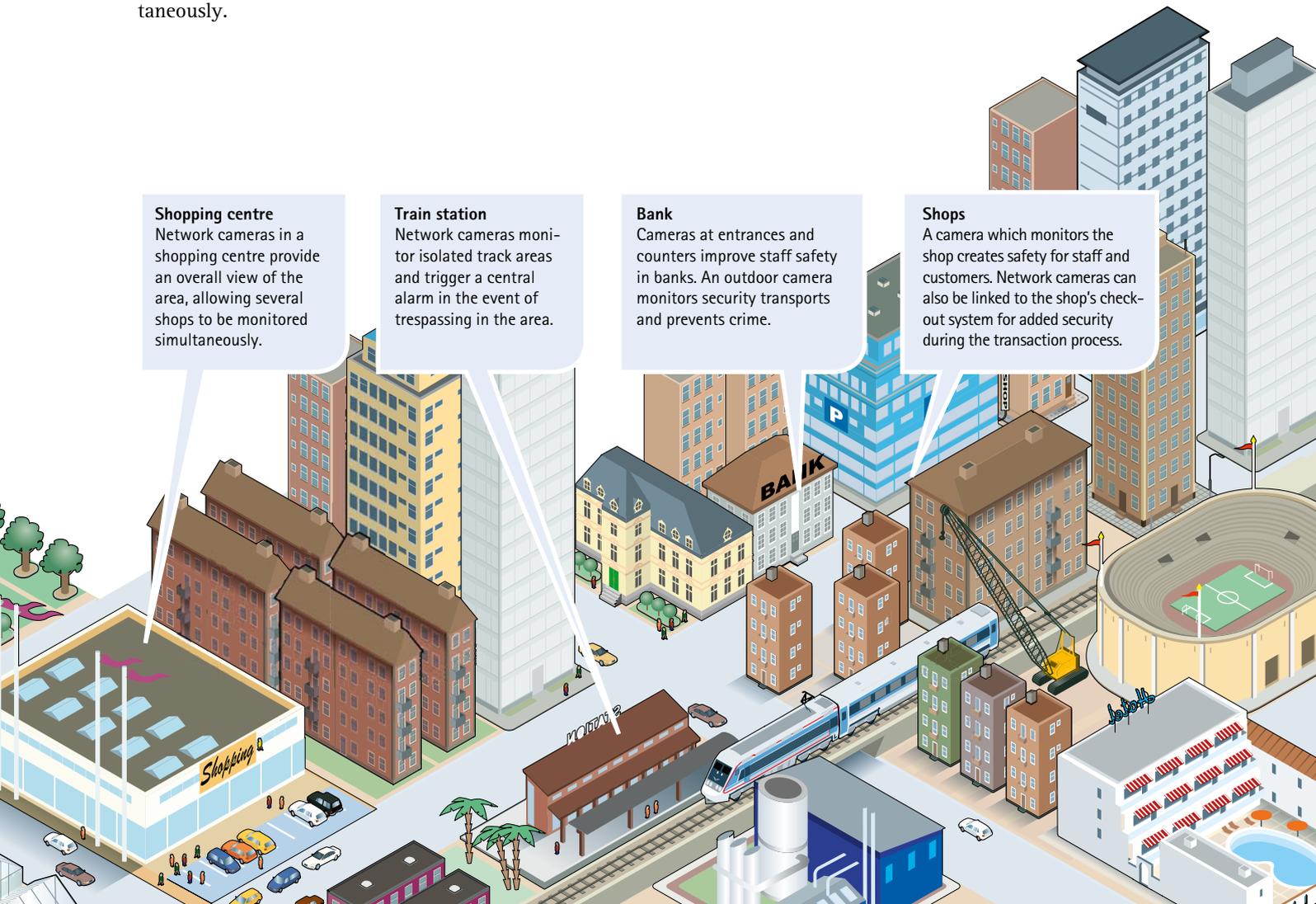
Axis' broad range meets the needs of small customers as well as large companies and organisations. At present, more than three million Axis print servers have been installed throughout the world. Within product area Scan, Axis' offers the products AXIS 70U and AXIS 7000, which facilitate document handling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

