

Axis AB | Annual Report 2002

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## Financial information for 2003

Axis AB will publish the following reports:

Three-month report	April 22, 2003
Six-month report	July 17, 2003
Nine-month report	October 21, 2003
Year-end report for 2003	February 2004
Annual Report 2003	March 2004

Axis' financial information is available in English and Swedish on the company's Web site:  
[www.axis.com/corporate/investor](http://www.axis.com/corporate/investor)

Reports may be ordered from:

Axis AB  
Emdalvägen 14  
SE-223 69 Lund  
Sweden  
Tel: +46-46 272 18 00  
Fax: +46-46 13 61 30  
E-mail: [ir@axis.com](mailto:ir@axis.com)

The Annual General Meeting will be held on April 29, 2003. See the notification on page 47.

# The year in brief 2002



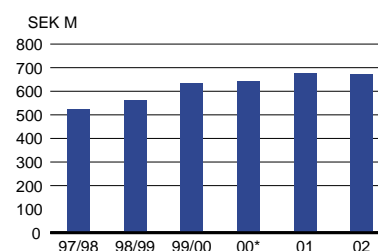
- Sharply improved operating profit
- Positive cash flow from current operations
- Continued reduction in operating costs
- Video now the largest product area

## Key ratios

SEK M	2002	2001
<b>Group – excl. Netch<sup>1</sup></b>		
Net sales	670.3	675.9
Operating profit/loss	39.7	-83.3
Profit/loss after financial items	51.4	-117.8
<b>Group – total</b>		
Net sales	670.3	696.3
Operating profit/loss	39.7	-113.8
Profit/loss after financial items	51.4	-149.5
Liquid funds at end of period	130.0	180.8

<sup>1</sup> During the second quarter of 2001, Axis implemented a restructuring that included the sale of a 59 percent holding in Netch Technologies.

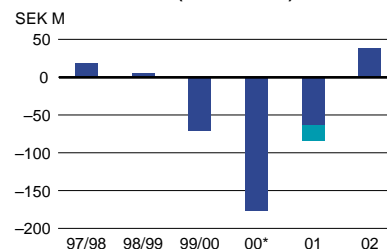
## NET SALES (EXCL. NETCH)



Consolidated sales for comparable units were virtually unchanged during 2002.

\*Pro forma, 12 months

## OPERATING PROFIT/LOSS/EBIT (EXCL. NETCH)



■ Structural costs

The operating profit for 2002 improved to SEK 40 M, corresponding to an operating margin of 5.9 percent.

\*Pro forma, 12 months

# This is Axis

Axis increases the value of network solutions. The company is an innovative market leader in network video and print servers. Axis' products and solutions are focused on applications such as security surveillance, remote monitoring and document management. The products are based on in-house developed chip technology, which is also sold to third

## Products & System Solutions

Products & System Solutions includes that part of Axis' sales that are conducted under the company's own brand and consists of four main product areas:

**Video** | Network cameras and video servers, primarily systems for security solutions and remote monitoring applications

**Print** | Print server solutions for flexible print management

**Scan & Store** | Solutions for intelligent and efficient document management and data storage

**Access** | Access points for wireless connection to local networks

## Customer segments

The customer segments that are the primary target groups for Axis-branded products are:

**Transportation** | e.g. Airports, railways, harbors, systems for traffic monitoring, toll systems and public transport

**Banking & Finance** | e.g. Banks, post offices and insurance companies

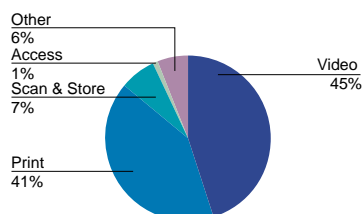
**Government** | e.g. State, regional and local authorities, police, military, health care, prisons and museums

**Retail** | e.g. Shops, gas stations, department stores, superstores and restaurants

**Industrial** | e.g. Process industry, automation, construction companies, pharmaceutical industry, energy companies, mining industry and manufacturing companies

**Education** | e.g. Universities, schools and private educational institutions

SALES BY PRODUCT AREA 2002



### Profitability

Despite a weak market, Axis achieved its goal of reporting a profit for the full-year 2002. During the coming year, the company will further strengthen its position and is well prepared for maintaining a favorable earnings trend while achieving greater growth.

### Growth

Video accounts for 45 percent of Axis' sales. This product area, which is expected to show continued strong growth over the coming years, increased by 26 percent in 2002. Axis is a market leader in this area. Going into 2003, Axis has clearly defined growth targets.

parties. Axis was founded in 1984 and is listed on the Stockholmsbörsen (XSSE:AXIS). Axis operates globally with offices in 14 countries and in cooperation with distributors, system integrators and OEM partners in 70 countries. Markets outside Sweden account for more than 95 percent of sales.

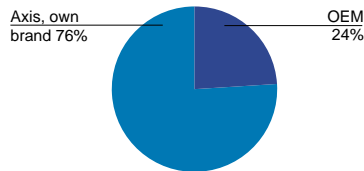
## Platforms & Customized Products

Platforms & Customized Products comprises Axis' total sales in the technology area. This includes custom-tailored products that are sold through OEM licenses and hardware and development platforms that are sold directly to third-party developers. OEM customers are primarily large global manufacturers of printers and copiers, as well as companies that develop and market video or security equipment.

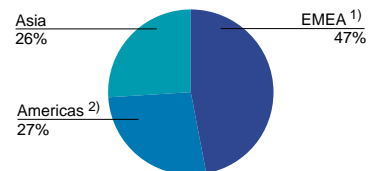
## Global markets

Axis is represented globally with offices in 14 countries and through partnerships with distributors and OEM customers in some 70 countries around the world. More than 95 percent of production is exported to these countries. Nearly half of sales are to countries in the EMEA region. The Americas account for 27 percent of sales; and Asia, for 26 percent.

OEM – PERCENTAGE OF SALES 2002



INVOICING BY REGION 2002



<sup>1)</sup> Europe, Middle East, Africa

<sup>2)</sup> North, South and Central America



### Innovative ability

Since the start in 1984, Axis has strived to be early to market with new technology and new products that meet real business requirements. With its own proprietary technology platform and a broad product portfolio, and through its continuing ability to innovate, Axis will strengthen its position as the market leader in intelligent network solutions.

### Market leader

Axis is the market leader in most of the company's product areas and is a well-established brand. The right products, extensive experience and a reputation for technology leadership are some of the company's key success factors. Axis also has a strong position as an OEM supplier of network technology to leading global manufacturers of printers, among others.

# Sharply improved profitability in weak market

*Axis' goal in 2002 was to achieve an operating profit for the full year. This goal was achieved despite the fact that all geographic markets experienced weak economic growth. Continued weakness in the market, however, did not allow any increase in sales.*

## Sales trend

Our initial assessment was that the market during the first half of the year would be characterized by uncertainty and weak global economic trends. However, the recession was deeper and more protracted than could be anticipated. This was reflected in Axis' total sales, which didn't increase during the year. The strengthening of the SEK against such currencies as USD and EUR also added a negative currency effect. Group sales for 2002 amounted to SEK 670 M (676)\*.

## Profitability and improved margins

Operating profit for the full year increased by SEK 123 M and amounted to SEK 40 M, corresponding to an operating margin of 5.9 percent. Profit after financial items increased by SEK 169 M to SEK 51 M, resulting in a profit margin of 7.7 percent. The improvement in profitability was primarily attributable to an increase in the gross margin, which improved by 3.8 percentage points to 57.3 percent.

## Growth in Video product area

Two main trends affected Axis' operations during the year. One was the increased need for security and surveillance, while the other was the general restraint that prevailed with respect to IT investments. This has meant a continued positive

sales development for Axis' network video products, which despite the weak investment climate increased by 26 percent. At the same time, demand in other major product areas declined. Sales of print servers, for example, fell by 10 percent, compared with the preceding year.

In addition to increased demand for advanced security and surveillance solutions, the market for network video solutions continues to be driven by the shift from analog to digital applications, which is still in an early phase. Several industry analysts predict continued strong growth over the coming years. For example, J.P. Freeman estimates that total industry sales for various types of digital surveillance solutions will amount to USD 3.2 billion in 2003.

During 2002, the trend was clearly towards increasingly professional applications and larger investments. At the same time, we have noted clear signs of convergence between the security and IT industries, a market trend that is very positive for Axis' products and solutions. One sign is that new players are emerging among both resellers and systems integrators. Another is that IT managers' influence over purchasing decisions relating to security and surveillance is increasing as larger companies and organizations begin to see the advantages of connecting surveillance systems to the network.

\* All comparison figures are pro forma and exclude Netch Technologies, which was divested during 2001.

### Stable geographic trend

In view of the weak market conditions, work to strengthen the Company's market position was intensified during the year. The global sales organization devoted considerable effort to training both resellers, systems integrators and end customers in networked video solutions. Axis also forged partnerships with a large number of new business partners who are focused on total solutions. Both EMEA and Asia therefore reported increased sales compared with the preceding year. Axis' operations in the U.S., on the other hand, were to a greater extent affected by weaker demand in the IT sector and reported reduced sales during the latter part of the year.

### Axis 2003

During 2003, Axis' strategic technical, product and market development work will prioritize the Video product area, which is considered to have significant long-term growth potential. The goal is to continue expanding in this area, thus strengthening Axis' position as the market leader, while maintaining satisfactory profitability. Marketing efforts will also become more industry-specific, with a focus on customer segments that are considered to be early adopters in the shift from analog to digital technology. In parallel, relations with OEM customers will be further enhanced. To maintain Axis' position of technical leadership and to meet varying customer requirements, a new generation of video products will also be introduced in the second half of the year.

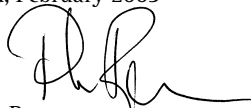
The overall sales trend remains difficult to predict. At the end of last year, there were several signs of increased activity but also indications, particularly in the U.S. market, that 2003 may also be a year that is characterized by general restraint with respect to IT investments.

After eight years at Axis, of which five as CFO and COO and three as CEO, the time has come for me to leave the company in the spring of 2003. The reason is that I have accepted a similar position in another company. My years with Axis have been an eventful and very stimulating time during which I have had the opportunity to work with a large number of skilled colleagues in implementing changes and improvements. My successor will be Ray Mauritsson, who has had a number of senior positions within Axis since 1995. Ray has both the international experience and the market-oriented approach that are required to continue driving Axis forward.

The company is now well prepared to continue growing profitably. With a strong financial base, it has the prerequisites to move closer to its growth targets. Axis has strong market positions, a favorable mix of established and fast-growing products and a stable network of distributors, partners and resellers.

I would like to close by thanking all employees for their excellent work during 2002. We achieved our goal of profitability despite a weak market.

Lund, February 2003



Peter Ragnarsson  
*President and CEO  
(until February 23, 2003)*



# *A driving force for increasing communication over networks*

*The overall vision for Axis' business operations is based on the conviction that communication over intelligent networks will become an increasingly important part of daily life in the future. Axis' ambition is to be a driving force in this development.*

## **Business concept and operations**

Axis' business concept is to fulfill the need for products and solutions for efficient, user-friendly and secure network connectivity. Solutions should deliver maximum value for the customer through reduced administration, lower operating costs and broader application areas for various types of network equipment. Axis, which was founded in 1984, is an innovative market leader in network video solutions, as well as print servers and document management. The core of the company's product offering is its in-house developed IP-based technology platform, which allows Axis to quickly and cost-effectively adapt its market offering to new applications and product areas. Operations include technical development, as well as marketing and sales. Through a global presence and well developed partnerships with distributors, resellers, third-party developers and OEM customers, Axis is active in some 70 countries and can quickly establish leading positions in strategically important market segments.

## **Goals and strategies**

Axis will strengthen and enhance its position as a market-leading supplier of equipment and solutions for IP-based network connectivity. The company has attained leading positions in all product areas, and Axis is today a well-established brand. In addition to these overall goals, there are a number of financial targets that have been retained since the company was listed on the Stockholmsbörsen in the year 2000.

*Equity ratio:* The company's equity/assets ratio should not be less than 50 percent. This target has been achieved in every period since the exchange listing. No special measures are deemed necessary to maintain this level in the future.

*Profitability:* Prior to the exchange listing, a profitability target was established according to which Axis should achieve a profit margin of 10 to 15 percent no later than 2003. The improvement in profitability during 2002 and the profit margin of 7.7 percent that was achieved are in line with this goal.

*Growth:* The most ambitious goal for Axis since the listing is related to the company's growth. The growth target was an average annual growth of 30 percent through the year 2005, which is the basis for Axis' growth strategy.



The growth strategy can be summarized in the following main points:

#### **Continued development of the Video product area**

Network video solutions currently account for the largest portion of Axis' sales. This product area has significant future potential. In addition to general market growth and an increasingly stronger partner network, Axis intends to focus on a number of selected customer segments. The forthcoming launch of fourth-generation video products will also result in substantial future growth opportunities for Axis. Through efficient product development and more applications, Axis can quickly offer solutions that are specifically developed for special market requirements.

#### **Increased OEM sales of Axis video products**

With the general growth in the Video product area, there will be increased demand for OEM solutions for networked video products. By continuing to strengthen relations with OEM customers, Axis can ensure a development that equals the success achieved in indirect sales of printer products.

#### **Growth through acquisition**

There are also opportunities for Axis to strengthen its offering – in terms of products and marketing, as well as geographically – through acquisition. Appropriate acquisition candidates may be niche product companies that can contribute to a wider range of applications and customer acquisitions, particularly for video systems.

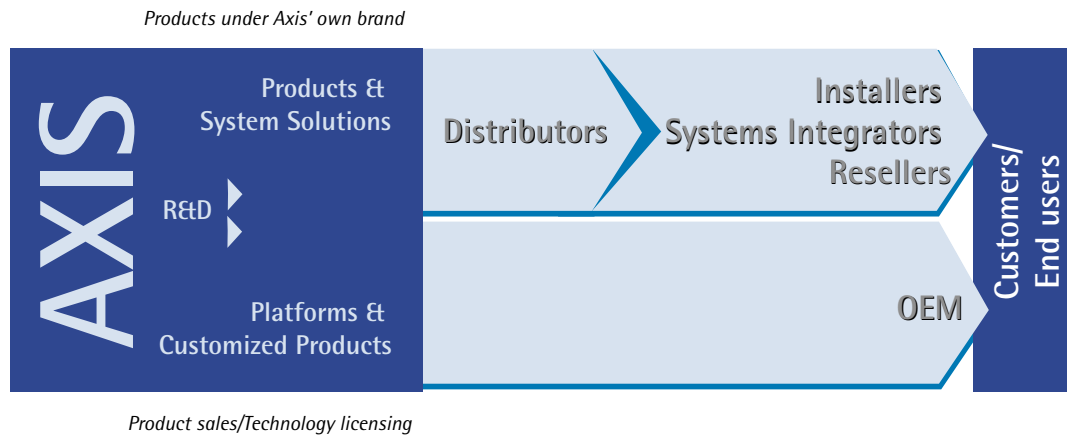
#### **Stability in the Print product area**

Due to the generally weak market conditions, this product area had a negative impact on total growth over the past year. Through the strengthening of existing partnerships, continued marketing and product differentiation, the goal is that the Print product area would have stable development.

#### **Development of technologies that could enable rapid sales growth**

Since the start, Axis has not only focused on established product areas, but also invested in technology that can result in potentially substantial business opportunities in the future. Today Axis is a leading player in access points for Bluetooth. Given a favorable market trend and increased collaboration with OEM partners, these technology solutions may provide a greater contribution to Axis' continued growth.

# The Axis business model



## Common technology platform creates synergies

At the core of Axis' business is a common technology platform that is used in all products and systems. To achieve greater synergies between the various product families with respect to both technical and product development and in the global marketing organization, the internal structure was further simplified during the year. As a consequence, all research and development, marketing and customer service are common to the entire Group. In this manner, development costs can be distributed across greater volumes and attractive economies of scale can be achieved with contract manufacturers. Sales efforts are conducted according to a two-pronged business model.

Products & System Solutions markets products under Axis' own brand. Platforms & Customized Products includes all of Axis' sales in the area of technology, which are divided into two main categories. These are customized products that can be sold through OEM licenses, and hardware and developer platforms that are sold directly to third-party developers.

To further increase the efficiency of marketing efforts, Axis intends to focus on a number of selected customer segments during 2003. These will be reached through a global network of partners, distributors and resellers, who are Axis' interface with end customers. In keeping with continued development of the market for network products, particularly in the Video product area, Axis will expand existing partnerships, while developing new relationships, primarily with systems integrators. In this way, the company will be better able to meet the demand for increasingly sophisticated solutions.

## These are the customer segments that are Axis' primary target groups for Axis-branded products.

**Transportation** | Public transport, airports, railways, systems for traffic monitoring, toll systems, etc.

Examples of partners: Honeywell, Sirrus, Siemens, MetroCommute, Indra

Examples of customers: Sydney Airport (Australia), Circumvesuviana (Italy), Minnesota Dept. of Traffic (USA)

**Banking & Finance** | Banks, post offices, insurance companies, etc.

Examples of partners: SECOM, Loronix, Securitas, SPIE

Examples of customers: Banco Sabadell (Spain), Caisse d'Epargne (France)

**Retail** | Shops, gas stations, department stores, superstores, restaurants, hotels, etc.

Examples of partners: Excelsa, Securitas, NICE, ADT, SmartConnect

Examples of customers: Stadium (Sweden), Santa Row (USA), Springfield Food Courts (USA)

**Government** | State, regional and local authorities, police, military, health care, prisons, museums, etc.

Examples of partners: Honeywell, TRW, Loronix, Lenel

Examples of customers: U.S. Federal Penitentiary (USA), City of Hull (Great Britain), New Zealand Prison

**Industrial** | Manufacturing companies, mining and construction companies, pharmaceutical industry, energy companies, etc.

Examples of partners: ABB, Siemens, Legrand, Cegelec, Johnson Controls

Examples of customers: China XiNan Power Elc, Pines Manufacturing (USA), Volkswagen (Germany)

**Education** | Universities, schools, private educational institutes, etc.

Examples of partners: Sokatel (France), DTS (USA), Honeywell, Lenel

Examples of customers: Canton School Direct (USA), Newport Schools (Great Britain)

# Products & System Solutions

Products & System Solutions includes that part of Axis' sales that are conducted under its own brand, which currently accounts for 76 percent of total sales. In the four product areas, there are both established solutions and growth products.

**Video** | Network cameras and video servers, primarily systems for security solutions and remote monitoring

**Print** | Print server solutions for flexible print management

**Scan & Store** | Solutions for intelligent and efficient document management and data storage

**Access** | Access points for wireless connection to local networks

## Video

*The market for IP-based video solutions continue to develop rapidly. The Video product area, which has an installed base of just over 200,000 units, accounts for 45 percent of Axis' total sales.*

Axis network cameras and video server solutions extend over a wide range of application areas. The most prominent today are applications for security, remote monitoring and broadcasting.

