

Year-end Report 2002

Sharply improved profitability in weak market

- Group net sales for comparable units during fiscal year 2002 amounted to SEK 670 M (676).
- Operating profit for comparable units improved by SEK 123 M to SEK 40 M (loss: 83).
- Video sales increased by 26% and is now the single largest product segment.
- The Board of Directors proposes a dividend of SEK 0.15 per share.

About 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 parties. Axis was founded in 1984 and is listed on the Stockholmstockbörsen (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 % of sales. Information about Axis can be found at www.axis.com*

Restructuring and changed reporting

Axis implemented restructuring measures during the second quarter of 2001. Unless stated otherwise, the comparative data presented in the following text applies to comparable units. The aim has been to show the development of the restructured company. 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.

Sales

Axis' net sales for comparable units amounted to SEK 670 M (676) for the full-year 2002. Currency effects impacted net sales negatively in the amount of SEK 26 M, of which SEK 19 M was attributable to the fourth quarter. The stronger Swedish currency in combination with continued weak market conditions was reflected in the sales trend. During the fourth quarter, sales amounted to SEK 168 M (189), a decline of SEK 21 M compared with the corresponding period in the preceding year.

Two main trends affected Axis' operations during the year. One was the increased need for security and surveillance, and the other was the general restraint that prevailed with respect to IT investments. The first trend has had a continued favorable impact on sales of Axis' network video products, which despite the weak investment climate, increased by 26%. This meant that video products became the single largest product area within the Group, accounting for 45% of Axis' total sales in 2002. Meanwhile, demand in other major product areas declined. Sales of print servers, for example, fell by 10%, compared with the preceding year.

The Company's assessment for 2002 was that the first half of the year would be characterized by uncertainty and a weak global economic trend. The economic weakening, however, was both deeper and more protracted than could have been anticipated. This primarily affected the U.S. market, where fourth-quarter sales declined, compared with the year-earlier quarter. This negative effect was reinforced by the weaker USD. At the same time, several signs of increased activity were noted in Asia and EMEA, which both reported growth in sales.

OEM sales showed a stable trend, accounting for 24% (20) of the year's total sales.

Operating profit

Operating profit for the full year increased by SEK 123 M and amounted to SEK 40 M (loss: 83), corresponding to an operating margin of 5.9%. Currency effects impacted operating profit positively in an amount of SEK 5 M. Profit after financial items was

SEK 51 M, an improvement of SEK 169 M. The profit margin in 2002 was 7.7 %. The gross margin improved by 3.8 percentage points during the year from 53.5% in 2001 to 57.3% during 2002. Operating expenses amounted to SEK 344 M, corresponding to 51% of sales. (The corresponding figures for 2001 were SEK 445 M and 66% of sales.)

Operating profit for the fourth quarter amounted to SEK 10 M (8), corresponding to an operating margin of 5.7% and a profit margin of 7.3%.

Axis' goal for 2002 was to achieve an operating profit for the full year. Despite weak economic growth in all geographic markets, this goal was achieved.

Cash flow and financial position

Cash flow from operating activities amounted to SEK 7 M (neg: 26). During the second quarter, interest-bearing loans were amortized in an amount of SEK 50 M. Net investments amounted to SEK 15 M. In accordance with Recommendation RR15 of the Swedish Financial Accounting Standards Council, SEK 6 M relating to development work was capitalized during the year, of which SEK 2 M was taken in the fourth quarter. Axis had SEK 130 M in liquid funds plus unutilized credit facilities totaling SEK 130 M. The Company's total payment capacity was thus SEK 260 M as at December 31, 2002.

Shareholders' equity

The Group's shareholders' equity amounted to SEK 313 M. The changes during the year were SEK 36 M in profit; SEK 1 M was to a new issue of warrants and SEK 3 M to a change of warrants held on account. The total number of shares at year end was 68,900,000. Following the exercise of all warrants outstanding, there would be 71,421,300 shares. The Group's equity/assets ratio was 73% as at December 31, 2002.