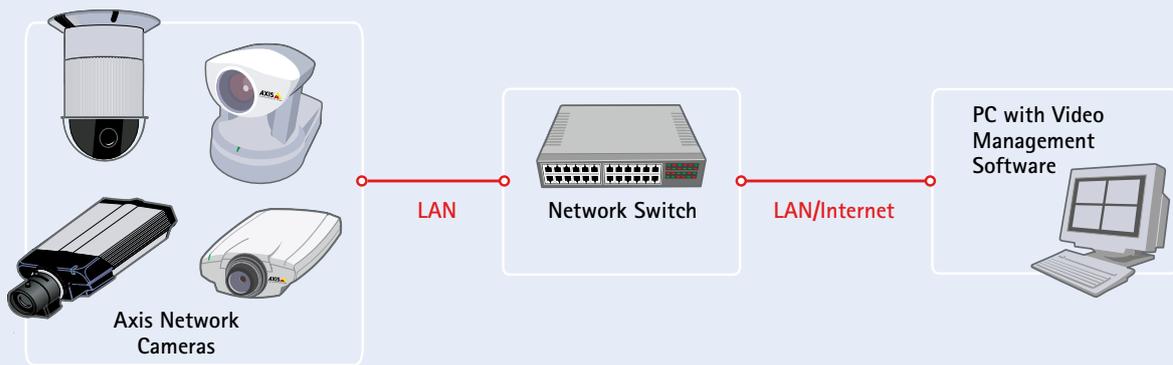
Shopping centre
Network cameras in a shopping centre provide an overall view of the area, allowing several shops to be monitored simultaneously.

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

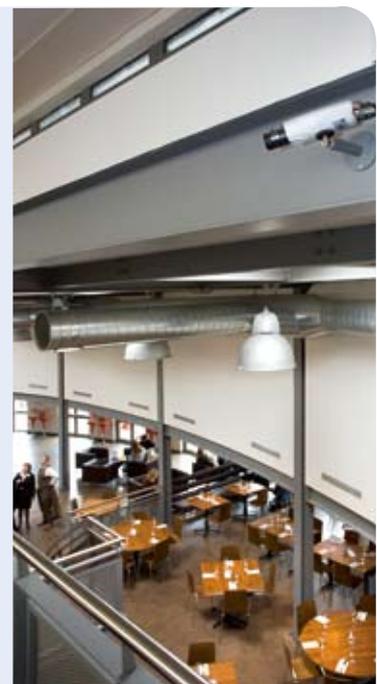
With the help of network video, users can collect information from all the important areas of an operation and watch it in real time. This makes the technology ideal for surveillance of equipment, individuals and sites, both locally and at a distance. Areas of application include traffic and production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

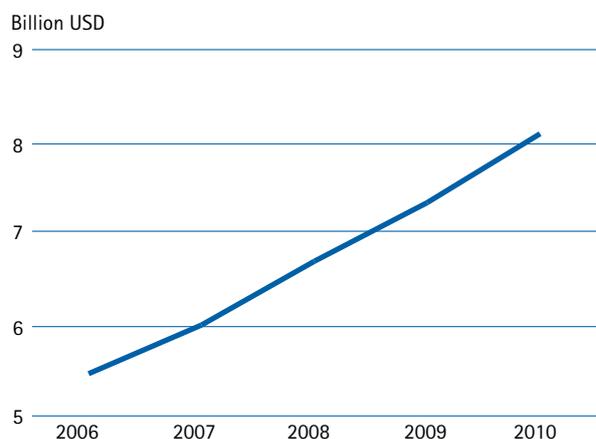
lance market (the CCTV market). This indicates that the market is still in the early stages of a transition from analog to network video installations.

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.

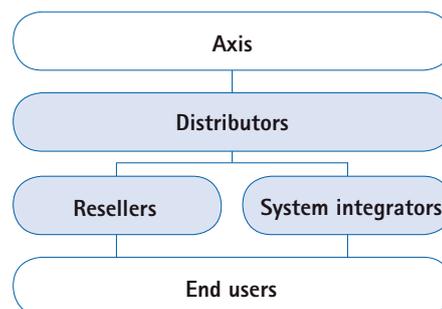
The program is designed to create close relationships and give the company's partners the opportunity to expand within the fast-growing network video area. At the end of the year, the Axis program included some 10,000 partners.

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.