IP-based video solutions offer customers new technical possibilities and more flexible solutions. They can thus better utilize their security and surveillance equipment by optimizing an existing network infrastructure and reducing costs. Unlike cameras in, for example, an analog CCTV system, network cameras do not require any special cables or need a separate infrastructure or monitoring stations. The network cameras are connected directly to the existing network and provide fast and easy access to live video, regardless of where in the world



### Successful change of technology in France

When the French banking group Caisse d'Epargne realized that its analog CCTV system was too costly, unreliable and had limited technical capacity, a decision was taken to invest in a new system. The choice was the AXIS 2100 Network Camera, which met the bank's high demands for cost efficiency, security, reliability and quality. In the first phase, Axis cameras were installed in 70 of the group's bank offices.

According to the bank's calculations, the cost for the new digital system was between 3.5 and 4.9 times less than an analog system. At the same time, administration was simplified, and the security level was increased for the bank and its employees. In addition, the bank used its existing network, which resulted in a faster installation time and lower initial costs.

"We are extremely satisfied with the results thus far," says Guy Kleiber, CIO at Caisse d'Epargne. "This is really only the first step in our transition from analog CCTV systems to digital IP-based surveillance technology."



### **Surveillance system reduces costs in federal prison**

Network cameras and video servers were supplied to a federal prison in California. The installation saved the prison more than one million dollars. An Axis surveillance system was installed to monitor interns and to provide courts with evidence for crimes committed in the prison. Surveillance and security have improved in the entire prison complex.

the user is located. Video servers digitize images from analog video cameras and make it possible to transmit images and sound over an IP network.

The successes that Axis has achieved in this product area are due to a number of different factors. The product concept of networked products is well timed with the transition now taking place from analog to digital solutions. Axis has more than seven years of experience in this area and has long been a market leader with its own technology that is recognized for its excellence. The company also has a broad international presence and a strong position among distributors, installers and systems integrators.

Axis actively supports the development of application software for network cameras and video servers through the Axis ADP (Application Developer Partner) program. This is a collaborative initiative with developers, linking application developers closer to Axis, while ensuring that there is a wide range of applications that support the company's products. The Axis ADP program currently includes more than 100 companies, including such key players as Honeywell, Lenel, Loronix and Milestone.

### **The year in brief**

During 2002, Axis signed several strategically important contracts that clearly indicate recognition of both Axis technology and the increasing importance of IP-based video systems in the market for security and surveillance solutions. Significant orders were received in virtually all customer segments.

Axis also enhanced and expanded its offering with a number of new products. The AXIS 2420 IR, which was launched during the spring, is the world's first camera designed to work with infrared light, which allows surveillance applications to provide high image quality even in darkness. The AXIS 2130 PTZ is a new, cost-effective network camera that emphasizes

flexibility and user-friendliness. A new product was also added to video servers. The AXIS 250S Video Server is based on MPEG-2 compression technology, which allows image transmissions with DVD quality and stereo sound. The product family was also supplemented by the AXIS 2460 Network DVR (Digital Video Recorder), which connects to the network and significantly improves the performance of a video surveillance system by allowing longer storage times, higher stability, increased security and improved access.

### **Market trends**

The market developed in line with the assessments that Axis made during the preceding year. Customers are moving from experimental installations to professional applications in real operating environments. Demand for larger, more advanced and customized solutions is thus increasing. At the same time, more companies have recognized the potential in a rapidly growing market, and a number of large companies, such as Panasonic, Sony, Samsung and Sanyo, are starting to establish themselves in this product area. Together with existing competitors, such as JVC, Philips and VCS, these companies are helping to create a strong driving force for increased digitalization while naturally making the competitive situation more difficult. Despite the increased competition, Axis has maintained its market share and is today a well established brand.

Axis believes that continued development of the market will be characterized by similar prerequisites over the next few years. The transition from analog to digital technology will proceed at a faster pace, while growth is driven by demand for more advanced, cost-effective and flexible systems with better performance. With its global presence, strategic partners and a broad product portfolio, Axis is well positioned to be able to take advantage of this substantial market potential over the coming years.



Smart cameras, with various forms of intelligence included, are the fourth most popular product on the "buy" list of users this year. When agglomerated into one product category we estimate that the category can reach \$500 Million in the U.S. alone in 2005. The \$500 Million is at factory prices. At user prices, therefore, the market size would be about \$1.06 Billion in the U.S.



(JP Freeman)

**Trends and development in the international surveillance and security markets, according to the independent industry analyst J.P. Freeman\***

*(2003 Worldwide CCTV & Digital Video Surveillance report)*

**1. Five-Year Growth**

The digital video surveillance market is on a strong growth trend despite the "soft" economies of the industrialized world. The growth rate was fairly strong in 2000 and the first half of 2001, but the World Trade Center attack of 9/11/01 accelerated that trend and, as shown below, it is expected to produce a strong, continuing expansion in industry revenues over the five year period 2002-2007.

Estimated global growth for all types of surveillance systems.

	2002	2003	2004	2005	2006	2007
World Market @ Factory Prices in \$US Billion	2.7	3.2	3.7	4.3	4.9	5.6
Annual Growth Rate	+13%	+19%	+17%	+16%	+14%	+13%

**2. Market Trends**

In the last two years the trend toward network cameras has been quite strong and is expected to continue as video surveillance systems use more computer technology to bring live and recorded video to numerous points of use and to raise the productivity of security operations.

Networked Video systems, Video Servers, Object Tracking Software, and addressable Smart Cameras are on growth trends even beyond the pace of the total market and will become increasingly important to security executives over the next 5 years.

The importance of the IT executive in video surveillance purchasing decisions is becoming more important due to the desire of large organizations to network their surveillance systems.

**3. Shift to Digital Technology**

The shift to digital technology in the video surveillance industry is evident in the sharp growth trend of the digital video recorder product category. From a ratio of 1 digital to 2 analogs in the sales rate of 2000, the sales ratio has completely reversed in only two years and in 2002 it was 3 digitals to each analog recorder.

Further, integrators say in J.P. Freeman's 2003 worldwide report on the video surveillance industry that DVR's will be the largest single product category they sell by 2007, equaling the sales rate of color cameras and virtually completing the digital revolution in video surveillance.

**4. Shift from Analog to Network Cameras**

The trend toward video networking has created a strong growth impetus in cameras that are network-compatible. The trend is so strong over the next five years that integrators see Remote & Networked camera systems becoming their 3d largest security business out of 12 in which they are now engaged.

**5. Growth of Remote Monitoring**

With the rising use of networked video surveillance systems and PC-operated systems the video surveillance industry will see a dramatic rise in the level of remote "local" monitoring such as the use of laptops to view environments at remote locations. While the trend is strongest in the large user commercial sector at present, it is expected to invade the residential sector as well as system prices decline and become more user-friendly. It may also impact the large alarm monitoring industry that has grown to prominence since the early '80's, and that industry is expected to introduce its own version of central station video monitoring over long distance lines.

\* Joe Freeman is the founder of the independent analysis and consulting company J P Freeman and was previously a division manager at General Electric and chief operating officer at Well Fargo Protection Systems. Joe Freeman has received a number of awards and was recognized last year as the "Chairman of the year" by the American Security Industry Association.

## Products & System Solutions

# Print

*Axis is one of the world's leading manufacturers of print server solutions that permit cost-efficient and user-friendly print functions, regardless of network environment and printer.*

*With the market's broadest range of external print server systems, Axis can satisfy the requirements of both large companies and smaller customers.*

Print servers are independent of printer type and manufacturer, which means that users of various types of computers, such as PC, Macintosh, Unix and IBM mainframes can share the same printer. Integrated administration tools allow IT departments to monitor and administer the entire printing environment simply from a central location.

### The year in brief

The year 2002 was largely characterized by a weak IT market, and sales in this product area declined during the year. Despite difficult market conditions, Axis strengthened its positions through a broader product offering and a number of important contracts. After Intel withdrew from the market at the end of 2001, Axis, with an installed base of more than two million units, solidified its number two position in the global market. Axis has been the established brand in print servers for several years.

Two new products for wireless printing were launched to satisfy the growing interest in the market. The AXIS 5800+ and the AXIS 5810, which both use Bluetooth, open a number of new possibilities for mobile users who are located both within and outside their normal network or who are traveling. To support wireless printing over IEEE 802.11b, the AXIS 5900 was launched. During the autumn, an important partnership agreement was signed with Toshiba Benelux where the AXIS 5810 Print Plug was chosen as the solution for wireless printing based on the Bluetooth protocol. The Print Plug is sold together with Toshiba's PCMCIA and SD Bluetooth cards for portable and handheld computers.

### Market trends

Although the market trend in this product area is highly influenced by general trends in IT investments, there are two primary driving forces that can contribute to a stable trend, even if the IT market remains weak.

The greatest change over time is considered to be the transition to USB (Universal Serial Bus). The USB connection standard is expected to replace the parallel Centronics interface currently used on most printers. This is a significant shift in technology for external print servers and creates a replacement market in which exacting demands will be placed on manufacturers' ability to be able to radically change their product offering. It is probable that not all current manufacturers will participate in the USB market, which creates excellent opportunities to take new market shares.

Another driving force is the trend toward wireless networks, both as a complement to conventional networks and as a replacement in office and industrial environments. Printers no longer need to be placed close to a network connection, but can be freely located where they are needed, which results in administrative and cost-saving benefits for customers.

Through its technical leadership and a well deployed distribution network, Axis has an excellent potential to take market shares in this product area in new geographic markets.



### Smoother document management for Caja de Ahorros El Monte

When one of Spain's oldest banks, El Monte, decided to modernize its IT environment, more efficient document management was one of the most important requirements. Previously the bank's employees had worked in a network environment in which printers were directly connected to each PC. Such an environment naturally created a number of bottlenecks that in some cases had a negative impact on customer service. By installing print servers from Axis in the bank's offices, a flexible and more customer-friendly IT environment was created.

## Scan & Store

*In the Scan & Store product area, Axis develops solutions for intelligent document management, document distribution and data storage.*

With these solutions, users can easily, cost-efficiently and securely distribute and store documents, as well as share CD and DVD discs, via the network. These solutions also deliver substantial benefits in the form of reduced costs, less administration and lower support requirements.

### **The year in brief**

Axis strengthened its product offerings as planned during the year. The sales trend, however, was affected by the weak investment climate surrounding IT investments in office environments.

Two new document servers, the AXIS 70 and the 70U, are next-generation products for efficient document distribution in paper-intensive companies. The AXIS 70U also represents a broadening of the total market potential. Because it is the first time that the connection uses the USB port, the AXIS 70U will be available for a significantly larger market,



since it is now compatible with many more and less expensive scanners.

The new AXIS StorPoint CD+ is one of a whole new family of CD/DVD servers that meet the demand for products that use the IDE interface rather than SCSI for connecting disks and CD/DVD players.

### **Market trends**

The market for document servers is driven by the growing need to make paper documents available in electronic form and an increased need to share scanners in networks. The new products launched in late autumn of 2002 should also contribute to a positive sales trend during the coming year. Demand for CD/DVD servers is driven by the trend to replace larger systems with smaller and more scalable products. An additional factor affecting sales is the increasing need in many companies to give many employees fast access to information in a cost-efficient and secure manner.

## Access

*Axis' access points allow users to connect wirelessly to the local network.*

Hot spot zones in airports or other public places are one example of an application area where users are able to connect wirelessly to the Internet to send e-mail, for example. In office environments, an access point can also provide an easy way for mobile users to automatically update information on portable computers, mobile phones or handhelds.

### **The year in brief**

During 2002, the market for Bluetooth access points continued to develop relatively slowly. However, there are currently a number of application areas where the demand for Bluetooth access points has increased. These include solutions for the intelligent home and hot spots. During the year, Axis signed two

major contracts for the delivery of Bluetooth access points, including an agreement with Consafe, which has been successful in a project for wireless access points in South America.

### **Market trends**

Although interest in Bluetooth is increasing, there are still a number of factors that restrain market growth in this area. Two restrictive factors are the development in the telecom sector and the generally weak investment climate in the IT sector.

During the autumn, however, the number of products supporting Bluetooth increased, which is expected to contribute to a higher demand for Bluetooth access points over the coming year.

Axis' broad expertise in network connection and its well-established position create the prerequisites for a positive trend in this product area when investments in these products gain momentum.

# Platforms & Customized Products

*In addition to the products sold under the Axis brand, Axis' network technology is also used in many contexts by other companies. Platforms & Customized Products comprises Axis' total sales in the technology area, which are divided into two main categories. These are customized products, which are sold through OEM licenses, and hardware and developer platforms, which are sold directly to third-party developers who create their own applications based on Axis' technology.*

The major share of Axis' technology sales currently consists of OEM licensing to large global manufacturers of printers and copiers, and to companies that develop and sell video and security equipment. OEM customers include such companies as Canon, Sony, Minolta, Toshiba, Fuji Xerox and Panasonic. Axis currently supplies customized network solutions in all product areas. The largest share of OEM sales consists of solutions for video and print applications.

Apart from these successful OEM sales, interest is increasing for Axis' developer platforms. Central to the platform offering is the proprietary ETRAX chip, which together with Linux software, allows network-based applications to be developed easily and cost-efficiently. Because the core of this offering provides flexible technology for network connectivity, the Axis developer platforms appeal to a broad market. In principle, Axis' technology customers can be active in almost any industry.

## **The year in brief**

During 2002, Axis further strengthened its position as an internationally leading OEM supplier of customized network products. Several existing partnerships were expanded and new ones developed. Axis' technology is currently the foundation for a large number of products that meet increasing demand for network-based products in many market segments.

Apart from customized products for print and video, Axis also signed a major OEM contract with Toshiba for the deliv-

ery of Bluetooth access points. The solution is designed for intelligent homes where appliances and other household devices are connected using Bluetooth.

Yet another breakthrough for Axis technology sales was achieved during the year. Three volumes orders were received during the autumn for the AXIS Device Server Platform, which demonstrate the strength of the offering to third-party developers.

## **Market trends**

Through long-standing and well-functioning relationships with global equipment manufacturers, Axis has established a strong position in the international market for network-based products. The company's proprietary technology is recognized as leading in several application areas. The fact that Axis works with open source code and actively supports third-party developers creates a growing customer base for the company's technology solutions. For the past several years, Axis has had a stable revenue base in OEM solutions. It will contribute to Axis' total sales even in the future.

Direct sales of technology and developer platforms is a diversified and extremely competitive market. Direct competitors include such companies as NetSilicon in the U.S. and Japan's JCI.

Traditionally, the greatest single threat to all OEM sales is usually that the customers themselves develop their own solutions instead of turning to external suppliers. The trend in

### Deeper partnership with Canon

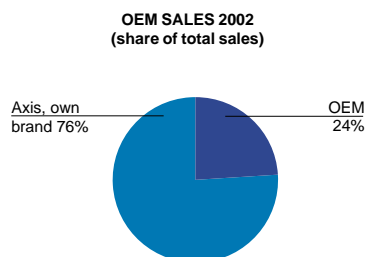
For several years, Axis has been supplying access points and print server products to Canon. During the year, this partnership was expanded to include video products. The customized video server cards supplied to Canon are used in the VB-C10 and VB-C10R network video cameras. With the help of Axis technology, users are able to access the camera and view images via a standard Web browser.

"We know Axis well, and they have been supplying us with reliable and high-quality print servers for many years," says Mitsushiro Tokuhara, group executive for the Lens Products Group at Toshiba. "Axis is an excellent partner because we can be sure that they will be able to develop new hardware and software solutions for connecting equipment to networks."

Axis' product areas, however, is that equipment manufacturers are instead focusing increasingly on their own core businesses.

The strong trend toward digitization of the security and video markets create substantial market potential for Axis. The company's leading position with respect to both technology platforms and product experience in this area creates excellent prerequisites for growth even in OEM sales. During the coming year, there will therefore be a clear focus on increasing OEM sales to customers that wish to offer network-based products in the video area.

With respect to platforms, there are many areas in which IP- and Ethernet-based communication is becoming increasingly common. This trend is particularly evident in the rapidly growing market for systems for the industrial segment. Axis is currently engaged in negotiations with several of the companies that sell solutions for the intelligent home, a market that is developing rapidly, particularly in Asia.



### New partnership with Toshiba Home Appliance Company

In the Japanese market, interest in Bluetooth is increasing, and during the year, wireless applications were introduced in several new areas, including intelligent homes.

When Toshiba in 2002 launched its solution for automating the home, Axis was a natural partner for the Japanese hardware giant. An important part of the solution is Axis' specially designed Bluetooth access points, which act as a hub in the system, connecting household devices and appliances together in a wireless network. Via the central server, the house can then be controlled and managed via the Internet, at the same time as service and control functions can be administered as an integrated part of Toshiba's concept.

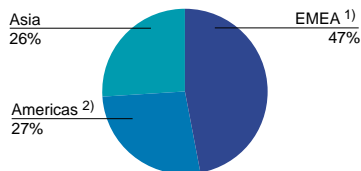
# The global Axis

Axis, with its head office in Lund, Sweden, is represented globally through its own offices in 14 countries and through partnerships with distributors, resellers, systems integrators and OEM customers around the world. More than 95 percent of production is exported to some 70 countries, which provides a good spreading of risks. Marketing and customer ser-

vice are handled by local subsidiaries. The EMEA region accounts for nearly half of sales, followed by the Americas with 27 percent, and Asia with 26 percent.

Ever since the company was founded, Axis has made a conscious effort to expand its operations internationally and to continuously develop its network of strategic business partners. Today the company has a stable platform of distributors that are very suitable for the entire product range. Long international experience that includes excellent knowledge of local conditions, in combination with this international network, are some of Axis' important success factors. In keeping with continued market growth, particularly in the Video product area, the global sales organization during 2002 initiated several partnerships with systems integrators and partners focused on total solutions.

INVOICING BY REGION 2002



<sup>1)</sup> Europe, Middle East, Africa  
<sup>2)</sup> North, South and Central America



## Safer public transport in Naples

Circumvesuviana is one of Italy's oldest public transport companies, with train, bus and tramway traffic in and around Naples. Like other public transport companies in Europe, Circumvesuviana must combat vandalism and crimes against passengers, which are a major and costly problem. To reduce damages and to create a more secure environment for passengers, the operator decided to install a remote surveillance system.

The surveillance solution, which was first installed on the company's trains, consists of micro-cameras connected to an AXIS 2400 Video Server, which allows remote monitoring and recording of high-quality digital images from the trains. The video recordings from the trains can be used as investigative material and as evidence.