Significant events during the year

The trend within Video was clearly towards increasingly professional applications and larger investments. In addition to the demand for advanced se-

curity and surveillance solutions, the market continues to be driven by a shift from analog to digital technology. In pace with this growing interest, Axis received strategically significant orders in several important customer segments, such as police authorities, schools, prisons and banks. These orders are important because they show that digital solutions are being accepted as the standard in sectors that place extremely high demands on security. Axis also continued to increase its efforts in industrial applications of video surveillance.

Work to strengthen the Company's market position was intensified during the year. The global sales organization devoted considerable effort to training both resellers and end customers in network-connected video solutions. The company also forged partnerships with a large number of new business partners focused on total solutions.

Axis also continued to develop its product portfolio. Several new products were introduced, 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 both 802.11b and Bluetooth network standards.

The market for access points continued to develop at a relatively slow pace. However, 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 using Bluetooth. At the end of the year, increased interest from third-party developers for Axis' technology resulted in several volume orders for the AXIS Device Server Platform.

Events after year end

On January 28, Axis announced that the CEO Peter Ragnarsson will leave his position at Axis AB in connection with an offer of a similar position from another listed company. Work to recruit a successor has started. While this process is in progress, Peter Ragnarsson will remain as CEO for a maximum period of six months.

The Chairman of the Board, 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.

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 last year, 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.

Accounting principles

The year-end report was prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR20, Interim Reports. With the exception of capitalization of expenditures for development work, the accounting principles and methods of calculation are the same as those applied in the most recent annual report.

Parent Company

The Parent Company's operations are focused primarily on Group-wide administration. The Parent Company has no employees. The operating loss amounted to SEK 3 M (loss: 4). Liquid funds amounted to SEK 52 M.

Annual General Meeting and proposed dividend

The Annual General Meeting will be held at 5:00 p.m. on April 29, 2003 at Edison Park, Emdalavägen 14, Lund, Sweden. The Board of Directors proposes a dividend of SEK 0.15 per share.

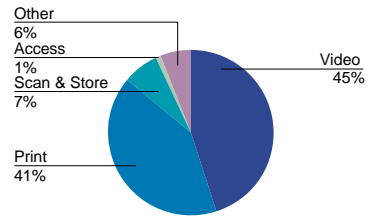
Lund, February 12, 2003

The Board of Directors

Invoiced sales by

product group excl. Netch (SEK 000s) ¹⁾²⁾	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q4 2001	Full year 2002	Full year 2001
Video	66,844	74,756	74,146	85,730	73,670	301,476	238,322
Print	71,184	74,044	72,554	60,152	81,828	277,934	308,537
Scan	3,574	3,425	2,704	3,379	3,281	13,082	25,176
Store	8,321	6,129	9,825	7,829	13,720	32,104	50,644
Access	848	3,087	801	1,059	2,146	5,795	5,158
Other	13,266	9,209	7,522	9,889	14,450	39,886	48,017
TOTAL	164,037	170,650	167,552	168,038	189,095	670,277	675,854

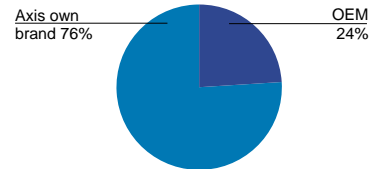
INVOICED SALES BY PRODUCT GROUP 2002



Video is Axis' largest product area and demand for network cameras and video servers continues to increase.

Invoiced sales by region excl. Netch (SEK 000s) ²⁾	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q4 2001	Full year 2002	Full year 2001
EMEA	76,790	78,033	70,155	90,925	85,494	315,903	310,406
Americas	44,926	46,971	49,054	39,229	68,576	180,180	209,776
Asia	42,321	45,646	48,343	37,884	35,025	174,194	155,672
TOTAL	164,037	170,650	167,552	168,038	189,095	670,277	675,854

SALES BRANDED PRODUCTS/OEM 2002



The OEM sales trend is stable, accounting for 24% (20) of total sales in 2002.