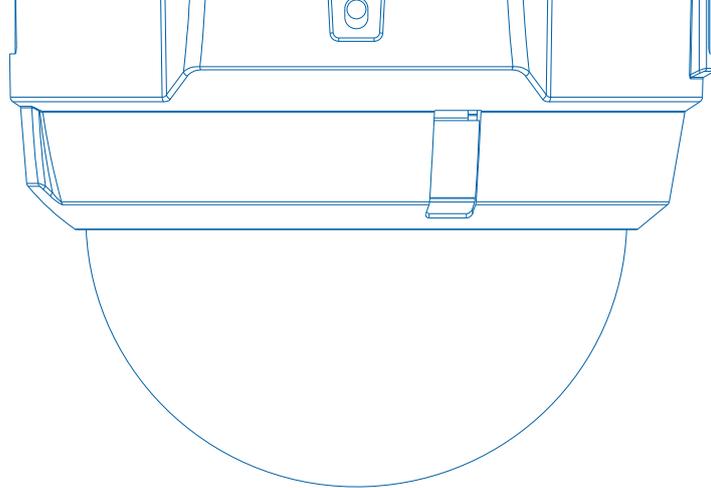
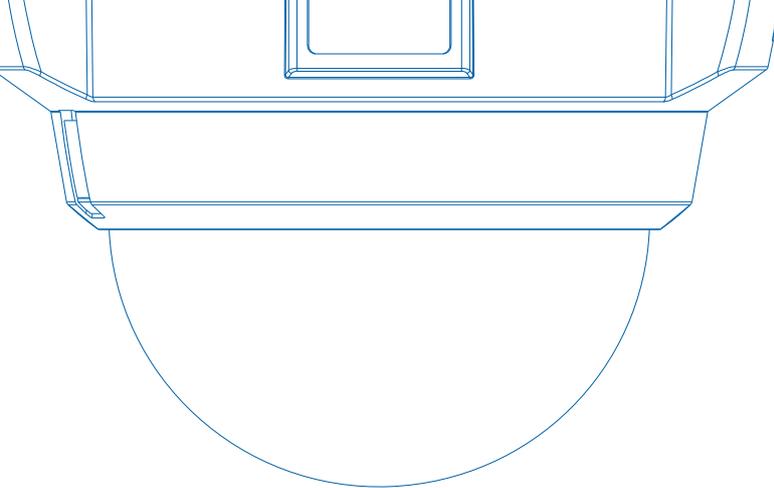
In addition, after ten years in the network video market, the company has access to an exclusive database of customers, partners and others who have expressed an interest by subscribing to the Axis newsletter. All this means that Axis can implement a world-wide product launch without delay – an opportunity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

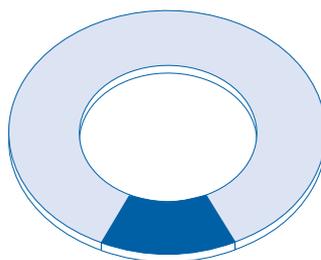
Networks form the basis for Axis' products, and the company has a great deal of experience and expertise in this area. Network security is of utmost importance, and Axis is continuously developing secure network solutions. This involves focusing efforts on retaining a cutting-edge position and ensuring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

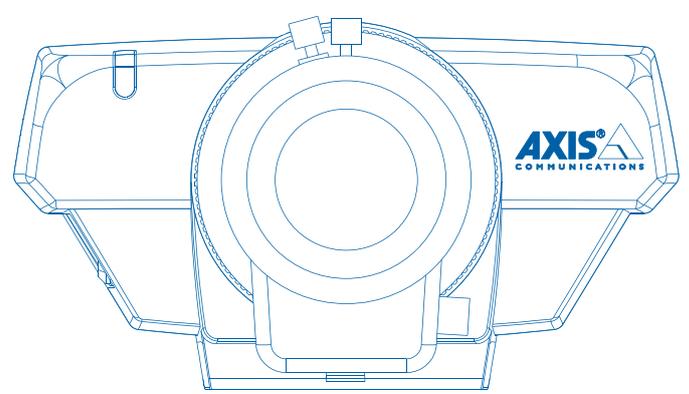
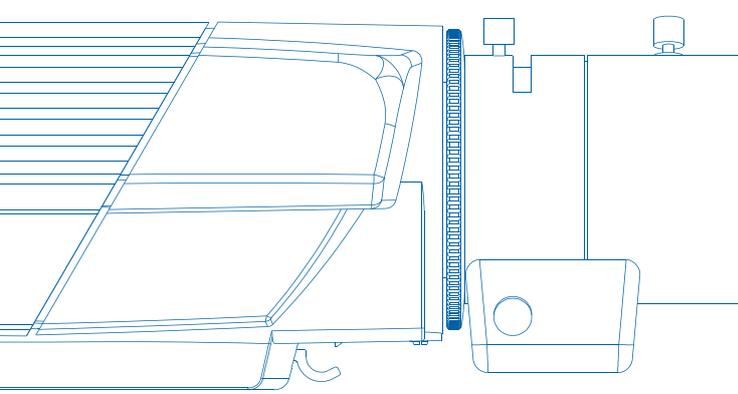


AXIS' CAMERAS AN IMPORTANT PART IN LA NUCÍA

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.