"The need for reliable surveillance solutions is self-evident for a company such as ours. Our passengers must feel safe when traveling on our lines. In addition, vandalism and other crimes cost a lot of money," says Fernando Origo, General Coordinator at Circumvesuviana.

# EMEA

## Market

EMEA, which stands for Europe, Middle East and Africa, is Axis' largest market. The company is represented in virtually every European country.

The European market experienced weak growth during the year, particularly in the largest countries and most notably in Germany. At the same time, the year was characterized by generally greater interest in security, which increased interest in new technology in this area. For Axis, this resulted in a positive effect on the sales trend. Total sales in the region amounted to SEK 316 M during 2002.

## Axis on the market

Axis has leading positions in all established product areas in the EMEA region. Through its broad network of distributors and OEM partners, the company can continuously defend and enhance its positions even in more mature markets where the battle for market share is important. During the year, Axis therefore conducted an active marketing campaign focused on print servers, which resulted in stable sales despite generally weaker demand. The declining economy, however, had a negative impact on sales in the Scan & Store product area.

Axis strengthened its position in Video in Europe. Several important orders and contracts were signed with large banks, as well as public authorities and industrial customers. At the same time, efforts were intensified to expand the network of systems integrators and partners focused on total solutions. Partnerships were established with Honeywell and Securitas. In total, Axis partnered with some 70 new companies in the region. This contributed to an increase in sales in the Video product area in the entire EMEA region, with growth of 53 percent, compared with the preceding year.

Some of the strategically important businesses during the year were:

- sale of network cameras to the Dutch tax authorities in cooperation with Honeywell
- surveillance of a Stadium sports store in Sweden in cooperation with Securitas
- Newport City Council in Great Britain, which won a security prize thanks to Axis' network-based surveillance solution for schools
- Caisse d'Epargne in France, which chose to base its new security system for the banking group on Axis products

## Market prospects

The sales trend in the EMEA region was stronger during the second half of the year. This is largely attributable to the new partnership agreements that were signed and to the considerable work that the sales organization devoted to training in the Video product area. These efforts should continue to show results during the coming year as well, when high priority will be given to intensive marketing in selected segments. Interest in network cameras and video servers is expected to continue to increase, which is clearly evident in the increased number of inquiries from both distributors and end customers. For 2003, the economy is expected to remain weak with few hopes for greater IT investments. However, Axis expects continued growth in several countries, including southern and eastern Europe.

### Facts, EMEA 2002

Sales, SEK M	316
Share of total sales, %	47
Number of employees	43

### Axis solutions monitor schools

Axis is expanding its customer base, and its products are now being used in primary schools in Newport in the U.K. Schools and the surrounding area are monitored at night and on weekends with cameras that are connected to an AXIS 2400 Video Server to increase security.

The Axis solution was also recognized with a Security Excellence Award.

"By combining the government's National Grid for Learning and IP-based surveillance technology, this project created real benefits for primary schools in Newport. We are pleased to have won the award and hope that other councils follow our example," says Phil Cox, principal consultant at Newport City Council.



## Geographic markets

### Facts, Asia including Japan 2002

Sales, SEK M	174
Share of total sales, %	26
Number of employees	46

## Asia

### Market

The overall economy has been weak in large parts of the Asia Pacific region. Despite the weak economic conditions, however, Asian countries showed an excellent ability to recover. The markets in Australia, New Zealand and Korea showed stable development, and China was a positive surprise. The potential in the Chinese market attracts investors and direct foreign investment, which in turn impact the competitiveness of several neighboring economies.

The market for IP-Surveillance is still at a nascent stage, although demand for solutions and products for security and remote monitoring is growing rapidly. Customers are increasingly demanding total solutions, rather than individual cameras and other products, which require greater knowledge and understanding of specific customer requirements. Like the American market, sales are characterized by longer lead times and sales cycles.

### Axis in the market

Despite the generally depressed business climate in the region, Axis was able to achieve growth and improve sales. The main reason was the company's close partnerships with a number of strategically important partners, distributors and resellers.

Important contracts during the year included:

- housing projects, in which Axis supplied video servers to a residential area in Singapore
- installation with a high security profile of a camera solution in the Pacific region in cooperation with Honeywell
- camera surveillance of a prison in New Zealand

### Market prospects

When the market recovers, Axis has excellent prospects for further increasing sales through its strong market positions. The company has 10 years of experience in the region. Axis is continuously developing new products and solutions, and striving to increase cooperation with additional partners. With more software suppliers basing their solutions on Axis products, demand for digital technology and IP-based surveillance technology will increase. The long-term growth potential is considered to be significant, particularly in China, but also in neighboring Asian economies.

## Japan

### Market

Since the early 1990s, the Japanese market has been characterized by a prolonged weakness in the economy. However, this has the greatest impact on established and mature market segments that as a rule are more sensitive to economic fluctuations. With its large players in the IT market, Japan is still the third motor in the global economy and plays an important role in the global perspective. These companies are especially active in driving digitization in various markets and in the growth of IP-based products, which make the Japanese market particularly attractive for Axis.

### Axis in the market

Despite the economic slowdown, Axis strengthened its position in Japan in 2002 and noted both earnings improvements and growth. Operations consist primarily of OEM sales in which print servers still account for a significant share. Many of the global printer manufacturers have their head offices in Japan, and for Axis, the relationship with Canon, for example, is very important. During the year, a partnership was also established with Toshiba. The partnerships with strategic IT distributors, such as Softbank, Marubeni info-tech and DIS, were also further enhanced.

### Market prospects

As in several other markets, Axis is the market leader in the Video product area. The growth of broadband is creating many new business opportunities for both network cameras and video servers, while competition from Japanese companies is expected to increase. Axis' goal for 2003 is to develop the sales potential in the Video product area under its own brand, while at the same time focusing strongly on OEM sales.

## Americas

### Market

The general economic climate in the North and South American markets during 2002 was grim. Nonetheless, demand for IP-based network products continued to develop positively. Great interest in security and surveillance systems was a clear trend. Applications for monitoring public places, schools, traffic, authorities and prisons were among the most expansive segments.

At the same time, the weak economic conditions resulted in longer decision processes among customers. Sales cycles for larger security projects, however, are relatively long, even when the economy is strong. The trend is that customers devote more time to evaluating more products and solutions before making an investment decision, which lengthens the time before a contract is secured.



**Facts, Americas 2002**

Sales, SEK M	180
Share of total sales, %	27
Number of employees	24

**Axis in the market**

In the Video product area, where Axis has a dominant position in the market, sales increased despite the continued economic slowdown. During the year, Axis signed contracts with a number of new distributors, resellers and systems integrators and entered several new strategically important partnerships. The importance of well-established partnership relations was illustrated by the success achieved within the framework of the partnership with Honeywell. In addition to larger global partnerships within the Axis ADP program, a partnership was also established on several levels with Cisco that can result in significant business opportunities.

The most important distributors in the American market are Ingram Micro, TechData and D&H. During the year, Axis also signed an agreement with Anixter, a distributor of network infrastructure, which is expected to become an important partner.

Education for end customers and systems integrators regarding the benefits of digital technology, together with active PR efforts, are important components in strengthening the market position.

Interesting contracts during the year included:

- surveillance systems for the Olympic Games in Salt Lake City
- network-based surveillance system for the police authorities in Washington
- network cameras and video servers for a federal prison in California
- traffic monitoring in several states, including Minnesota and Florida

**Market prospects**

During 2003, the U.S. economy is expected to remain weak. At the same time, Axis has a strong position in the rapidly growing market for network cameras and video servers. This market is being driven by increased interest in security, and is considered by analysts to have a very substantial growth potential. The prerequisites for a positive development in the region are therefore considered favorable. Development in the Print product area, which constitutes a smaller proportion of sales, is expected to remain relatively stable, although it will continue to be affected by the general IT climate.



**Effective surveillance in Washington**

To increase the effectiveness of its surveillance of sensitive public environments, the Metropolitan Police Department of Washington DC (MPDC) invested in a new network-based surveillance system. The system makes it possible for the MPDC and cooperating authorities to monitor and check selected places in Washington, D.C. during major events and to support daily police work.

The system transmits video recording from various places in the District of Columbia to MPDC's command central via a large number of digital cameras. Using a wireless video link, the cameras transmit real-time video to the AXIS 2401 and 2400 Video Servers, which in turn forward the images to the command center at police headquarters.

"Axis video servers were ideal for us, since they could be easily integrated with our existing equipment, thus minimizing the need for additional infrastructure investments," says Walter Collier III, information manager at MPDC. "We wanted the highest possible security at the lowest possible cost. Axis was able to meet both requirements."

# Leading technology

*The trend toward an increasingly networked society is accelerating. The trend of an ever-greater share of companies, government authorities, public functions, public environments and private homes being connected to IP-based networks is now very evident. There is already a broad range of network applications, from surveillance and document management, to networked washing machines.*

Networks are also being enhanced so that they contain more intelligent devices than before when connected devices were often controlled by a central mainframe. In line with this change, and in connection with more types of networked equipment and devices, new opportunities are being created. In short, the number of communication channels between individuals and network devices is increasing, while the need for more user-friendly systems is becoming greater.

Axis' vision for its development work has always been to provide user-friendly, simple and efficient methods that enable users to access everything from anywhere and at any time. This vision has always guided Axis' development work, and the company has now achieved a position in which the company is a driving force in the development of the networked society. The company's proven track record in this area creates significant market potential. Axis has broad experience in all phases of development. Since 1984, Axis has been developing and supplying networked solutions, from chips and hardware to complete systems and applications for end users. Today Axis has a technology base that is an established part of the market for networked solutions, giving the company a significant competitive advantage over other players.

### **Flexible technology base**

At the core of all Axis products is ETRAX, an Application-Specific Integrated Circuit (ASIC) that handles everything that a networked device must be able to do. In a single powerful circuit, ETRAX handles program execution, calculations, memory management and external communications. Based on ETRAX and other components, such as the image compression chip ARTPEC, Axis develops products and solutions for direct connection to wired and wireless networks. Through the built-in flexibility of ETRAX technology, Axis can quickly develop and customize new products and systems that meet the market's requirements.

Over the past two years, the Video product area has experienced strong growth, providing an excellent illustration of the interaction between Axis technology and the company's innovative ability. Axis camera and video products include the two proprietary chips ETRAX (for network connectivity) and ARTPEC (for image processing). ARTPEC is a strong factor in Axis' market-leading position in the video segment.

### **New product generations**

In line with the development goals that were established for 2002, work during the year focused largely on product development and reducing the time from concept to finished product. In total, seven new products that were developed in-house



### Axis R&D in brief

During 2002, 18 percent of Axis' total sales were invested in research and development. Research and development, which is centered in Lund, Sweden, employ just over 120 people. Axis' technology is used in the company's own products as well as in products from such companies as Toshiba, Canon, IBM, Sony, Minolta and Panasonic. Axis is a driving force in standards bodies such as the Universal Plug and Play Forum. Important research partners include Lund University and the international research network Hermes. The base for development work is two proprietary chip architectures ETRAX and ARPTEC.

were launched in Axis' four product areas, while at the same time being able to further enhance the offering to OEM and technology customers.

In addition to pure product development, Axis also launched during the past year a new version of the ETRAX chip, the ETRAX 100LX MCM, which is basically a Linux computer measuring only slightly more than two and a half square centimeters. This results in significantly shorter development times and substantially greater opportunities for developing new customized products and solutions.

During 2003, Axis will, apart from developing new products, focus efforts on completing the next generation of the ARPTEC image compression chip. For Axis, the introduction of the new chip will mean a significant market advantage in the Video product area. In keeping with the increased accep-

tance of digital camera and video systems for security and surveillance applications, requirements for user-friendliness and the ability to customize applications are increasing. By introducing a second-generation video chip, Axis will be able to offer solutions that are even more customized.

### Patents

An active patent strategy is pursued within Axis to protect the company's investments in intellectual capital and core technology. During the year, nine new patents were granted, relating in part to processor solutions for ETRAX, camera solutions, processing of meta information for images transmitted across networks and a method for selective storage of images. Over the years, Axis has thus obtained 19 patents.



Since its start in 1984, Axis has completed four major and extensive investment and development phases. Operations have been expanded in parallel with the development of the technology base. New products and markets have resulted from each phase.

# Knowledge and energy create profitability

Axis is an innovative company whose business success is based on the knowledge, experience and commitment of its employees. The expertise of Axis' employees is of fundamental importance to the company's ability to retain its market-leading position. Axis therefore invests continuously in enhancing the skills of all its employees, thus laying the foundation for profitable growth.

Axis has long systematically built a strong company culture. Together with the employees, management works with a number of values and guidelines that provide the foundation for a stimulating and appealing working environment and create the prerequisites for profitable growth. The values contribute to a common approach among Axis employees in external and internal relations. These values are rooted in the dynamic diversity that characterizes a global company such as Axis. The common guidelines encourage all employees to think creatively and to be innovative in both external projects and the development of new products and solutions. At the same time, the values should instill respect for the differences between people and promote a positive development in which everyone is encouraged to ask questions, take initiatives, show responsibility, forge ahead and always deliver results on time.

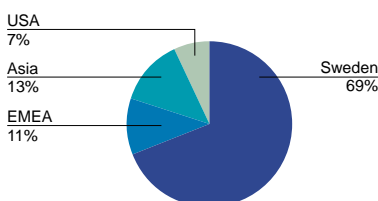
Knowledge and energy create profitability – which in turn means that Axis can develop and invest in technology and personnel, thus resulting in a better offering to customers.

## Continuous education

Axis strives to be an attractive employer and offers all employees continuous training. In addition to the introduction program for all new employees, there are internal technical seminars and courses, for example, as well as opportunities for personal development. In order to retain key employees, Axis provides leadership development programs and special career ladders for technicians. The overall objective is to ensure that employees are satisfied and will continue to develop within the company, while at the same time being ready to meet the challenges of advances in technology and customer expectations.

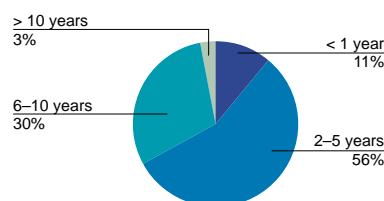
To be able to ensure a high level of competence for future recruitment and to be an attractive choice for new graduates, Axis has been working closely and continuously with the Lund Institute of Technology for many years. Axis provides guidance for some 10 Master theses each year, invites student groups to learn about the company and has employees that teach certain courses.

EMPLOYEES DISTRIBUTED BY REGIONS



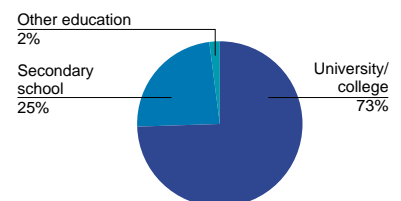
The number of employees totaled 344 in 14 countries at the end of 2002.

LENGTH OF EMPLOYMENT



Most employees have been employed between two and five years.

LEVEL OF EDUCATION



Nearly three quarters of all employees have university or college training.



### **An attractive employer**

Axis was awarded a prize as Sweden's best workplace in the category Work for diversity. Axis also ranked number 10 among Swedish workplaces. Sponsors of the prize were Swedish business weekly Veckans Affärer, Oxford Research and the Great Place to Work Institute. The award was part of an EU initiative to recognize the 100 best workplaces in Europe.

To be able to offer a workplace that employees find enjoyable, Axis also works to develop clearer guidelines for a better working environment and focuses actively on equal opportunity issues. The company encourages women to advance in the organization, for example, and strives to make it easier for both women and men to combine work, parenthood and leisure activities. Today, out of the Group's total of 344 employees, 85 are women and 259 are men. Axis also wishes to encourage good health and fitness among its employees and places great emphasis on fitness programs, in part by making a training facility available and by providing fitness subsidies.

### **Employee benefits and compensation**

In addition to the normal salary, Axis has a bonus program that includes all employees. The company also offers accident and health insurance on favorable terms. To encourage a personal financial commitment and to give employees an opportunity to share in the success that they help to create, Axis offers employees an opportunity to participate in warrants programs. During the 2002 fiscal year, 18 percent of all employees accepted the offer to acquire warrants in the company.

### **Environmental policy**

Axis shall as far as possible reduce the impact of its operations and products on the environment. In line with this, the company works with an overall environmental policy.

Axis conducts preventative environmental work with the aim of continuously improving the entire life cycle of its products. This means, for example, that environmental considerations should always be a self-evident and integrated part of every new project and includes conducting an active dialog about products, packaging and logistics with contract manufacturers and sales channels to ensure that suppliers live up to Axis' requirements. In the purchasing process for office machines and computers, reducing resource consumption is an important factor. Axis has a stated ambition to make sure that manufacturing processes have as little impact as possible on the environment. The company strives to reduce the volume of waste and as far as possible to recycle paper and other residual products.

#### **Facts, employees 2002**

Average age	35.5 years
Personnel turnover	6.6%

# Opportunities and risks

*Some of the important factors affecting Axis' business and the company's financial position are described below.*

### **Business-related risks**

Axis is active in the global market and is represented through its subsidiaries and partners in some 70 countries around the world. In most of these markets, Axis is affected by both macroeconomic conditions and changes in technology and among competitors. To manage the business risks and to enable the company to retain its leading position, Axis works continuously to develop technology, address new customer segments and expand into new markets. Two of Axis' strengths are its extensive experience in network technology and its global distribution network. The generally weak economic conditions and restraint with respect to IT investments during the year held back sales growth. Sensitivity to economic conditions, however, is to some extent balanced by the mix in the product portfolio in which established products, such as print servers, is complemented by innovative and fast-growing product areas, such as networked video solutions.

The geographic distribution between Asia, the U.S. and Europe contributes to a favorable spread of risks and to eliminating much of the seasonal dependency that can affect sales in individual countries. Legal risks are constantly considered, and at present, no known changes will take place with respect to camera surveillance, for example, in the markets in which Axis is active.

In part to strengthen the company's position in existing and new markets and in part to avoid dependency on a small number of players, Axis constantly enhances its network of strategic partners, distributors, systems integrators and resellers. In order to create stability and to limit customer-related risks, the goal is that no single customer should account for more than 15 percent of the Group's total sales during the year. Manufacturing is also distributed among several suppliers to avoid production disturbances and to quickly adapt production to market changes.

### **Personnel**

The expertise of its employees plays an important role in Axis' ability to compete with other companies and to meet new

technical challenges. Approximately 73 percent of all employees have a university or college education, and personnel turnover is low. To protect its intellectual capital and to encourage continued commitment on the part of employees, Axis invests in continuous education, as well as bonus systems and an incentive program.

### **Financial risks and policies**

Axis is exposed to a number of financial risks relating to currency, liquidity and borrowing. To minimize these risks and to ensure that financial activities contribute to sound business prerequisites, Axis works with a financial policy established by the Board of Directors. The policy defines, among other things, how the risks should be measured and within which risk intervals. To ensure adequate control and to achieve synergy effects and efficient management of the global organization, the finance function is centralized.