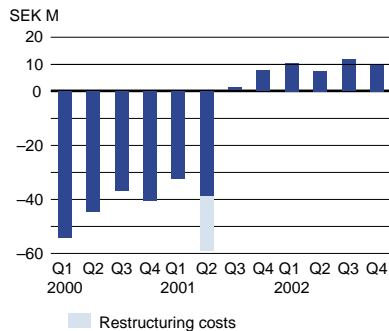
Income statement in brief excl. Netch (SEK 000s) ²⁾	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q4 2001	Full year 2002	Full year 2001
Net sales	164,037	170,650	167,552	168,038	189,095	670,277	675,854
Gross profit	96,236	96,601	94,573	96,597	107,846	384,007	361,482
Gross margin	58.7%	56.6%	56.4%	57.5%	57.0%	57.3%	53.5%
Operating profit/loss	10,652	7,590	11,775	9,641	7,763	39,658	-83,285
Operating margin	6.5%	4.4%	7.0%	5.7%	4.1%	5.9%	-12.3%
Profit/loss after financial items	13,659	9,265	16,173	12,339	-22,363	51,436	-117,802

¹⁾ 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.

²⁾ Netch, which was previously reported in the EMEA region, is not included in the Group as of Q3, 2001.

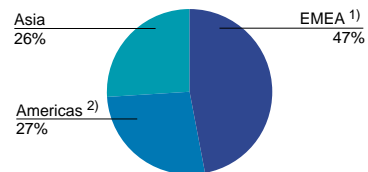
Quarterly data for 2001 and 2002, see last page in this report.

OPERATING PROFIT/LOSS (EBIT) Axis excl. Netch



Operating profit for comparable units during 2002 improved by SEK 123 M.

INVOICED SALES BY REGION 2002



¹⁾ Europe, Middle East, Africa
²⁾ North, South and Central America

During 2002, both EMEA and Asia showed growth while sales declined in the Americas.

Income statement

(SEK 000s)	Q4 2002	Q4 2001	Full year 2002	Full year 2001
Net sales	168,038	189,095	670,277	696,333
<i>of which Netch</i>	–	–	–	20,479
Cost of goods and services sold	–71,441	–81,249	–286,270	–340,754
Gross profit	96,597	107,846	384,007	355,579
<i>of which Netch</i>	–	–	–	–5,903
Sales costs	–46,786	–49,870	–177,522	–212,011
Administrative costs	–13,367	–15,523	–56,334	–66,262
Research and development costs	–28,206	–32,193	–117,847	–151,052
Items affecting comparability	–	–	–	–33,296
Other operating income	1,403	–	7,354	–
Other operating expenses	–	–2,497	–	–6,922
Participation in associated companies before tax	–	–	–	158
Operating profit/loss	9,641	7,763	39,658	–113,806
<i>of which Netch</i>	–	–	–	–30,521
Net financial items	2,698	–30,126	11,778	–35,687
Profit/loss after financial items	12,339	–22,363	51,436	–149,493
<i>of which Netch</i>	–	–	–	–31,691
Tax on profit/loss for the period	–7,469	8,118	–15,581	48,445
Minority share in result for the period	–	–	–	10,941
Profit/loss for the period	4,870	–14,245	35,855	–90,107
Earnings per share before dilution (SEK)	0.07	–0.21	0.52	–1.31
Earnings per share after dilution (SEK)	0.07	–0.21	0.52	–1.31
Number of shares before dilution, average (000s)	68,900	68,900	68,900	68,900
Number of shares after dilution, average (000s)	68,985	68,900	68,985	68,900

Cash flow analysis

(SEK 000s)	Q4 2002	Q4 2001	Full year 2002	Full year 2001
Cash flow from ongoing operations before change in operating capital	10,146	10,838	45,819	–80,502
Change in operating capital	–11,463	22,659	–39,006	54,922
Cash flow from ongoing operations	–1,317	33,497	6,813	–25,580
Cash flow from investment operations	–9,566	6,303	–15,404	–12,460
Cash flow from financing operations	6,849	1,809	–42,226	22,820
Cash flow for the period	–4,034	41,609	–50,817	–15,220
Liquid funds on the opening date	133,990	139,164	180,773	195,993
Liquid funds on the closing date	129,956	180,773	129,956	180,773

Income statement pro forma

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. Quarterly data for 2001 and 2002, see last page in this report.