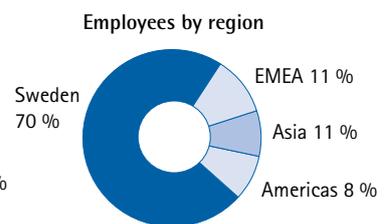
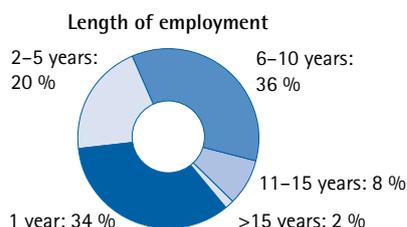
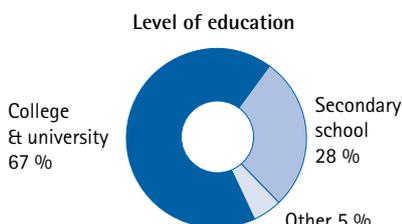
The recruitment process

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

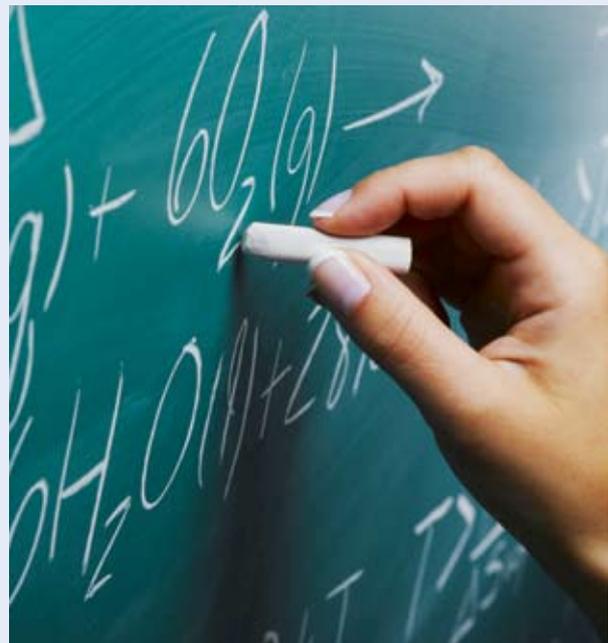
The Lauderdale County School in Mississippi, USA, had to find a way to guarantee suspended students the same quality of education as other students. The aim of the school is to train all students to become competent citizens, irrespective of difficulties experienced at school.

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 %

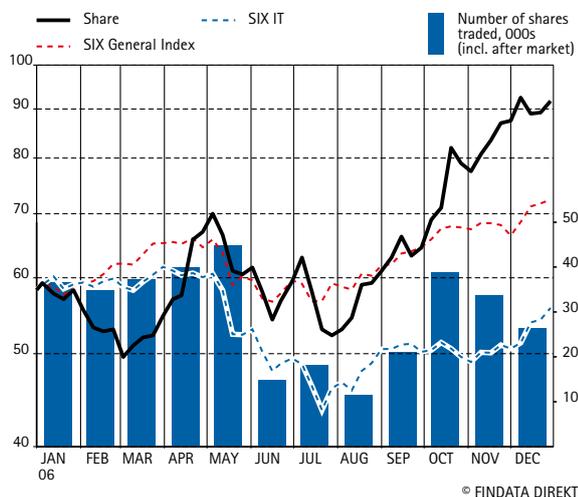
Data per share

	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

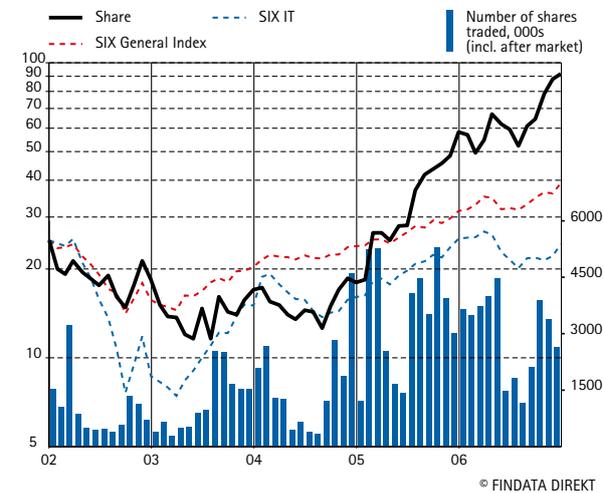
Trend in share capital

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