### **Currency risk**

Axis' strong international character means that both sales and profit are dependent on the relation between SEK and other currencies. Exchange rate movements affect the company's profits in a number of ways. These include purchase and sales that take place in different currencies, when regional results are translated to SEK and when assets and liabilities are valued in different currencies.

Foreign currency flows are hedged on a business basis and may not be speculative in nature. Some 70 percent of expected sales after deduction of costs are hedged. It is the Axis Group's total currency exposure that is hedged, not individual companies or regions. If an exchange-rate change of at least 5 percent in relation to SEK risks affecting profits by more than SEK 0.5 M, currency hedging is employed. The most important currencies for Axis are USD, EUR and JPY.

Exchange-rate trends during 2002 were characterized by a stronger SEK against the USD. This was reflected in the sales trend where currency effects had a negative impact of SEK 26 M on sales.

### Liquidity and borrowing

On December 31, 2002, Axis had SEK 130 M in liquid funds plus unutilized credit facilities totaling SEK 130 M. The existing credit commitments primarily apply to financing of business operations. Axis' financial strength is primarily measured in the form of liquidity reserves and unutilized credit commitments. The objective is that the two together should no less than 10 percent of average sales for the year.

Axis' financial policy allows the Group's liquid funds to be invested in financial instruments with a remaining term of one year at most. If the investment is intended to be long-term, the instrument's remaining term may amount to two years at most.

The company uses derivative instruments to limit financial risks. Derivative instruments are not used for speculative purposes.

### Sensitivity analysis

The table below provides an indication of the most important factors that affected Axis' profit for the 2002 fiscal year. The factors – apart from currency exposure – that are considered to have the greatest effect on prices are purchasing prices and salaries.

<b>Factor, SEK M</b>	<b>Change</b>	<b>Effect on profits, SEK M</b>
Currency, SEK/EUR	+/-5%	+/-1
Currency, SEK/USD	+/-5%	+/-1
Purchasing prices	+/-5%	+/-10
Personnel costs	+/-5%	+/-10

# Axis on the exchange

Axis was listed on the Stockholmsbörsen on June 27, 2000 and was included during the preceding year on the Attract 40 list of the Stockholmsbörsen. A round lot consists of 500 shares. During 2002, 12,108,161 Axis shares were traded, corresponding to an average trading of 48,433 shares per market day. Trading in the share took place on all market days. The turnover rate was 18 percent, compared with 122 percent for the exchange average for the A and O lists.

The last paid price on December 31, 2002 was SEK 18.40. The highest price was SEK 25.20 on January 2, 2002. The year's lowest price, SEK 11.00, was noted on October 10, 2002. During the year, the share fell from SEK 25.00 to SEK 18.40, corresponding to a decline of 26.4 percent. During the same period, the Stockholmsbörsen general index fell by 37.4 percent. The Affärsvärlden IT index fell by 65 percent.

## Market capitalization

On December 31, 2002, Axis' market value was SEK 1,268 M, which corresponded to a decline of 26.4 percent during the year.

## Share capital

The share capital amounted to SEK 689,000, divided among 68,900,000 shares, each with a par value of SEK 0.01.

## Development of share capital

Year	No. of shares	Par value (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

## Ownership

At year-end, the number of shareholders was 9,245 (8,582). Institutional investors with holdings of more than 50,000 shares accounted for 23 percent of the share capital. The proportion of foreign shareholders was 2.5 percent.

Axis' ownership structure is shown in the table below as of December 28, 2002.

Owner	No. of shares	Share of capital and votes
Mikael Karlsson, privately and through company (LMK Industri AB)	18,717,764	27.2%
G Kallström & Co AB (part of Skanditek group)	13,539,765	19.7%
Martin Gren through company (Grensolisten AB)	7,557,471	11.0%
Livförsäkringsbolaget Skandia	3,125,000	4.5%
Fourth AP Fund	2,964,000	4.3%
Others	22,996,000	33.3%
<b>Total</b>	<b>68,900,000</b>	<b>100.0%</b>

## Ownership structure

Size classes	No. of shares		No. of owners		Votes	
		%		%		%
1–500	1,431,423	2.09	6,252	67.63	1,431,423	2.09
501–1,000	1,389,617	2.02	1,552	16.79	1,389,617	2.02
1,001–10,000	3,879,079	5.63	1,313	14.20	3,879,079	5.63
10,001–50,000	1,620,688	2.35	89	0.96	1,620,688	2.35
50,001–100,000	614,640	0.89	8	0.09	614,640	0.89
100,001–	59,964,553	87.03	31	0.34	59,964,553	87.03
<b>Total</b>	<b>68,900,000</b>		<b>9,245</b>		<b>68,900,000</b>	

## Per-share data

	2002	2001
Profit/loss after financial items, SEK per share	0.75	-2.17
Cash flow, SEK per share	-0.74	-0.22
Equity, SEK per share	4.53	3.96
Market price on closing date, SEK	18.40	25.00
Market price/equity, percent per share	406	429
Dividend	-	-
P/E ratio	35	-
P/S ratio	1.9	1.7
Number of outstanding shares (000s)	68,900	68,900
Average number of shares (000s)	68,900	68,900

## Dividend and dividend policy

Axis' dividend policy is to provide a dividend up to about one-third of the year's after-tax results, with consideration to the company's equity/assets goal. With this policy in mind and the year's results, the Board of Directors proposes a dividend of SEK 0.15 per share.

## Warrants

Since 1999, Axis has had an outstanding warrants program open to all employees and intended to encourage long-term commitment to ensuring a profitable business. The terms, number of warrants and the dilution that would result from full exercise of the warrants is shown in the table below.

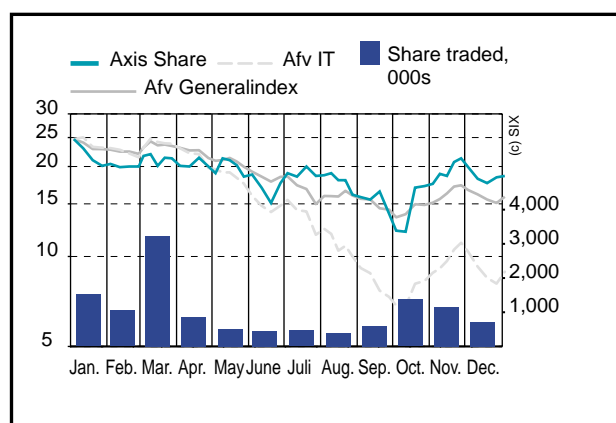
See also Note 23 on page 40 for further information.

Recipient	Maturity date	Exercise price	No. of warrants	No. of shares	Dilution
Personnel in Europe and Asia	04-10-01	19.50	430,000	430,000	0.60%
Personnel in Europe and Asia	05-09-30	54.00	1,128,000	1,128,000	1.60%
Personnel in Europe and Asia	05-09-30	63.00	172,250	172,250	0.30%
Personnel in Europe and Asia	06-10-02	18.00	221,600	221,600	0.30%
Personnel in Europe	07-10-02	26.00	104,200	104,200	0.15%
Personnel in USA	04-10-01	19.50	140,000	140,000	0.20%
Personnel in USA	10-09-30	48.00	172,250	172,250	0.30%
Personnel in USA	06-10-02	18.00	89,000	89,000	0.10%
Personnel in USA	07-10-02	26.00	64,000	64,000	0.09%
<b>Total</b>			<b>2,521,300</b>	<b>2,521,300</b>	<b>3.64</b>

## Analysts who regularly follow Axis

Company	Name
Danske Equities	Kenneth Leiling
Deutsche Bank	David Halldén
Enskilda Securities	Lars Sveder
Handelsbanken Securities	Jonas Eixmann
JP Nordiska	Mikael Laséen
Nordea Securities	Greger Johansson
REDEYE	Pontus Herin
E. Öhman J:or Fondkommission	

## Share price trend 2002



During 2002, Axis' shares outperformed comparable indexes.

## Board of Directors' report

*Axis AB (publ), Corporate registration no. 556241-1065*

*The Board of Directors and the President hereby submit the Annual Report and the Consolidated Accounts for the fiscal year from January 1, 2001 to December 31, 2001.*

*If not stated otherwise, all amounts are reported in SEK 000s. Figures in parentheses refer to the preceding year.*

### Operations

Axis increases the value of network solutions. The company is an innovative market leader in network video and print servers. Axis' products and solutions are focused on applications such as security surveillance, remote monitoring and document management. The products are based on in-house developed chip technology, which is also sold to third parties. Axis was founded in 1984 and is listed on the Stockholmsbörsen. The company has just over 300 employees and operates globally with offices in 14 countries and in cooperation with distributors, systems integrators and OEM partners in 70 countries. Markets outside Sweden account for more than 95 percent of sales.

### Important events

Two main trends affected Axis' operations during the year. One was the increased need for security and surveillance, while the other was the general restraint that prevailed with respect to IT investments. This led to video products becoming the single largest product area, which now accounts for 45 percent of Axis' total sales. At the same time, demand in other major product areas declined.

The trend within Video was clearly towards increasingly professional applications and larger investments. In addition to the demand for advanced security and surveillance solutions, the market continues to be driven by the shift from analog to digital technology. In line with this growing interest, Axis received strategically significant orders in several important customer segments, such as police authorities, schools, prisons and banks. These installations are strategically important because they show that digital solutions are being accepted as the standard in sectors that place extremely high demands on security and operational reliability. Axis also continued to increase its efforts in industrial applications of video surveillance.

Work to strengthen the Company's market position was intensified and prioritized during the year. The global sales organization devoted considerable effort to training both resellers and end customers in networked video solutions. The

company also forged partnerships with a large number of new business partners who are focused on total solutions.

The product portfolio was supplemented by several new products, including the first network camera for infrared light and a product for video recording in digital form. The range of wireless print servers was also expanded to include products for such network standards as 802.11b and Bluetooth.

The market for access points continued to develop at a relatively slow pace. A major OEM contract was signed with Toshiba for the delivery of Bluetooth access points. The solution was developed for intelligent homes in which appliances and other household devices are connected.

Increased interest during the year for Axis' technology among third-party developers resulted in several volume orders for the AXIS Device Server Platform.

### Research and development

Costs for research and development were reduced by 22 percent, compared with the preceding year, and amounted to SEK 118 M (151). The decrease was mainly attributable to investments in mobile Internet during 2001 and the capitalization of development costs during 2002, as well as rationalization and increased efficiency.

As of the 2002 fiscal year, the Swedish Financial Accounting Standards Council's Recommendation 15 has been applied with regard to capitalization of development expenses. The principles for capitalization are described in note 1 to the financial accounts. Capitalized expenses for the year amounted to SEK 6 M (-).

During 2002, work was largely focused on product development and reducing the time from concept to finished product. A total of seven newly developed products were launched in four product areas. At the same time, it was possible to further improve the offering for OEM and technology customers. Apart from pure product development, Axis also launched a new version of the Etrax chip, ETRAX 100LX MCM, which is the core component in a Linux computer measuring only slightly more than 2.5 square centime-

ters. This chip will result in considerably shorter development cycles and significantly greater opportunities for developing customized products and solutions.

During the year, nine new patents were granted, including patents for Etrax processor designs, camera systems, the processing of meta information for images transferred over a network and methods for selective storage of images.

Through collaboration with universities and research centers, as well as participation in such industry bodies as Universal Plug and Play Forum, Jini Community, Internet Engineering Task Force and Hiperlan/2 Global Forum, Axis shapes future technology and gains important ideas for future product development, while remaining at the forefront in the development and application of tomorrow's technologies.

### Financing and cash flow

As at December 31, 2002, Axis had at its disposal funds totaling SEK 260 M, including liquid funds of SEK 130 M and unutilized credit commitments of SEK 130 M. The Company is thus financially strong going into 2003. Cash flow from ongoing operations amounted to SEK 7 M (neg: 26). Net investments for the year amounted to an expenditure of SEK 15 M (12), while total cash flow after amortization of a loan in the amount of SEK 50 M, was negative in the amount of SEK 51 M (neg:15).

### Investments

Investments during the year amounted to SEK 10 M (5) in tangible assets and to SEK 6 M (0) in intangible assets. According to the consolidated cash-flow statement, net investments for the year amounted to an expenditure of SEK 15 M (12).

### Incentive program

On April 25, 2002, the Annual General Meeting approved the Board of Directors' proposal to offer Axis employees of the Axis Group to acquire a total of 168,200 warrants. The options were issued and transferred to employees during the year. See note 23 to the financial accounts.

### Ownership structure

As of the end of the fiscal year, share capital in Axis AB was SEK 689,000, divided among 68,900,000 shares with a par value of SEK 0.01. All shares are of the same share class.

Axis AB had 9,245 shareholders as of the end of the fiscal year. As of the same date, the five largest shareholders owned 67 percent of votes and capital.

	No. of of shares	Proportion of capital and votes
M. Karlsson, privately and through company (LMK Industri AB)	18,717,764	27.2%
G. Kallstrom & Co AB (part of the Skanditek Group)	13,539,765	19.7%
M Gren, through company (Grenspecialisten AB)	7,557,471	11.0%
Livförsäkringsaktiefbolaget Skandia	3,125,000	4.5%
The Fourth AP Pension Fund	2,964,000	4.3%
Other	22,996,000	33.3%
	<b>68,900,000</b>	<b>100.0%</b>

### Financial performance and position

Sales for comparable units amounted to SEK 670 M (676) during the year, which was a decline of 1 percent, compared with the preceding year. Net sales during the preceding year, which included the divested Netch Technologies AB, amounted to SEK 696 M. The sales trend reflected the weak market conditions and the strengthening of the Swedish currency. Currency effects had a negative impact of SEK 26 M on earnings. The gross margin improved by 3.8 percentage points from 53.5 percent to 57.3 percent.

The Group's operating profit amounted to SEK 40 M (loss: 83), which for comparable units was an improvement of SEK 123 M over the preceding year. Including the divested company Netch Technology, the operating loss in 2001 amounted to SEK 114 M. The operating margin improved significantly and amounted to 5.9 percent for 2002. Currency effects had a positive effect of SEK 5 M on operating profit.

Profit after financial items amounted to SEK 51 M (loss: 118), which for comparable units represented an improvement of SEK 169 M, compared with the preceding year. The loss after financial items, including the company Netch Technologies AB that was divested in 2001, amounted to SEK 149 M during the preceding year.

### Condensed income statement, SEK M

	Q1, 2002	Q2, 2002	Q3, 2002	Q4, 2002	TOTAL
Net sales	164,037	170,650	167,552	168,038	670,277
Gross profit	96,236	96,601	94,573	96,597	384,007
Gross margin, %	58.7%	56.6%	56.4%	57.5%	57.3%
<b>Operating profit</b>	<b>10,652</b>	<b>7,590</b>	<b>11,775</b>	<b>9,641</b>	<b>39,658</b>
Operating margin, %	6.5%	4.4%	7.0%	5.7%	5.9%
<b>Profit after financial items</b>	<b>13,659</b>	<b>9,265</b>	<b>16,173</b>	<b>12,339</b>	<b>51,436</b>
Profit margin, %	8.3%	5.4%	9.7%	7.3%	7.7%

## Events after the closing date

On January 28, it was announced that Peter Ragnarsson will leave his position as President of Axis AB in connection with an offer of a similar position from another listed company. Work on recruiting a successor has begun. While the recruitment process is in progress, Peter Ragnarsson will remain as CEO for a maximum period of six months.

## Key ratios for the Group

	2002	2001	2000, 8 mos.	1999/ 2000	1998/ 1999
Net sales	670	696	494	695	560
Profit/loss after financial items, SEK M	51	-150	-171	-62	1
Total assets, SEK M	430	489	616	328	249
Equity/assets	73%	56%	64%	11%	34%
Return on total capital	12%	-19%	-34%	-18%	3%
Return on equity	13%	-46%	-84%	-111%	1%
Profit/loss per share before dilution, SEK	0.52	-1.31	-2.60	-1.10	0.01
Profit/loss per share after dilution, SEK	0.52	-1.31	-2.60	-1.10	0.01
No. of shares before dilution, average	68,900	68,900	65,775	56,400	56,400
No. of shares after dilution, average	68,985	68,900	65,775	56,400	56,400
No. of employees on closing date	344	324	581	506	329

See Note 30 for definitions.

## The Board of Directors' Working Procedures

The Board of Directors consists of seven members elected by the Annual General Meeting. During the fiscal year, the board held seven meetings. The Board of Directors works with an annual plan for agenda items and is in other respects subject to the special working procedure that the Board of Directors has established regarding the division of responsibilities between the Board of Directors and the President.

The Board of Directors has appointed a Compensation Committee whose primary assignment is to prepare decisions and guidelines relating to salaries and other terms of employment for personnel, the President and those members of the Board of Directors who receive remuneration other than that approved by the Annual General Meeting. The Compensation Committee has consisted of Patrik Tiger-schiöld, Östen Mäkitalo and Jan Wabréus.

## Prospects for 2003

During 2003, Axis' strategic technical, product, and market development work will prioritize the Video product area, which is considered to have significant long-term growth potential. The goal is to continue to expand in this area, thus strengthening Axis' position as the market leader, while maintaining satisfactory profitability. The overall sales trend remains difficult to predict. At the end of 2002, there were several signs of increased activity but also indications, not least in the U.S. market, that 2003 may also be a year characterized by general restraint with respect to IT investments.

## Parent Company

The Parent Company's operations are primarily focused on Group administration. The Parent Company has no employees.

Sales to Group companies were insignificant. There were no purchases from Group companies.

The Parent Company reported a profit after financial items of SEK 51 M (loss: 178).

## Proposed distribution of earnings

The following funds are at the disposal of the Annual General Meeting:

Profit for the year	SEK 43,802,393
<b>Total</b>	<b>SEK 43,802,393</b>

The Board of Directors and the President propose that the funds at the disposal of the Annual General Meeting be treated so that:

a dividend of SEK 0.15 per share would be distributed to the shareholders	SEK 10,335,000
profit to be carried forward	SEK 33,467,393
<b>Total</b>	<b>SEK 43,802,393</b>

Consolidated unrestricted equity amounted to SEK 28 M. No transfers from consolidated non-restricted equity to restricted equity are proposed.