(SEK 000s)	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q4 2001	Full year 2002	Full year 2001
Net sales	164,037	170,650	167,552	168,038	189,095	670,277	675,854
Cost of goods and services sold	–67,801	–74,049	–72,979	–71,441	–81,249	–286,270	–314,372
Gross profit	96,236	96,601	94,573	96,597	107,846	384,007	361,482
Sales costs	–41,605	–45,250	–43,881	–46,786	–49,870	–177,522	–203,932
Administrative costs	–14,937	–15,281	–12,749	–13,367	–15,523	–56,334	–62,565
Research and development costs	–31,421	–31,166	–27,054	–28,206	–32,193	–117,847	–151,052
Items affecting comparability	–	–	–	–	–	–	–20,296
Other operating income	2,379	2,686	886	1,403	–	7,354	–
Other operating expenses	–	–	–	–	–2,497	–	–6,922
Operating profit/loss	10,652	7,590	11,775	9,641	7,763	39,658	–83,285
Net financial items	3,007	1,675	4,398	2,698	–30,126	11,778	–34,517
Profit/loss after financial items	13,659	9,265	16,173	12,339	–22,363	51,436	–117,802

Balance sheet

	Dec. 31 2002	Dec. 31 2001
(SEK 000s)		
Fixed assets	122,434	136,611
Inventories	57,994	46,628
Receivables from customers	88,385	106,339
Other receivables	31,714	18,828
Liquid funds	129,956	180,773
Total	430,483	489,179
Shareholders' equity	312,532	273,014
Provisions	3,826	16,125
Interest-bearing long-term liabilities	–	50,000
Non-interest-bearing current liabilities	114,125	150,040
Total	430,483	489,179

Key ratios

	Q4 2002	Q4 2001	Full year 2002	Full year 2001
Net sales growth (%)	-11.1 ¹⁾	-1.6 ¹⁾	-0.8 ¹⁾	-5.3 ¹⁾
Gross margin (%)	57.5	57.0	57.3	51.1
Operating margin (%)	5.7	4.1	5.9	-16.3
Profit margin (%)	7.3	-11.8	7.7	-21.5
Depreciation (SEK M)	12	19	14	19
Shareholders' equity (SEK M)	313	273	313	273
Capital employed (SEK M)	311	339	311	339
Interest-bearing liabilities (SEK M)	–	50	–	50
Net interest-bearing liabilities (SEK M)	-130	-131	-130	-131
Total assets (SEK M)	430	489	430	489
Return on capital employed (%)	16.3	-22.1	16.5	-26.8
Return on total capital (%)	11.5	-15.7	11.7	-19.1
Return on shareholders' equity (%)	12.1	-19.1	12.6	-45.8
Interest coverage ratio (multiple)	15.1	-33.2	24.0	-2.4
Net debt/equity ratio (multiple)	-0.4	-0.5	-0.4	-0.5
Equity/assets ratio (%)	72.8	55.8	72.8	55.8
Proportion of risk-bearing capital (%)	73.9	57.4	73.9	57.4
Capital turnover rate (multiple)	2.1	1.9	2.1	1.8
Number of employees (average for the period)	340	332	334	439
Sales per employee (SEK M)	2.0	2.3	2.0	1.6
Operating result per employee (SEK M)	0.1	0.1	0.1	-0.3

¹⁾ Compared pro forma excl. Netch.

Per-share data

	Dec. 31 2002	Dec. 31 2001
Share price on closing date (SEK)	18.40	25.00
Proposed dividend (SEK)	0.15	–
P/E ratio	35	–
Number of shares outstanding (000s)	68,900	68,900