## Income statements

SEK 000s	Note	Group			Parent Company	
		2002	2001	8 mos 2000	2002	2001
Net sales	2	670,277	696,333	493,651	3,131	4,310
Cost of goods and services sold		-286,270	-340,754	-283,356	-	-
<b>Gross profit</b>		<b>384,007</b>	<b>355,579</b>	<b>210,295</b>	<b>3,131</b>	<b>4,310</b>
Selling expenses		-177,522	-212,011	-186,648	-	-
Administrative expenses		-56,334	-66,262	-53,483	-6,164	-7,886
Research and development expenses		-117,847	-151,052	-133,065	-	-
Items affecting comparability		-	-33,296	-	-	-
Other operating income	5	7,354	-	-	-	-
Other operating expenses	5	-	-6,922	-2,139	-	-
Shares in pretax profit/loss in associated companies		-	158	15	-	-
<b>Net operating profit/loss</b>	<b>3, 4</b>	<b>39,658</b>	<b>-113,806</b>	<b>-165,025</b>	<b>-3,033</b>	<b>-3,576</b>
<i>Net profit or loss from financial investments</i>						
Net profit or loss from shares in group companies	6	-	-	-	8,449	-67,487
Interest income and similar income items	7	14,018	8,419	5,440	47,363	13,270
Interest expense and similar expense items	8	-2,240	-44,106	-11,150	-1,662	-120,653
<b>Profit/loss after financial items</b>		<b>51,436</b>	<b>-149,493</b>	<b>-170,735</b>	<b>51,117</b>	<b>-178,446</b>
Change in tax equalization reserve		-	-	-	9,112	10,488
Tax	11	-15,581	48,445	35,790	-16,427	108,985
Minority share in profit/loss for the period		-	10,941	27,091	-	-
<b>Net profit/loss for the year</b>		<b>35,855</b>	<b>-90,107</b>	<b>-107,854</b>	<b>43,802</b>	<b>-58,973</b>
Profit/loss per share before dilution, SEK		0.52	-1.31	-2.60		
Profit/loss per share after dilution, SEK		0.52	-1.31	-2.60		
Number of shares before dilution, average		68,900	68,900	65,775		
Number of shares after dilution, average		68,985	68,900	65,775		

## Balance sheets

ASSETS, SEK 000s	Note	Group			Parent Company	
		Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2000	Dec. 31, 2002	Dec. 31, 2001
<b>Fixed assets</b>						
<i>Intangible fixed assets</i>						
Capitalized expenditures for development work	12	5,658	–	–	–	–
Rights	14	782	1,407	2,032	782	1,407
Other intangible fixed assets	13	460	1,730	4,965	–	–
<b>Total intangible fixed assets</b>		<b>6,900</b>	<b>3,137</b>	<b>6,997</b>	<b>782</b>	<b>1,407</b>
<i>Tangible fixed assets</i>						
Buildings and land	15	–	–	8,024	–	–
Equipment	16	14,999	18,241	36,464	–	–
<b>Total tangible fixed assets</b>		<b>14,999</b>	<b>18,241</b>	<b>44,488</b>	<b>–</b>	<b>–</b>
<i>Financial fixed assets</i>						
Shares in subsidiaries	17	–	–	–	742	742
Shares in associated companies	18	–	–	1,165	–	–
Other securities held as fixed assets	19	–	–	33,861	–	–
Condominiums	20	676	676	676	–	–
Receivables from associated companies		–	–	1,822	–	–
Deferred tax claims	21	97,480	111,744	58,800	92,558	108,985
Long-term receivables		2,379	2,813	842	–	–
<b>Total financial assets</b>		<b>100,535</b>	<b>115,233</b>	<b>97,166</b>	<b>93,300</b>	<b>109,727</b>
<b>Total fixed assets</b>		<b>122,434</b>	<b>136,611</b>	<b>148,651</b>	<b>94,082</b>	<b>111,134</b>
<b>Current assets</b>						
<i>Inventories</i>						
Goods for resale		57,994	46,628	60,119	–	–
<b>Total inventories</b>		<b>57,994</b>	<b>46,628</b>	<b>60,119</b>	<b>–</b>	<b>–</b>
<i>Receivables</i>						
Accounts receivable		88,385	106,339	137,960	–	–
Tax receivables		2,307	187	2,538	–	–
Receivable from Group companies		–	–	–	212,743	230,095
Other receivables		8,836	7,767	30,764	–	–
Prepaid expenses and accrued income		20,571	10,874	39,945	6,973	3,189
<b>Total receivables</b>		<b>120,099</b>	<b>125,167</b>	<b>211,207</b>	<b>219,716</b>	<b>233,284</b>
<i>Cash and bank deposits</i>						
Cash and bank deposits		129,956	180,773	195,993	52,320	36,632
<b>Total cash and bank deposits</b>		<b>129,956</b>	<b>180,773</b>	<b>195,993</b>	<b>52,320</b>	<b>36,632</b>
<b>Total current assets</b>		<b>308,049</b>	<b>352,568</b>	<b>467,319</b>	<b>272,036</b>	<b>269,916</b>
<b>TOTAL ASSETS</b>		<b>430,483</b>	<b>489,179</b>	<b>615,970</b>	<b>366,118</b>	<b>381,050</b>

EQUITY AND LIABILITIES, SEK 000s	Note	Group			Parent Company	
		Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2000	Dec. 31, 2002	Dec. 31, 2001
<b>Equity</b>	22, 23					
<i>Restricted equity</i>						
Share capital		689	689	689	689	689
Legal reserve		–	–	–	1,024	1,024
Premium fund		–	–	–	291,552	349,600
Restricted reserves		284,039	333,937	559,322	–	–
<b>Total restricted equity</b>		<b>284,728</b>	<b>334,626</b>	<b>560,011</b>	<b>293,265</b>	<b>351,313</b>
<i>Accumulated loss/Non-restricted equity</i>						
Non-restricted reserves		–8,051	28,495	–72,418	–	–
Profit/loss for the year		35,855	–90,107	–107,854	43,802	–58,973
<b>Total accumulated loss/non-restricted equity</b>		<b>27,804</b>	<b>–61,612</b>	<b>–180,272</b>	<b>43,802</b>	<b>–58,973</b>
<b>Total equity</b>		<b>312,532</b>	<b>273,014</b>	<b>379,739</b>	<b>337,067</b>	<b>292,340</b>
<b>Minority share of equity</b>		–	–	12,125	–	–
<b>Untaxed reserves</b>						
Tax allocation reserve	25	–	–	–	19,439	28,551
<b>Total untaxed reserves</b>		–	–	–	<b>19,439</b>	<b>28,551</b>
<b>Provisions</b>	24	<b>3,826</b>	<b>16,125</b>	<b>3,707</b>	–	–
<b>Liabilities</b>						
<i>Long-term liabilities</i>	26					
Liabilities to credit institutions		–	50,000	51,363	–	50,000
<b>Total long-term liabilities</b>		–	<b>50,000</b>	<b>51,363</b>	–	<b>50,000</b>
<i>Current liabilities</i>						
Accounts payable		50,342	82,945	105,676	–	–
Liabilities to Group companies		–	–	–	8,306	8,006
Other liabilities		5,280	4,076	10,658	82	152
Accrued expenses and deferred income	27	58,503	63,019	52,702	1,224	2,001
<b>Total current liabilities</b>		<b>114,125</b>	<b>150,040</b>	<b>169,036</b>	<b>9,612</b>	<b>10,159</b>
<b>Total liabilities</b>		<b>114,125</b>	<b>200,040</b>	<b>220,399</b>	<b>9,612</b>	<b>60,159</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>430,483</b>	<b>489,179</b>	<b>615,970</b>	<b>366,118</b>	<b>381,050</b>
<b>MEMORANDUM ITEMS</b>						
Pledged assets	28	NONE	NONE	10,000	NONE	NONE
Contingent liabilities	29	NONE	NONE	NONE	4,344	37,290

## Cash-flow statements

SEK 000s	Note	Group			Parent Company	
		2002	2001	8 mos 2000	2002	2001
<b>Current operations</b>						
Operating profit/loss before financial items		39,658	-113,807	-165,025	-3,033	-3,576
Depreciation and amortization		13,712	19,382	13,344	625	625
Other items not affecting liquidity		-7,204	12,438	3,507	-	-
		<b>46,166</b>	<b>-81,987</b>	<b>-148,174</b>	<b>-2,408</b>	<b>-2,951</b>
Financial income received	9	6,600	5,846	5,440	11,895	15,340
Group contribution received		-	-	-	8,535	6,421
Financial expense paid	10	-2,758	-2,050	-6,806	-2,130	-4,597
Group contribution paid		-	-	-	-86	-73,908
Tax paid		-4,189	-2,311	1,917	-	-
		<b>-347</b>	<b>1,485</b>	<b>551</b>	<b>18,214</b>	<b>-56,744</b>
Change in inventories		-11,366	13,491	9,768	-	-
Change in accounts receivable		17,954	16,581	-5,650	-	-
Change in other current receivables		-10,197	44,861	-25,125	89,589	187,503
Change in accounts payable		-32,603	-17,029	33,635	-	-
Change in other current operating liabilities		-2,794	-2,982	21,002	-164	121
		<b>-39,006</b>	<b>54,922</b>	<b>33,630</b>	<b>89,425</b>	<b>187,624</b>
<b>Cash flow from current operations</b>		<b>6,813</b>	<b>-25,580</b>	<b>-113,993</b>	<b>105,231</b>	<b>127,929</b>
<b>Investment operations</b>						
Investments in intangible fixed assets		-5,692	-	-1,933	-	-
Investments in tangible fixed assets		-9,572	-4,736	-15,567	-	-
Sale of tangible fixed assets		-575	13,568	3	-	-
Investments in subsidiaries		-	-7,792	-	-	-
Investments in other financial fixed assets		435	-9,471	-20,968	-	-7,500
Sale of financial fixed assets		-	-	-	-	-50,146
Profit/loss upon sale of shares in subsidiaries		-	-4,029	-	-	-
<b>Cash flow from investment operations</b>		<b>-15,404</b>	<b>-12,460</b>	<b>-38,465</b>	<b>-</b>	<b>-57,646</b>
<b>Financing operations</b>						
Share premium upon issue of debt instruments		925	989	6,315	925	1,345
New issue		-	-	445,520	-	-
Change in long-term liabilities		-50,000	-1,363	-111,459	-	-
Payment from minority interest		-	21,000	-	-	-
Amortization of loans		-	-	-	-50,000	-
Exchange rate differences		6,849	2,194	-4,344	35,468	-21,959
Group contribution received/paid		-	-	-	-75,936	-35,703
<b>Cash flow from financing operations</b>		<b>-42,226</b>	<b>22,820</b>	<b>336,032</b>	<b>-89,543</b>	<b>-56,317</b>
<b>CASH FLOW FOR THE YEAR</b>		<b>-50,817</b>	<b>-15,220</b>	<b>183,574</b>	<b>15,688</b>	<b>13,966</b>
Liquid funds at the beginning of the year		180,773	195,993	12,419	36,632	22,666
Change in liquid funds		-50,817	-15,220	183,574	15,688	13,966
<b>Liquid funds at the end of the year</b>		<b>129,956</b>	<b>180,773</b>	<b>195,993</b>	<b>52,320</b>	<b>36,632</b>

# Notes

If not stated otherwise, all amounts are reported in SEK 000s.

## Note 1 Accounting principles

The annual report and consolidated financial statements were prepared in accordance with the Swedish Annual Accounts Act and the recommendations and opinions of the Swedish Financial Accounting Standards Council. The accounting principles are unchanged from the preceding year with the exception of capitalization of development expenses. With the exception of the principle for capitalizing development costs described above, the recommendations issued by the Swedish Financial Accounting Standards Council that took effect on January 1, 2002 have not entailed any change in the financial accounts.

### Consolidated financial statements

The consolidated financial statements include the Parent Company and the companies in which the Parent Company, directly or indirectly, controls more than 50 percent of votes as of the end of the fiscal year. Companies acquired during the year are included in the consolidated income statement with values commencing on the date of acquisition.

The consolidated accounts were prepared using the acquisition method, by which the acquisition value of shares in subsidiaries are eliminated against each subsidiary's equity as of date of acquisition. Equity is determined on a market appraisal of assets, provisions and liabilities as of the date of acquisition. To the extent there are untaxed reserves in acquired companies, a provision is made for deferred tax on such reserves, based on the tax rate in effect in the company's country of domicile. This tax is reported among provisions for taxes.

If the acquisition value of the shares in subsidiaries exceeds the value of acquired equity computed as described above, the difference is attributed to goodwill, which is amortized over its estimated useful life.

Companies acquired during the year are included in the consolidated financial statements as of the date they are acquired. Companies sold during the year are included in the consolidated financial statements until the date of sale. All companies included in the consolidated accounts apply the same accounting principles.

### Translation of foreign subsidiaries

All foreign subsidiaries within the Axis Group have been classified as integrated foreign business entities. Accordingly, the monetary/non-monetary method is applied for the translation of the financial statements of foreign subsidiaries. This means that the monetary assets and liabilities of foreign subsidiaries are translated at the closing day rate, while non-monetary assets are translated at the historical rate. All income statement items are translated at the average rate for the year. Translation differences are reported in the net profit or loss from financial investments.

When the Parent Company or another Group company in the Axis Group employs hedging in order to capitalize and shield against exchange rate differences on net investments in a subsidiary, the exchange difference on the hedging instrument is recorded directly against income from financial investments to the extent that it relates to a corresponding translation difference recorded during the year for the subsidiary.

Tax effects are taken into account upon unequal valuation of assets and liabilities at the Group or company level, which are reported as long-term or deferred tax liability. However, in accordance with Recommendation 9 issued by the Swedish Financial Accounting Standards Council, deferred tax on consolidated positive or negative goodwill is not taken into account.

### Minority interest

The minority interest in net profit/loss for the year and equity is based on the financial statements for the subsidiary prepared in accordance with Group accounting principles.

### Associated companies

Associated companies are companies that are not subsidiaries, but for which the Parent Company, directly or indirectly, controls between 20 and 50 percent of the votes for all shares. Shares in associated companies are reported using the equity method.

According to the equity method, shares in the net profits or loss in associated companies are included in pretax profits or loss. If the acquisition value of shares in associated companies was higher than the proportion of equity in the acquired company as of the date of acquisition, the difference is treated as goodwill. The share of the associated company's taxes is included in the Group's tax expense. Holdings in associated companies are reported on the consolidated balance sheet at acquisition value, adjusted for contributions, dividends and share in net profits or loss following the acquisition.

### Receivables and liabilities in foreign currency

Current receivables and liabilities in foreign currency are translated at the year-end rate. Exchange rate differences are included in other operating revenues or operating expenses.

"Hedge reporting" is applied to hedging of future currency flows. The net profit or loss from hedging transactions is reported on the income statement for the same period as the underlying flows.

### Inventories

Goods for resale are valued at the lower of cost or market value as of closing day, with the FIFO principle applied. Internal gains upon transactions between Group companies are eliminated.

### Receivables

Receivables are reported in the amounts at which they are expected to be paid.

### Research and development expenditures

Axis' technology is based on internally developed ASIC (Application Specific Integrated Circuit) platforms, which constitute the core in Axis products. As of fiscal year 2002, the development of new platforms is capitalized during the development period and depreciated over the expected economic lifetime. Network applications based on these platforms, such as network cameras and print servers, are considered as adaptations of the core product. Adaptations of the platforms for various network applications are not capitalized. Expenses for research are charged against income as they occur. Up until the fiscal year 2001, all expenditures relating to research and development were charged against income as they occurred.

### Income recognition

Net sales are reported upon delivery of the goods and acceptance by the customer. Sales are reported after deductions for sales taxes and discounts, and after elimination of intragroup sales.

### Tangible and intangible fixed assets

Tangible and intangible fixed assets are reported at the acquisition cost less depreciation and amortization according to plan. There are no pledges or commitments on future investments.

Planned depreciation and amortization are normally based on the original acquisition value and the estimated useful life of the asset, in accordance with the following:

Machinery and equipment	3–10 years
Land improvements	5 years
Capitalized expenditures for development work	1–3 years
Software	3 years
Rights	5 years

### Income taxes

The year's tax expense is computed according to each country's tax regulations and the reported net profit or loss for the year. Remaining tax to be paid is reported under tax liability.

A provision for deferred tax is made on untaxed reserves at the prevailing tax rate for each country. Deferred tax claims on fiscal deficits are computed and recorded as deferred tax income on the income statement and as a long-term liability on the balance sheet. Deferred tax liability on fiscal deficits is reported in accordance with the company's election to apply the Swedish Financial Accounting Standards Council Recommendation 9. Deferred tax claims and deferred tax liabilities with the same tax authorities are reported as a net amount in the balance sheet. Deferred tax claims relating to accumulated loss carry-forwards are capitalized to the extent that it is deemed probable that the loss carry-forward can be utilized against future taxable surpluses.

The early application of Recommendation 9, Income Tax, as of December 31, 2000 only affected the consolidated accounts. As of December 31, 2001, the Parent Company's accounts are also affected.

Untaxed reserves are reported in the Parent Company due to their link to taxes.

### Cash flow statement

The cash flow analysis was prepared in accordance with the Swedish Financial Accounting Standards Council's Recommendation 7 in accordance with the indirect method. The change in liquid funds for the year is divided into operations, investment operations and financing operations. The starting point for the indirect method is the operating profit or loss adjusted for those transactions that do not entail cash payments. Liquid funds refer to cash and bank balances, as well as current investments. All items included in liquid funds can be converted to cash relatively quickly.

### Loan costs

All costs for loans are expensed as they arise.

### Leasing

Leasing fees for rented equipment are normally expensed during the rental period. The Group does not currently have any significant financial leasing agreements, meaning that all of the Group's leasing agreements are considered as operational for accounting purposes.

### Provisions

Provisions are reported when the Group remains under legal or informal obligation as a result of previous events and where an outlay or resources to regulate the commitment is probable and where it is possible to calculate the amount in a reliable manner.

## Note 2 Net sales distributed by product area and geographical market

Net sales are distributed by product area as follows:

	Group		
	2002	2001	2000 8 mos
Video	301,476	238,322	135,454
Print	277,934	308,537	210,221
Scan	13,082	25,176	18,474
Store	32,104	50,644	48,005
Access	5,795	5,158	84
Other	39,886	48,017	38,569
	<b>670,277</b>	<b>675,854</b>	<b>450,807</b>
Netch Technologies AB	–	20,479	42,844
<b>Total</b>	<b>670,277</b>	<b>696,333</b>	<b>493,651</b>

Net sales are distributed by geographical market as follows:

	Group		
	2002	2001	2000 8 mos
Europe (including Middle East and Africa)	315,903	330,885	250,735
Asia	174,194	155,672	108,659
North and South America	180,180	209,776	134,257
<b>Total</b>	<b>670,277</b>	<b>696,333</b>	<b>493,651</b>

## Note 3 Personnel

The average number of employees and their distribution by sex during the year was:

	Women			Men			Total		
	2002	2001	2000 8 mos	2002	2001	2000 8 mos	2002	2001	2000 8 mos
Parent company	–	–	–	–	–	–	–	–	–
France	4	5	6	7	6	9	11	11	15
Japan	9	9	7	11	10	11	20	19	18
Netherlands	1	1	1	3	2	2	4	3	3
Singapore and Asia Pacific	10	11	12	15	17	16	25	28	28
Spain and Italy	2	2	2	5	5	5	7	7	7
Great Britain	1	1	2	3	5	7	4	6	9
Sweden	47	70	81	184	255	322	231	324	403
Germany	2	2	2	6	8	12	8	10	14
USA	7	10	16	17	21	27	24	31	43
<b>Group total</b>	<b>83</b>	<b>111</b>	<b>129</b>	<b>251</b>	<b>329</b>	<b>411</b>	<b>334</b>	<b>439</b>	<b>540</b>

Salaries and other remuneration amounted to:

	Board of Directors & President			Other			Total		
	2002	2001	2000 8 mos	2002	2001	2000 8 mos	2002	2001	2000 8 mos
Parent company	–	–	–	–	–	–	–	–	–
France	–	–	–	6,227	5,484	3,608	6,227	5,484	3,608
Japan	–	–	–	14,767	11,702	8,362	14,767	11,702	8,362
Netherlands	–	–	–	1,859	1,353	693	1,859	1,353	693
Singapore and Asia Pacific	–	–	–	8,291	9,974	5,850	8,291	9,974	5,850
Spain and Italy	–	–	–	2,424	1,776	983	2,424	1,776	983
Great Britain	–	–	–	3,869	4,713	4,248	3,869	4,713	4,248
Sweden	3,652	3,227	2,212	96,332	139,198	106,519	99,984	142,425	108,731
Germany	–	–	–	4,504	4,619	3,933	4,504	4,619	3,933
USA	–	–	–	20,644	31,392	20,843	20,644	31,392	20,843
<b>Group total</b>	<b>3,652</b>	<b>3,227</b>	<b>2,212</b>	<b>158,917</b>	<b>210,211</b>	<b>155,039</b>	<b>162,569</b>	<b>213,438</b>	<b>157,251</b>

	Salaries and remunerations			Employer's contributions			(of which pension costs)		
	2002	2001	2000 8 mos	2002	2001	2000 8 mos	2002	2001	2000 8 mos
Parent company	–	–	–	–	–	–	–	–	–
Subsidiaries	162,569	213,438	157,251	55,062	72,100	51,910	12,487	15,936	8,881
<b>Group total</b>	<b>162,569</b>	<b>213,438</b>	<b>157,251</b>	<b>55,062</b>	<b>72,100</b>	<b>51,910</b>	<b>12,487</b>	<b>15,936</b>	<b>8,881</b>

Remuneration to the Board of Directors

	Group		
	2002	2001	2000 8 mos
Board of Directors	500	325	325
	<b>500</b>	<b>325</b>	<b>325</b>

Wages, salaries and other remuneration to the Board of Directors and the President were paid through the subsidiary Axis Communications AB.

### Remuneration to executive management

The Chairman of the Board of Directors and its members receive remuneration in accordance with the Annual General Meeting's decisions. No special remuneration is received for committee work.

Remuneration to the President consists of a basic salary, variable compensation and a pension. Other senior executives consist of the five persons who together with the President constitute Group management.

The division between a basic salary and variable compensation should be in relation to the executive's responsibility and authority. For the President, variable compensation is a maximum of 800. For other senior executives, variable compensation is at most 25 percent of the basic salary. The variable compensation to the President is based entirely on financial targets, while variable compensation to other senior executives is based in part on results in relation to personal targets and in part on results in relation to financial targets for the Group.

Remuneration and other benefits received by senior executives are reported in the table on page 37.

### Note 3 Continued

	Basic salary/ Remuneration	Variable Compensation	Other Benefits	Pension Costs	Other Remuneration	Total
Chairman of the Board	606	–	–	314	–	920
President	1,629	300	–	508	–	2,437
Other senior executives	4,995	772	–	1,340	–	7,107
	<b>7,230</b>	<b>1,072</b>	<b>–</b>	<b>2,162</b>	<b>–</b>	<b>10,464</b>

Variable compensation for the fiscal year 2002 relates to bonuses reported as an expense. See below for details on how bonuses are calculated.

Other benefits and Other Remuneration are received on the same grounds as for other employees.

With the exception of the President, Axis only provides benefits-based pensions. Pension costs relate to the expenses charged against income for the year. See below for further information regarding pensions.

The Chairman of the Board of Directors, who until October 31, 2002 was an employee of Axis, has, as of February 12, 2003, signed a contract that gives Axis the possibility to purchase his consulting services on an ongoing basis via his wholly owned company, LMK Industri AB.

#### Bonus to senior executives

For the President, the bonus for 2002 was based in part on the Group's sales and in part on the Group's operating profit in relation to targets set by the Board of Directors. The bonus for 2002 amounted to 300.

For other senior executives, the bonus was 60 percent based on the Group's profit margin and 40 percent on individual targets. Bonus amounts for other senior executives corresponded to 9-17 percent of basic salary.

#### Holdings of securities

	From the period prior to 2002		Changes during 2002	
	No. of warrants	No. of warrants	Acquisition price	Value
Chairman of the Board of Directors	–	–	–	–
President	164,000	–	–	–
Other senior executives	102,800	–	–	–
	<b>266,800</b>	<b>–</b>	<b>–</b>	<b>–</b>

During 2002, neither the President nor other senior executives acquired warrants in Axis AB.

#### Note 4 Audit fees

	Group		
	2002	2001	2000 8 mos
Audit fees paid to Öhrlings PricewaterhouseCoopers	525	435	470
Other fees paid to Öhrlings PricewaterhouseCoopers	453	847	1,477
Audit fees paid to other auditors	859	756	485
	<b>1,837</b>	<b>2,038</b>	<b>2,432</b>

Audit fees and other fees paid to the Parent Company's auditors were charged entirely to the subsidiary Axis Communications AB.

#### Note 5 Other operating revenues and other operating expenses

	Group		
	2002	2001	2000 8 mos
Exchange rate differences	7,354	–6,922	–2,139
<b>Total</b>	<b>7,354</b>	<b>–6,922</b>	<b>–2,139</b>

#### Note 6 Net profit/loss from shares in Group companies

	Parent Company	
	2002	2001
Group contribution received	8,535	6,421
Write-down of shares in subsidiaries	–86	–73,908
	<b>8,449</b>	<b>–67,487</b>

#### Pensions

The retirement age for the President is 65 years. The pension premium should amount to 35 percent of earnings with pension entitlement up to 28.5 base amounts. For the salary exceeding 28.5 base amounts, the premium is 25 percent.

For other senior executives, the ITP agreement applies with a retirement age of 65.

#### Severance pay

A mutual period of notice of six months is required with respect to termination or resignation of the President's employment. If employment is terminated at the request of the Company, the President is entitled to severance pay of 1,680. Severance pay is not reduced against other income. If employment is terminated at the request of the President, there is no severance pay.

Between the company and four of the other senior executives a mutual period of notice of three months applies. If employment is terminated at the request of the Company, the senior executive is entitled to severance pay during the termination period of three months. This amount is not reduced against other income. If employment is terminated by the senior executive, there is no severance pay. For the fifth senior executive, salary is paid during the termination period, which is 12 months, if employment is terminated at the Company's request. If employment is terminated at the senior executive's request, a three-month termination period applies with salary during the termination period.

#### Determination and decision process

The Compensation Committee provided the Board of Directors with recommendations during the year regarding the principles for compensation to senior executives. The recommendations comprised the proportions between fixed and variable compensation and the magnitude of possible salary increases. In addition, the Compensation Committee proposed criteria for assessment of bonus results, etc. The Board of Directors discussed the Compensation Committee's proposals and took decisions based on the committee's recommendations.

Remuneration to the President for the 2002 fiscal year was approved by the Board of Directors based on the Compensation Committee's recommendations. Remuneration to other senior executives was determined by the President after consulting the Compensation Committee.

#### Note 7 Interest income and similar income items

	Group			Parent Company	
	2002	2001	2000 8 mos	2002	2001
Interest income	7,169	6,225	5,440	11,895	13,270
Exchange rate differences	6,849	2,194	–	35,468	–
<b>Total</b>	<b>14,018</b>	<b>8,419</b>	<b>5,440</b>	<b>47,363</b>	<b>13,270</b>

#### Note 8 Interest expense and similar profit/loss items

	Group			Parent Company	
	2002	2001	2000 8 mos	2002	2001
Interest expense	–1,234	–2,058	–5,704	–1,442	–4,999
Exchange rate differences	–	–	–4,344	–	–21,959
Loss on divestment of shares in subsidiaries	–	–330	–	–	–52,672
Write-downs of shares and financial instruments	–	–40,861	–	–	–40,560
Other financial expenses	–1,006	–857	–1,102	–220	–463
<b>Total</b>	<b>–2,240</b>	<b>–44,106</b>	<b>–11,150</b>	<b>–1,662</b>	<b>–120,653</b>

#### Note 9 Financial income received

	Group			Parent Company	
	2002	2001	2000 8 mos	2002	2001
Interest income	6,600	5,846	5,440	11,895	15,340
<b>Total</b>	<b>6,600</b>	<b>5,846</b>	<b>5,440</b>	<b>11,895</b>	<b>15,340</b>

**Note 10 Financial expenses incurred**

	Group			Parent Company	
	2002	2001	2000 8 mos	2002	2001
Interest expenses	-1,752	-2,050	-5,704	-2,130	-4,597
Other financial expenses	-1,006	-	-1,102	-	-
<b>Total</b>	<b>-2,758</b>	<b>-2,050</b>	<b>-6,806</b>	<b>-2,130</b>	<b>-4,597</b>

**Note 11 Tax**

	Group			Parent Company	
	2002	2001	2000 8 mos	2002	2001
Current tax	-2,069	-3,882	-797	-	-
Deferred tax	-13,512	52,327	36,587	-16,427	108,985
<b>Total</b>	<b>-15,581</b>	<b>48,445</b>	<b>35,790</b>	<b>-16,427</b>	<b>108,985</b>
Reported profit before tax	51,436	-149,493	-170,735	60,229	-167,958
<i>To be added:</i>					
Taxable temporary differences	11,375	51,558	-	-	40,111
Non-deductible expenses	5,373	2,909	1,107	-	-
<i>To be deducted:</i>					
Non-taxable income	-13	-26	-50	-	-
Expenses charged against equity	-	-	-	-1,561	-
<b>Taxable profit/ loss</b>	<b>68,171</b>	<b>-95,052</b>	<b>-169,678</b>	<b>58,668</b>	<b>-127,847</b>
<b>Estimated tax</b>	<b>-19,088</b>	<b>26,614</b>	<b>47,510</b>	<b>-16,427</b>	<b>35,797</b>
Deferred tax income relating to temporary differences	2,752	13,733	-585	-	11,441
Deferred tax income relating to untaxed reserves	2,873	3,499	242	-	-
Deferred tax effect relating to intra-Group adjustments and changes in Group structure	-1,311	2,949	-12,852	-	-
Deferred tax effect relating to difference in tax rates	-807	1,650	1,475	-	-
Effect of reporting of deferred tax claims in legal entities	-	-	-	-	61,747
<b>Total tax for the year</b>	<b>-15,581</b>	<b>48,445</b>	<b>35,790</b>	<b>16,427</b>	<b>108,985</b>

**Note 12 Capitalized expenditures for development work**

	Group		
	2002	2001	2000 8 mos
Acquisitions for the year	5,658	-	-
<b>Closing balance</b>	<b>5,658</b>	<b>-</b>	<b>-</b>

**Note 13 Other intangible fixed assets**

	Group		
	2002	2001	2000 8 mos
Acquisition value, beginning of year	7,652	8,340	6,407
Acquisitions during the year	34	5,257	1,933
Company divestment	-	-5,945	-
<b>Closing balance</b>	<b>7,686</b>	<b>7,652</b>	<b>8,340</b>
Accumulated scheduled amortization, beginning of year	-5,922	-3,375	-1,418
Scheduled amortization for the year	-1,304	-3,533	-1,957
Company divestment	-	986	-
<b>Closing balance</b>	<b>-7,226</b>	<b>-5,922</b>	<b>-3,375</b>
<b>Total</b>	<b>460</b>	<b>1,730</b>	<b>4,965</b>

The item relates primarily to software.

**Note 14 Rights**

	Group			Parent Company	
	2002	2001	2000 8 mos	2002	2001
Acquisition value, beginning of year	3,126	3,126	3,126	3,126	3,126
<b>Closing balance</b>	<b>3,126</b>	<b>3,126</b>	<b>3,126</b>	<b>3,126</b>	<b>3,126</b>
Accumulated scheduled amortization, beginning of year	-1,719	-1,094	-678	-1,719	-1,094
Scheduled amortization for the year	-625	-625	-416	-625	-625
<b>Closing balance</b>	<b>-2,344</b>	<b>-1,719</b>	<b>-1,094</b>	<b>-2,344</b>	<b>-1,719</b>
<b>Total</b>	<b>782</b>	<b>1,407</b>	<b>2,032</b>	<b>782</b>	<b>1,407</b>

The item relates primarily to name rights.

**Note 15 Buildings, land and land improvements**

	Group		
	2002	2001	2000 8 mos
Acquisition value, beginning of year	-	8,306	8,306
Divestments during the year	-	-7,039	-
<b>Closing balance</b>	<b>-</b>	<b>1,267</b>	<b>8,306</b>
Accumulated scheduled depreciation, beginning of year	-	-282	-113
Scheduled depreciation for the year	-	-985	-169
<b>Closing balance</b>	<b>-</b>	<b>-1,267</b>	<b>-282</b>
<b>Total</b>	<b>-</b>	<b>-</b>	<b>8,024</b>
Assessed values, Sweden	-	-	3,769

**Note 16 Equipment**

	Group		
	2002	2001	2000 8 mos
Acquisition value, balance at beginning of year	66,459	93,302	79,476
Acquisitions during the year	9,572	4,736	15,567
Sales and discards for the year	-4,884	-17,927	-1,741
Company acquisitions/divestments	-	-13,652	-
<b>Closing balance</b>	<b>71,147</b>	<b>66,459</b>	<b>93,302</b>
Accumulated scheduled depreciation, beginning of year	-48,218	-56,838	-47,774
Scheduled depreciation for the year	-11,783	-14,239	-10,802
Sales and discards for the year	3,853	16,384	1,738
Company acquisitions/divestments	-	6,475	-
<b>Closing balance</b>	<b>-56,148</b>	<b>-48,218</b>	<b>-56,838</b>
<b>Total</b>	<b>14,999</b>	<b>18,241</b>	<b>36,464</b>

### Note 17 Shares in subsidiaries

Shares owned by Parent Company	Registered office	Reg. No.	No. of shares and capital	No. of shares	Par value	Book value	
						Dec. 31, 2002	Dec. 31, 2001
Axis Communications AB	Lund	556253-6143	100%	1,600	160	342	342
Gren & Karlsson Firmware AB	Lund	556304-6209	100%	500	100	50	50
Axis Technologies AB	Lund	556485-0765	100%	500	100	50	50
Axis Alfa AB	Lund	556599-4547	100%	500	100	100	100
Axis Beta AB	Lund	556599-4588	100%	500	100	100	100
Axis Gamma AB	Lund	556599-4562	100%	1,000	100	100	100
						<b>742</b>	<b>742</b>

Shares owned by subsidiaries	Registered Office	No. of shares and capital	Shares owned by subsidiaries	Registered Office	Reg. No.	No. of shares and capital
Axis Communications SA	France	100%	Axis Communications (S) Pte Ltd	Singapore		100%
Axis Communications (UK) Ltd	UK	100%	Axis Communications Korea Co. Ltd.	Korea		100%
Axis Communications GmbH	Germany	100%	Axis Communications Ltd	Kina, Hong Kong		100%
Axis Communications BV	Netherlands	100%	Axis Communications Ltd	China, Shanghai		100%
Axernet Communications SA	Spain	100%	Axis Communications Pty Ltd	Australia		100%
Axis Communications Inc	USA	100%	Axis Communications Ltd	Taiwan		100%
Axis Communications Ltda	Brasil	100%	Axis Network AB	Sweden	556505-3450	100%
Axis Communications KK	Japan	100%	Axis Peripherals AB	Sweden	556505-1785	100%

### Note 18 Shares in associated companies

	Share (capital)	Share (votes)	Book value Group		
			02.12.31	01.12.31	00.12.31
Basset, A/S	–	–	–	–	1,165
<b>Total</b>			–	–	<b>1,165</b>

### Note 19 Other securities held as fixed assets

	Share (capital)	Share (votes)	Book value Group			Book value Parent Company	
			02.12.31	01.12.31	00.12.31	02.12.31	01.12.31
nBand, Communications Inc	11%	3,507,198	–	–	32,898	–	–
Poobah Inc	2%	6,300	–	–	463	–	–
EZ Travel AB	–	–	–	–	500	–	–
<b>Total</b>			–	–	<b>33,861</b>	–	–

### Note 20 Shares in tenant owners' association

	Group		
	2002	2001	2000 8 mos
Acquisition value at beginning and end of year	676	676	676

### Note 21 Deferred tax receivables

The temporary difference in the Group and Parent Company accounts are the result of deferred tax claims and liabilities relating to the following items:

	Group			Parent Company		(cont.)	Group			Parent Company	
	2002	2001	2000 8 mos	2002	2001		2002	2001	2000 8 mos	2002	2001
<b>Deferred tax claims<sup>1)</sup></b>						<b>Deferred tax liabilities<sup>1)</sup></b>					
Tangible and intangible fixed assets	352	31	–	–	–	Tax equalization reserve	5,442	7,994	10,931	–	–
Financial fixed assets	11,441	11,441	–	11,441	11,441	Tangible and intangible fixed assets	–	–	537	–	–
Inventories	5,435	2,677	3,623	–	–		<b>5,442</b>	<b>7,994</b>	<b>11,468</b>	–	–
Other provisions	1,088	2,461	–	–	–	<b>Net deferred tax claims</b>	<b>97,480</b>	<b>111,744</b>	<b>58,800</b>	<b>92,558</b>	<b>108,985</b>
Accumulated loss carry-forwards <sup>2)</sup>	84,382	103,044	66,645	81,117	97,544						
Other items	224	84	–	–	–						
	<b>102,922</b>	<b>119,738</b>	<b>70,268</b>	<b>92,558</b>	<b>108,985</b>						

<sup>1)</sup> Deferred tax liabilities to the same tax authority are reported as a net amount in deferred tax claims as of 2001. Preceding years have been adjusted.

<sup>2)</sup> Accumulated loss carry-forwards relate in all essential respects to the Group's total deficit for tax purposes. These loss carry-forwards do not expire within the foreseeable future.

## Note 22 Change in equity

Group	Share capital	Restricted reserves	Non-restricted reserves	Profit/loss for the year	Total equity
Balance, beginning of year	689	333,937	-61,612	-	273,014
Reduction of premium fund	-	-58,973	58,973	-	-
Transfers between restricted and non-restricted equity	-	5,412	-5,412	-	-
Share premium upon issuance of debt instruments with attached warrants	-	925	-	-	925
Exchange-rate change on warrants held by the Company	-	-196	-	-	-196
Vesting of stock options in Axis Inc. in the US	-	2,934	-	-	2,934
Profit for the year	-	-	-	35,855	35,855
<b>Balance, end of year</b>	<b>689</b>	<b>284,039</b>	<b>-8,051</b>	<b>35,855</b>	<b>312,532</b>

Parent Company	Share capital	Restricted reserves	Non-restricted reserves	Profit/loss for the year	Total equity	
Balance, beginning of year	689	1,024	349,600	-58,973	-	292,340
Reduction of premium fund	-	-	-58,973	58,973	-	-
Share premium upon issuance of debt instruments with attached warrants	-	-	925	-	-	925
Profit for the year	-	-	-	43,802	-	43,802
<b>Balance, end of year</b>	<b>689</b>	<b>1,024</b>	<b>291,552</b>	<b>-</b>	<b>43,802</b>	<b>337,067</b>

The Company's share capital comprises 69,900,000 shares of the same class and type, each with a par value of SEK 0.01.

The Company's legal form is a limited liability stock company (public). The registered country is Sweden, with registered office in Lund.

## Note 23 Equity

Axis AB presently has one outstanding warrants program that covers employees. The program was introduced in 1999 and directed at all employees of the Axis Group. The objective of the program is to stimulate long-term commitment among employees to the development of the Group's operations and profits. Employees in the United States are offered stock options.

All permanent employees in EMEA and Asia are eligible to participate in the program. Permanent employees in the American subsidiary are eligible to participate in a separate stock options program. The latter is directed only towards employees in the United States. In addition to the number of warrants offered to all permanent employees, senior executives are invited to acquire a limited additional number of warrants.

The terms of the American program are such that an option may be exercised upon the new issue of shares occurring after the day the option was acquired by the employee. Options are allotted after three years for the program from 1999. Under the programs from 2000, 2001 and 2002, options are allotted on four occasions over a period of two years, with 25 percent on each occasion.

The subscription price per share corresponds to 130 percent of the average, on each trading day, of the volume-weighted average of the prices noted during the day according to the Stockholm Exchange official price list for shares in the company computed over a period of five trading days.

The table below shows the conditions and effects on equity of the warrants program upon full exercise of all warrants.

Recipient	Maturity date	Subscription price	No. of warrants	No. of shares	Dilution
Personnel in Europe and Asia	Oct. 1, 2004	1950	430,000	430,000	0.60%
Personnel in Europe and Asia	Sep. 30, 2005	54.00	1,128,000	1,128,000	1.60%
Personnel in Europe and Asia	Sep. 30, 2005	63.00	172,250	172,250	0.30%
Personnel in Europe and Asia	Oct. 2, 2006	18.00	221,600	221,600	0.30%
Personnel in Europe and Asia	Oct. 2, 2007	26.00	104,200	104,200	0.15%
Personnel in the United States	Oct. 1, 2004	19.50	140,000	140,000	0.20%
Personnel in the United States	Sep. 30, 2010	48.00	172,250	172,250	0.30%
Personnel in the United States	Oct. 2, 2006	18.00	89,000	89,000	0.10%
Personnel in the United States	Oct. 2, 2007	26.00	64,000	64,000	0.09%
<b>Total</b>			<b>2,521,300</b>	<b>2,521,300</b>	<b>3.64%</b>

## Note 24 Provisions

	Group		
	2002	2001	2000 8 mos
Restructuring reserve	3,664	15,907	3,500
Other provisions	162	218	207
	<b>3,826</b>	<b>16,125</b>	<b>3,707</b>
Balance, beginning of year	16,125	3,707	549
Provisions for the year	-	15,918	3,500
Provisions utilized during the year	-12,299	-3,500	-342
<b>Balance, end of year</b>	<b>3,826</b>	<b>16,125</b>	<b>3,707</b>

## Note 25 Tax equalization reserves

	Parent Company	
	2002	2001
Tax allocation reserve, 1997 tax year	-	9,112
Tax allocation reserve, 1998 tax year	14,403	14,403
Tax allocation reserve, 1999 tax year	2,767	2,767
Tax allocation reserve, 2000 tax year	2,268	2,268
<b>Total</b>	<b>19,439</b>	<b>28,551</b>

## Note 26 Long-term liabilities

All Group and Parent Company long-term liabilities will mature within 1 to 5 years.

## Note 27 Accrued expenses and deferred income

	Group			Parent Company	
	2002	2001	2000 8 mos	2002	2001
Accrued payroll expense	18,000	17,046	21,383	-	-
Accrued employer's contributions	11,666	13,472	14,718	-	-
Other accrued expenses	28,837	32,501	16,601	1,224	2,001
<b>Total</b>	<b>58,503</b>	<b>63,019</b>	<b>52,702</b>	<b>1,224</b>	<b>2,001</b>

## Note 28 Pledged assets

	Group		
	2002	2001	2000 8 mos
Chattel mortgage in Netch Technologies AB	-	-	10,000
<b>Total</b>	<b>-</b>	<b>-</b>	<b>10,000</b>

## Note 29 Contingent liabilities

	Parent Company	
	2002	2001
Contingent liabilities to the benefit of other Group companies	4,334	37,290
<b>Total</b>	<b>4,334</b>	<b>37,290</b>

## Note 30 Definitions of key ratios

*Equity ratio* – Equity, including minority interest, as a percentage of total assets.

*Return on total assets* – Operating profit/loss after financial items plus financial expenses divided by average total assets.

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

*Profit/loss per share before dilution* – Profit/loss after net financial items divided by the average number of shares.

*Profit/loss per share after dilution* – Profit/loss after net financial items divided by the average number of shares after full subscription of outstanding warrants.

Lund, February 12, 2003

Mikael Karlsson  
*Chairman*

Peter Ragnarsson  
*President*

Dag Tigerschiöld

Patrik Tigerschiöld

Nils Rydbeck

Martin Gren

Jan Wabréus

Östen Mäkitalo

## Audit report

To the Annual General Meeting of shareholders of Axis AB  
Corporate registration 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 President of Axis AB for the financial year January 1, 2002 – December 31, 2002. These accounts and the administration of the company are the responsibility of the Board of Directors and the President. 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 president, 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 president. We also examined whether any board member or the president has, in any other way, acted in contravention of the Swedish 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 and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the parent company and the Group be adopted, that the profit for 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 President be discharged from liability for the financial year.

Lund, February 12, 2003  
Öhrlings PricewaterhouseCoopers AB

Anders Lundin  
*Authorized Public Accountant*  
*Senior Auditor*

Dan Andersson  
*Authorized Public Accountant*

## Seven-year review

<b>Income statements, SEK 000s</b>	<b>1996/1997</b>	<b>1997/1998</b>	<b>1998/1999</b>	<b>1999/2000</b>	<b>2000, 8 mos</b>	<b>2001</b>	<b>2002</b>
Net sales	393,659	521,715	559,789	695,183	493,651	696,333	670,277
<i>of which Netch</i>	–	–	–	60,703	42,844	20,479	–
Costs of goods and services sold	–194,582	–245,825	–238,835	–323,429	–283,356	–340,754	–286,270
<b>Gross profit</b>	<b>199,077</b>	<b>275,890</b>	<b>320,954</b>	<b>371,754</b>	<b>210,295</b>	<b>355,579</b>	<b>384,007</b>
<i>of which Netch</i>	–	–	–	23,108	–18,109	–5,903	–
Selling costs	–110,512	–174,305	–184,212	–239,229	–186,648	–212,011	–177,522
Administrative expenses	–24,338	–29,446	–36,950	–62,812	–53,483	–66,262	–56,334
Research and development expenses	–49,538	–76,709	–93,657	–144,585	–133,065	–151,052	–117,847
Items affecting comparability	–	25,959	–	–	–	–33,296	–
Other interest income	14,111	–	–	–	–	–	7,354
Other interest expense	–	–3,233	–1,163	–7,358	–2,139	–6,922	–
Result from participations in associated companies	–	–2,865	2,115	–	15	158	–
<b>Operating profit/loss</b>	<b>28,800</b>	<b>15,291</b>	<b>7,087</b>	<b>–82,230</b>	<b>–165,025</b>	<b>–113,806</b>	<b>39,658</b>
<i>of which, Netch</i>	–	–	–	–11,534	–56,877	–30,521	–
Net financial items	–701	–4,117	–6,274	19,901	–5,710	–35,687	11,778
<b>Profit/loss after financial items</b>	<b>28,099</b>	<b>11,174</b>	<b>813</b>	<b>–62,329</b>	<b>–170,735</b>	<b>–149,493</b>	<b>51,436</b>
<i>of which, Netch</i>	–	–	–	–12,409	–58,638	–31,691	–
Tax for the period	–11,660	–1,700	–2,859	18,942	35,790	48,445	–15,581
Minority share in profit/loss for the period	–	–	–	–8,281	27,091	10,941	–
<b>Net profit/loss for the year</b>	<b>16,439</b>	<b>9,474</b>	<b>–2,046</b>	<b>–51,668</b>	<b>–107,854</b>	<b>–90,107</b>	<b>35,855</b>

<b>Balance sheets, SEK 000s</b>	<b>30 April, 1997</b>	<b>30 April, 1998</b>	<b>30 April, 1999</b>	<b>30 April, 2000</b>	<b>31 Dec. 2000</b>	<b>31 Dec. 2001</b>	<b>31 Dec. 2002</b>
Fixed assets	36,109	32,636	37,218	79,420	148,651	136,611	122,434
Inventories	49,369	81,522	77,587	69,887	60,119	46,628	57,944
Accounts receivable – trade	87,075	102,390	102,277	131,996	137,960	106,339	88,385
Other receivables	13,813	17,506	31,427	34,522	73,247	18,828	31,714
Liquid funds	40,509	10,203	–	12,419	195,993	180,773	129,956
<b>Total</b>	<b>226,875</b>	<b>244,257</b>	<b>248,509</b>	<b>328,244</b>	<b>615,970</b>	<b>489,179</b>	<b>430,483</b>
Equity	79,092	87,056	85,010	27,140	379,739	273,014	312,532
Minority interests	–	–	–	9,905	12,125	–	–
Provisions	14,376	12,646	11,342	549	3,707	16,125	3,826
Long-term liabilities	53,587	67,495	79,713	162,822	51,363	50,000	–
Current liabilities	79,820	77,060	72,444	127,828	169,036	150,040	114,125
<b>Total</b>	<b>226,875</b>	<b>244,257</b>	<b>248,509</b>	<b>328,244</b>	<b>615,970</b>	<b>489,179</b>	<b>430,483</b>

<b>Cash flow statements, SEK 000s<sup>1)</sup></b>	<b>1997/1998</b>	<b>1998/1999</b>	<b>1999/2000</b>	<b>2000, 8 mos</b>	<b>2001</b>	<b>2002</b>
Cash flow from current operating activities before change in working capital	2,664	5,932	–79,978	–107,706	–80,502	45,819
Change in working capital	–53,921	–14,493	30,270	–6,287	54,922	–39,006
Cash flow from current operating activities	–51,257	–8,561	–49,708	–113,993	–25,537	6,813
Cash flow from investing activities	14,351	–12,985	–15,232	–38,465	–12,460	–15,404
Cash flow from financing activities	6,870	10,875	77,827	336,032	22,820	–42,226
<b>Cash flow for the period</b>	<b>–30,306</b>	<b>–10,671</b>	<b>12,887</b>	<b>183,574</b>	<b>–15,220</b>	<b>–50,817</b>
Liquid funds at beginning of the period	40,509	10,203	–468	12,419	195,993	180,773
Liquid funds at end of period	10,203	–468	12,419	195,993	180,773	129,956

<b>Operating cash flow, SEK 000s</b>	<b>1996/1997</b>	<b>1997/1998</b>	<b>1998/1999</b>	<b>1999/2000</b>	<b>2000, 8 mos</b>	<b>2001</b>	<b>2002</b>
Profit/loss after financial items	28,099	11,174	813	–62,329	–170,735	–149,493	51,436
Depreciation	5,267	7,233	8,110	13,030	13,344	19,382	13,712
Tax	–16,714	–5,658	–3,870	–1,726	–797	–4,662	–2,069
<b>Total</b>	<b>16,652</b>	<b>12,749</b>	<b>5,053</b>	<b>–51,025</b>	<b>–158,188</b>	<b>–134,773</b>	<b>63,079</b>
Change in working capital	–9,722	–53,921	–14,493	30,270	–6,287	54,922	–39,006
Net investments	–5,849	–17,814	–11,831	–29,634	–38,465	–12,460	–15,404
<b>Operating cash flow</b>	<b>1,081</b>	<b>–58,986</b>	<b>–21,271</b>	<b>–50,389</b>	<b>–202,940</b>	<b>–92,311</b>	<b>8,669</b>

<sup>1)</sup> Figures for 1996/1997 not available.

Key ratios	1996/1997	1997/1998	1998/1999	1999/2000	2000 8 mos <sup>1)</sup>	2001	2002
Net sales growth (%)	20.2	32.5	7.3	24.2	2.6	-1.6 <sup>2)</sup>	-0.8
Gross margin (%)	50.6	52.9	57.3	53.5	42.6	51.1	57.3
Operating margin (%)	7.3	2.9	1.3	-11.8	-33.4	-16.3	5.9
Profit margin (%)	7.1	2.1	0.1	-9.0	-34.6	-21.5	7.7
Depreciation (SEK M)	5.0	7.2	8.1	13.0	20.0	19.4	13.7
Equity (SEK M)	79	87	85	27	380	273	313
Capital employed (SEK M)	133	155	165	200	447	339	311
Interest-bearing liabilities (SEK M)	54	67	80	163	51	50	-
Net interest-bearing liabilities (SEK M)	13	57	80	150	-145	-131	-130
Total assets (SEK M)	227	244	249	328	616	489	430
Return on capital employed (%)	30.3	18.3	5.3	-28.8	-74.0	-26.8	16.5
Return on total equity (%)	17.6	11.2	3.4	-18.2	-50.7	-19.1	11.7
Return on shareholders' equity (%)	21.7	11.4	0.9	-111.3	-125.8	-45.8	12.6
Interest coverage ratio (multiple)	5.5	1.7	1.1	-5.4	-14.3	-2.4	24.0
Net debt/equity ratio (multiple)	0.2	0.7	0.9	5.6	-0.4	-0.5	-0.4
Equity/assets ratio (%)	34.9	35.6	34.2	11.3	63.7	55.8	72.8
Share of risk-bearing capital (%)	41.2	40.8	38.8	11.3	63.7	57.4	73.9
Capital turnover rate (multiple)	3.5	3.6	3.5	3.8	2.3	1.8	2.1
Number of employees (average for period)	165	243	313	445	540	439	334
Sales per employee (SEK M)	2.4	2.1	1.8	1.6	1.4	1.6	2.0
Operating profit per employee (SEK M)	0.2	0.1	0.0	-0.2	-0.5	-0.3	0.1
<b>Per-share data</b>	<b>1996/1997</b>	<b>1997/1998</b>	<b>1998/1999</b>	<b>1999/2000</b>	<b>2000, 8 mos<sup>1)</sup></b>	<b>2001</b>	<b>2002</b>
Profit/loss per share, SEK per share	0.24	0.14	-0.03	-1.10	-3.89	-2.17	0.75
Cash flow, SEK per share					4.19	-0.22	-0.74
Equity, SEK per share	1.40	1.54	1.51	0.20	5.50	3.96	4.53
Share price at year-end	-	-	-	-	17.50	25.00	18.40
Share price/shareholders' equity, % per share	-	-	-	-	318	631	406
Dividend	0.04	-	-	-	-	-	-
Price/earnings ratio (P/E)	-	-	-	-	-	-	35
Market value/sales (P/S)	-	-	-	-	1.6	2.5	1.9
Total number of outstanding shares on closing day (000s)	56,400	56,400	56,400	56,400	68,900	68,900	68,900
Average number of shares (000s)	56,400	56,400	56,400	56,400	65,775	68,900	68,900

<sup>1)</sup> Where applicable, key ratios adjusted for 12 months.

<sup>2)</sup> Compared with pro forma for 2000.

## Definitions

### Capital employed

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

### Capital turnover rate

Net sales divided by average capital employed share (adjusted to 12 months for 2000).

### Cash flow per share

Cash flow for the year divided by the average number of shares (adjusted to 12 months for 2000).

### Equity/assets ratio

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

### Equity per share

Shareholders' equity divided by the number of outstanding shares.

### Gross margin

Gross profit as a percentage of net sales.

### Interest coverage ratio

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

### Net debt/equity ratio

Net interest-bearing liabilities divided by shareholders' equity.

### Net interest-bearing liabilities

Interest-bearing liabilities reduced by liquid funds.

### Operating margin

Operating profit as a percentage of sales.

### Operating profit

Profit after net financial items as a percentage of sales.

### Operating profit after depreciation of tangible fixed assets

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

### P/E

Market value divided by profit after full tax.

### P/S

Market value divided by net sales (adjusted to 12 months for 2000).

### Profit/loss per employee

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

### Profit/loss per share

Profit for the period after full tax divided by the average number of shares (adjusted to 12 months for 2000).

### Return on capital employed

Profit after net financial items plus financial expenses divided by average shareholders' equity.

### Return on equity

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

### Return on total capital

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

### Sales per employee

Sales divided by the average number of annual employees.

### Share of risk-bearing capital

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

## Pro forma accounts

During the second quarter of 2001, Axis completed a restructuring that included the sale of its 59 percent holding in Netch Technologies. In order to show the development of the restructured Axis Group, the table below shows a pro forma income statement in which Netch is excluded.

<b>CONSOLIDATED INCOME STATEMENT</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Full year</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Full year</b>
<b>SEK 000s</b>	<b>2001</b>	<b>2001</b>	<b>2001</b>	<b>2001</b>	<b>2001</b>	<b>2002</b>	<b>2002</b>	<b>2002</b>	<b>2002</b>	<b>2002</b>
Net sales	163,581	168,490	154,688	189,095	675,854	164,037	170,650	167,552	168,038	670,277
Cost of goods and services sold	-84,739	-79,363	-69,021	-81,249	-314,372	-67,801	-74,049	-72,979	-71,441	-286,270
<b>Gross profit/loss</b>	<b>78,842</b>	<b>89,127</b>	<b>85,668</b>	<b>107,846</b>	<b>361,482</b>	<b>96,236</b>	<b>96,601</b>	<b>94,573</b>	<b>96,597</b>	<b>384,007</b>
Selling costs	-53,417	-61,302	-39,343	-49,870	-203,932	-41,605	-45,250	-43,881	-46,786	-177,522
Administrative expenses	-17,038	-16,662	-13,342	-15,523	-62,565	-14,937	-15,281	-12,749	-13,367	-56,334
Research and development expenses	-38,250	-49,797	-30,812	-32,193	-151,052	-31,421	-31,166	-27,054	-28,206	-117,847
Items affecting comparability	-	-20,296	-	-	-20,296	-	-	-	-	-
Other operating income	-	-	-	-	-	2,379	2,686	886	1,403	7,354
Other operating expenses	-2,486	-484	-1,455	-2,497	-6,922	-	-	-	-	-
Shares in pretax profit/loss in associated companies	-	-	-	-	-	-	-	-	-	-
<b>Net operating profit/loss</b>	<b>-32,349</b>	<b>-59,414</b>	<b>715</b>	<b>7,763</b>	<b>-83,285</b>	<b>10,652</b>	<b>7,590</b>	<b>11,775</b>	<b>9,641</b>	<b>39,658</b>
Net profit or loss from financial investments	3,616	8,555	548	-30,126	-34,517	3,007	1,675	4,398	2,698	11,778
<b>Net profit/loss after financial items</b>	<b>-28,733</b>	<b>-50,859</b>	<b>1,263</b>	<b>-22,363</b>	<b>-117,802</b>	<b>13,659</b>	<b>9,265</b>	<b>16,173</b>	<b>12,339</b>	<b>51,436</b>

## Quarterly data

<b>Invoiced sales by product group excl. Netch (SEK 000s)<sup>1)</sup></b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Full year</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Full year</b>
	<b>2001</b>	<b>2001</b>	<b>2001</b>	<b>2001</b>	<b>2001</b>	<b>2002</b>	<b>2002</b>	<b>2002</b>	<b>2002</b>	<b>2002</b>
Video	52,419	53,562	58,671	73,670	238,322	66,844	74,756	74,146	85,730	301,476
Print	80,821	75,326	70,562	81,828	308,537	71,184	74,044	72,554	60,152	277,934
Scan	8,211	7,904	5,781	3,281	25,176	3,574	3,425	2,704	3,379	13,082
Store	14,130	12,316	10,478	13,720	50,644	8,321	6,129	9,825	7,829	32,104
Access	1,062	677	1,273	2,146	5,158	848	3,087	801	1,059	5,795
Other	6,938	18,705	7,923	14,450	48,017	13,266	9,209	7,522	9,889	39,886
<b>TOTAL</b>	<b>163,581</b>	<b>168,490</b>	<b>154,688</b>	<b>189,095</b>	<b>675,854</b>	<b>164,037</b>	<b>170,650</b>	<b>167,552</b>	<b>168,038</b>	<b>670,277</b>

<sup>1)</sup> At the end of 2001, Axis replaced the previous division organization with a functional organization in which sales are reported by product group starting with the first quarter of 2002. The tables show pro forma sales figures for 2001.

<b>Invoiced sales by region excl. Netch (SEK 000s)</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Full year</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Full year</b>
	<b>2001</b>	<b>2001</b>	<b>2001</b>	<b>2001</b>	<b>2001</b>	<b>2002</b>	<b>2002</b>	<b>2002</b>	<b>2002</b>	<b>2002</b>
EMEA	71,553	87,000	66,359	85,494	310,406	76,790	78,033	70,155	90,925	315,903
Americas	44,579	44,748	51,873	68,576	209,776	44,926	46,971	49,054	39,229	180,180
Asia	47,449	36,742	36,456	35,025	155,672	42,321	45,646	48,343	37,884	174,194
<b>TOTAL</b>	<b>163,581</b>	<b>168,490</b>	<b>154,688</b>	<b>189,095</b>	<b>675,854</b>	<b>164,037</b>	<b>170,650</b>	<b>167,552</b>	<b>168,038</b>	<b>670,277</b>

# Glossary

## ASIC

Application Specific Integrated Circuit. A circuit designed for a specific application, as opposed to a general purpose circuit, such as a microprocessor. Using ASICs as components in electronic devices can improve performance, reduce power consumption, increase reliability and reduce costs.

## Bluetooth

Bluetooth is an open standard for wireless transmission of voice and data between mobile devices (PCs, handheld computers, telephone and printers).

## Broadband

High-speed transmission. The term is used to define the speed of communication lines or services and most commonly refers to T1 (1.544 Mbit/s) rates or better, even though the actual rate may be much lower or higher, depending on the application.

## CCTV

Closed Circuit Television, also known by the acronym CCTV, is a private video system within a building (or complex) used to visually monitor a location for security or industrial purposes.

## CD-ROM

Compact Disc – Read Only Memory. An optical disc that is used to store text, graphics and audio data for computer applications. The contents may not be changed or rewritten.

## DVD

Digital Versatile Disc. An optic disc with the same physical size as a CD but with significantly greater storage capacity.

## Ethernet

The most common standard for network communication in LANs (Local Area Networks).

## IDE

Intelligent Drive Electronics. An interface for storage devices such as hard disks and CD/DVD players.

## IEEE 802.11

A family of standards for wireless LANs. 802.11 supports 1 or 2 Mbit/s transmission on the 2.4 GHz band, while 802.11b specifies a 11 Mbit/s data rate on the 2.4 GHz band and 802.11a allows up to 54 Mbit/s on the 5 GHz band.

## IP

Internet Protocol. A network and transport protocol used for exchanging data over the Internet. See also TCP/IP.

## LAN

Local Area Network. A communication network that serves users within a limited geographic area. The most common type of LAN is Ethernet.

## Linux

Linux is an open source operating system within the Unix family. Because of its robustness and availability, Linux has won popularity in the open source community and among commercial application developers.

## MCM

Multi-chip module. Several chips packaged in the same module.

## MPEG

Moving Picture Experts Group, standards for digital video and digital audio compression. Most known is MPEG 2 in DVD and digital television.

## Network camera

A digital video camera with a built-in Ethernet port and a Web server. The compressed digital video from the camera can be immediately seen on all computers connected to the network.

## OEM

Original Equipment Manufacturer. This is a designation for a company that supplies products to customers that in turn integrate the products into their own solutions and/or sells them under their own brand names.

## PDA

Personal Digital Assistant. A handheld computer that provides a calendar and organizer for personal information. A PDA normally contains at least one database with names and addresses, to-do lists and a notepad.

## Print server

A thin server that connects a printer to a network and allows users to share the printer. It may be a separate unit or a plug-in card in the printer.

## Protocol

A set of formalized rules that describe how data is transmitted over a network. Low-level protocols define the electrical and physical standard, while high-level protocols deal with formatting of data. TCP and IP are examples of high-level protocols.

## SCSI

Small Computer System Interface. An interface standard for fast data transfer.

## Server

A computer or software application that provides services to other computers connected via a network. The most common example is a file server that has a local disk and handles requests from clients to read and write files on this disk.

## SOC

System on a chip, such as ETRAX 100LX

## TCP/IP

Transmission Control Protocol over Internet Protocol. The TCP/IP protocol defines how data can be transmitted in a secure manner between networks. TCP/IP is the most widely used communications standard and is the basis for the Internet.

## Thin server

A network-based device that is designed to perform a specialized set of server functions, such as a print server or NAS (Network Attached Storage). A thin server offloads general-purpose application servers and makes using the network more efficient by providing functionality that is easier to install and more reliable than a conventional server.

## USB

Universal Serial Bus. An external bus standard for data transfer.

## Video server

A video server includes a built-in network connection and a Web server. Its function is to take analog video (PAL/NTSC) from traditional analog cameras, digitize and compress the video signal and make the digital video stream available of a data network.

## Board of Directors and Auditors



Mikael Karlsson



Patrik Tigerschiöld



Martin Gren



Östen Mäkitalo



Nils Rydbeck



Dag Tigerschiöld



Jan Wabréus

### Board of Directors

#### Mikael Karlsson

Born 1962

##### Board Chairman

Board Chairman of Öresund IT Academy. Vice Chairman of the Institute for Economic Research at University of Lund and the Technology Bridge Foundation Lund. Board member of Beijer Electronics AB, Decuma AB, Ruben Rausing Fund, SEB in Lund, Sydsvenska Industri- and Handelskammaren, Visionalis AB and Öresund Science Region. Member of the Royal Academy of Engineering Science and the Advisory Council at the Lund College of Economics. Member of the Board since 1984. President 1984-1999. Chairman since 2000.

Shares in Axis: 18,717,764<sup>1)</sup>

Warrants in Axis: 0

#### Patrik Tigerschiöld

Born 1964

##### Vice chairman

President of Skanditek Industriförvaltning AB. Board Chairman of CMA Microdialysis AB, Vitrolife AB, The Chimney Pot AB and Theducation AB. Board member of, among others, H Lundén Kapitalförvaltning AB, Mydata Automation AB, PartnerTech AB, PBK Outsourcing AB and Skanditek Industriförvaltning AB.

Member of the Board since 2001.

Shares in Axis: 5,000

Warrants in Axis: 0

#### Martin Gren

Born 1962

Board Chairman of Itact AB. Board member of Innolite.

Member of the Board since 1984.

Shares in Axis: 7,557,471<sup>2)</sup>

Warrants in Axis: 1,000

#### Östen Mäkitalo

Born 1938

Senior Vice President (SVP), Mobile Business, Telia-Sonera AB. Board Chairman of Centre for Distance-Spanning Technology (CDT) at Luleå University of Technology. Board member of Aaro Systems AB and Goyada AB. Member of the Royal Academy of Engineering Science.

Member of the Board since 2000.

Shares in Axis: 0

Call options in Axis: 5,000<sup>3)</sup>

#### Nils Rydbeck

Born 1946

Board member of Anoto AB. Member of Advisory Committee School of Management North Carolina State University.

Member of the Board since 1997.

Shares in Axis: 0

Warrants in Axis: 3,000

#### Dag Tigerschiöld

Born 1942

Board Chairman of LGP Telecom Holding AB and Mydata Automation AB. Board member of Skanditek Industriförvaltning AB, Industriförvaltnings AB Kinnevik and Investment AB Öresund.

Member of the Board since 1986. Chairman 1994-1999.

Shares in Axis: 1,927,600

Warrants in Axis: 0

#### Jan Wabréus

Born 1941

President of Timelox AB and head of subsidiaries in Assa Abloy AB.

Member of the Board since 1985. Chairman 1985-1994.

Shares in Axis: 0

Warrants in Axis: 3,000

Call options in Axis: 20,000<sup>3)</sup>

### Auditors

#### Öhrlings PricewaterhouseCoopers

##### Senior Auditor

**Anders Lundin**, born 1956

Authorized Public Accountant

Assigned to Axis since 1996.

**Dan Andersson**, born 1956

Authorized Public Accountant

Assigned to Axis since 2001.

##### Deputy auditor

**Gustav Jönsson**, born 1950

Authorized Public Accountant

Assigned to Axis since 1984.

<sup>1)</sup> Privately and through LMK Industri AB.

<sup>2)</sup> Through AB Grens specialisten

<sup>3)</sup> Issued by LMK Industri AB

## The Board of Directors' Working Procedures

The Board of Directors consists of seven members elected by the Annual General Meeting. During the fiscal year, seven meetings were held of which one was a statutory meeting and one was a two-day meeting to discuss the Company's strategic focus.

The Board of Directors works with an annual plan for agenda items and is in other respects subject to the special working procedure that the Board of Directors has established regarding the division of responsibilities between the Board of Directors and the President.

The work of the Board of Directors is focused on strategic issues, business orientation, and financial reporting and financing. During the year, general work was conducted regarding business goals and strategies. The Chairman of the Board is leading the Board's work and is also following the business' progress. During the year, the Chairman and one additional Board member have helped in some projects focused on strategy, business development and the process of innovations.

The Board of Directors has appointed a Compensation Committee whose primary assignment is to prepare decisions and guidelines relating to salaries and other terms of employment for personnel, the President and the Board members who

are also employed by the Group. The Compensation Committee has consisted of Patrik Tigerschiöld, Östen Mäkitalo and Jan Wabréus. During the year, three meetings were held.

After some consideration, the Board of Directors decided not to establish a special Audit Committee, but rather to address these issues in the Board as a whole. In line with this, the Board of Directors regularly reviewed the financial position of the Company and the Group during the year. The forms for the purchasing and choice of auditing services for the coming four-year period were thus defined by the Board of Directors. Ongoing purchases, however, were delegated to the Chairman, who conducted purchasing together with the CFO with continuous reporting to the Board of Directors.

Representatives for the three largest owners function as an informal nominating committee together with the Chairman of the Board, who is also Axis' largest owner, as the convening member.

Proposals and comments from shareholders regarding the composition of the Board of Directors may be submitted to the Chairman, either in writing to Mikael Karlsson, Axis AB, Emdalavägen 14, SE-223 69 Lund, Sweden or by telephone to +46-46 272 18 00.

## Invitation to the Annual General Meeting

The Annual General Meeting will be held at Edison Park, Emdalavägen 14, Lund, Sweden, on Tuesday, April 29, 2003 at 5:00 p.m.

Shareholders who wish to participate in the Meeting must be listed in the share register maintained by VPC AB (Swedish Securities Register Center) no later than Saturday, April 19, 2003. Due to holidays, however, the share register will be examined on Thursday, April 17. Those shareholders whose shares are registered in the name of a trustee, must ensure that the shares are re-registered at VPC in their own name, so-called voting right registration, a few bank days before April 17, 2003.

Notice to participate must also be made to Axis AB no later than 4:00 p.m., Wednesday, April 23, 2003. At notification, shareholders should provide name, personal identification or corporate registration number, address and telephone number. If participation is by proxy, this document must be forwarded prior to the Meeting. In connection with notification, the number of assistants that the shareholder wishes to bring should be noted. Notification can be made

- in writing to Axis AB, Attn: Eva Rosdahl, Emdalavägen 14, SE-223 69 Lund, Sweden,
- by telephone, +46-46 272 18 00 to Axis' head office, or
- by e-mail: [bolagstamma@axis.com](mailto:bolagstamma@axis.com)

## Group management



### Executive Group management

#### Ray Mauritsson

*President and Chief Executive Officer as of February 24, 2003. (Formerly Executive Vice President, Platforms and Customized Products)*  
 Born 1962  
 Employed within Axis since 1995  
 Shares in Axis: 14,000  
 Warrants in Axis: 21,000

#### Anders Laurin

*Executive Vice President, Products and System Solutions*  
 Born 1960  
 Employed within Axis since 1997  
 Shares in Axis: 8,850  
 Warrants in Axis: 51,000

#### Jörgen Lindqvist

*Executive Vice President and Chief Financial Officer*  
 Born 1965  
 Employed within Axis since 2000  
 Shares in Axis: 5,000  
 Warrants in Axis: 0

#### Bengt-Arne Molin

*Executive Vice President and Chief Technology Officer*  
 Born 1958  
 Employed within Axis since 1999  
 Shares in Axis: 750  
 Warrants in Axis: 4,800

#### Bodil Sonesson

*Vice President, Regional Operations*  
 Born 1968  
 Employed within Axis since 1996  
 Shares in Axis: 750  
 Warrants in Axis: 26,000

#### Peter Ragnarsson

*Left the position as President and CEO on February 23, 2003.*  
 Shares in Axis: 10,750  
 Warrants in Axis: 164,000

### Group function managers

#### Anne Rhenman

*Director, Investor Relations & Corporate Communications*  
 Born 1957  
 Employed within Axis since 2000  
 Shares in Axis: 200  
 Warrants in Axis: 61,000

#### Bengt Christensson

*Vice President, Strategic Alliances*  
 Born 1960  
 Employed within Axis since 1986  
 Shares in Axis: 140,750  
 Stock options i Axis: 116,750

#### Kerstin Thulin

*Vice President and Chief Personnel Officer*  
 Born 1948  
 Employed within Axis since 2001  
 Shares in Axis: 1,000  
 Warrants in Axis: 1,000

#### Kenneth Jonsson

*Vice President, Engineering*  
 Born 1960  
 Employed within Axis since 1985  
 Shares in Axis: 10,750  
 Warrants in Axis: 5,000

#### Ulf Bonnevier

*Director, Marketing*  
 Born 1957  
 Employed within Axis since 2002  
 Shares in Axis: 0  
 Warrants in Axis: 0

#### Jonas Hansson

*Director, Chief Information Officer*  
 Born 1967  
 Employed within Axis since 2000  
 Shares in Axis: 3,750  
 Warrants in Axis: 6,000

## Axis offices

### SWEDEN

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#### Head office, Lund

Axis Communications AB  
Emdalavägen 14  
SE-223 69 Lund  
Tel: +46 46 272 18 00  
Fax: +46 46 13 61 30

### AUSTRALIA

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#### Melbourne

Axis Communications Pty Ltd  
Level 50, 120 Collins Street  
Melbourne 3000  
Tel: +613 9225 5244

### FRANCE

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#### Paris

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

### ITALY

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#### Torino

Axis Communications  
Via Roma 33  
10025 Pino Torinese  
Torino  
Tel/Fax: +39 011 841 321

### JAPAN

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#### Tokyo

Axis Communications K.K.  
TFT Building East Wing  
7<sup>th</sup> floor  
3-1 Ariake Koto-ku  
Tokyo 135-8071  
Tel: +81 3 5531 8041  
Fax: +81 3 5531 8042

### CHINA

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#### Shanghai

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

### KOREA

---

#### Seoul

Axis Communications Korea  
Co., Ltd.  
Rm 407, Life Combi B/D.  
61-4 Yoido-dong  
Yeongdeungpo-Ku  
Seoul  
Tel: +82 2 780 9636  
Fax: +82 2 780 2743

### NETHERLANDS

---

#### Rotterdam

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

### SINGAPORE

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

### SPAIN

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#### Madrid

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

### GREAT BRITAIN

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#### Hertfordshire

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

### TAIWAN

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#### Taipei

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

### GERMANY

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#### Munich

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

### U.S.

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#### Boston

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

#### Miami

Axis Communications Inc.  
2655 South Bayshore Drive  
Suite 302  
Miami, FL 33133  
Tel: +1 305 860 8226  
Fax: +1 305 860 9622

#### San Diego

9191 Towne Centre Drive  
Suite #420  
San Diego, CA 92122  
Tel: +1 858 458 1678  
Fax: +1 858 455 9190

#### Sunnyvale

Axis Communications Inc.  
1170 Sesame Drive  
Sunnyvale, CA 94087  
Tel: +1 408 730 0270  
Fax: +1 408 730 0275



Reg. No. 556241-1065

Axis AB, Emdalavägen 14

SE-223 69 Lund, Sweden

[www.axis.com](http://www.axis.com)