

## Interim Report January—September 2003

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### Continued video growth in restrained market

- Net sales for the period amounted to SEK 460 M (502).
- Profit after tax totaled SEK 3 M (31).
- Profit per share amounted to SEK 0.04 (0.45).
- Operating loss amounted to SEK 3 M (profit: 30).
- Continued strong growth, 17%, in the Video product area.
- Cost-savings program of SEK 15 M annually is being introduced during the fourth quarter.

**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 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 % of sales. Information about Axis can be found at [www.axis.com](http://www.axis.com)*

## Sales

Axis' net sales during the period amounted to SEK 460 M (502), down 8% compared with the same period last year. Sales during the first nine months were affected by a weak USD exchange rate, continued investment restraint and protracted decision processes by customers. Currency effects during the period had a negative impact on net sales in the amount of SEK 57 M.

Despite the cautious market climate, Axis' largest product area, Video, posted continued sales growth in all regions. Total video sales increased by 17% compared with the year-earlier period. In addition, growth measured in local currencies is greater in the U.S. (33%) and European (36%) markets. Accordingly, Axis is further strengthening its position in this strategically important growth area.

Sales during the third quarter totaled SEK 155 M (168). Video accounted for 57% of sales, and showed a growth of 19% compared with the year-earlier period. At the same time, the negative sales trend for Print, Scan and Store persists as a result of the continued weak IT market. Demand in most segments of the IT market declined at the beginning of the period but showed signs of stabilizing toward the end of the period, albeit at a low level.

As a result of a general weakness in the IT market, the volume of customer-specific projects and OEM sales declined compared with the corresponding period in 2002. During the third quarter, OEM sales accounted for 18% of Axis' total sales.

## Operating profit

The Group's operating loss amounted to SEK 3 M (profit: 30). The operating margin was negative in the amount of 0.6% (positive: 6.0) and profit after financial items amounted to SEK 2 M (39). Profit after tax amounted to SEK 3 M (31). Currency effects had a positive impact of SEK 3 M on operating profit for the period. The gross margin amounted to 52.5% (57.2). Throughout the period, the gross margin was affected by revenue declines in customer-

specific development work and, to an extent, by price declines within certain products and markets.

The operating profit for the third quarter amounted to SEK 1 M (12), an improvement of SEK 5 M compared with the preceding quarter. The gross margin amounted to 51.1% (56.4).

To offset the effects of sluggish business conditions and to adjust costs, Axis is initiating a cost-savings program during the fourth quarter. The goal is to achieve annual savings in the range of SEK 15 M, the effects of which should be fully felt in 2004.

## Cash flow and financial position

Cash flow from operating activities amounted to a negative SEK 25 M. Net investments amounted to SEK 15 M, of which SEK 11 M is attributable to capitalized development work. Axis has SEK 89 M in liquid funds and unutilized credit facilities totaling SEK 130 M. Accordingly, the company's total payment capacity at September 30, 2003 amounted to SEK 219 M.

## Shareholders' equity

The Group's shareholders' equity amounts to SEK 305 M. Of the changes during the period, SEK 3 M is attributable to results for the period and SEK 10 M to a shareholder dividend. The total number of shares at the close of the period was 68,900,000. After full exercise of the outstanding warrants, the number of shares totals 71,421,300. The Group's equity/assets ratio at September 30, 2003 was 72.3%.

## Business development

Axis proceeded to strengthen its position in the Video sector through continuous expansion of its network of resellers and systems integrators. Also during the third quarter, Ingram Micro, one of Axis' largest distribution partners, announced the company's intention to invest more in security products, which further strengthens the image of a growing market potential for digital security solutions.

At the same time, sales efforts were intensified within prioritized customer segments, the results of which were strongly felt in the U.S. and U.K. education sector, among other areas.

In addition, important strategic orders were signed in Japan and China, two markets with major market potential for Video. In Japan, Axis delivered, among others, a large number of network cameras to a new shopping center where the management wanted to improve visitor safety in the facility's parking area. In the Chinese market, an OEM agreement for video servers was signed with YAAN, a leading CCTV manufacturer. The initial order value in both instances was slightly more than SEK 1 M.

During the period, Axis' technology sales secured another volume order in the third-party developer sector. This time the order was from the security company, Rosengren SafePay AB, for developing a card for a cash-management system. The transaction is expected to generate SEK 2 M annually.

At the end of the period, AXIS 205 Network Camera was introduced. The AXIS 205 is a highly compact network camera that simultaneously offers superior image quality at an attractive price. Examples of target groups for the new product are smaller businesses and advanced home users. Consequently, Axis is broadening its market for digital remote monitoring applications.

### **Prospects for the fourth quarter 2003**

The economy shows signs of a possible recovery during 2004, but indications are that restraints in IT investments will persist. Accordingly, Axis is initiating a cost-savings program in the beginning of the fourth quarter to ensure a long-term development that is stable and favorable. The belief in a significant growth potential within the Video business area remains, as does Axis' goal of a positive operating result for 2003 as a whole.

### **Accounting principles**

The interim report was prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR20, Interim Reports. The accounting principles and methods of calculation are the same as those applied in the most recent Annual Report, with the addition of the recommendations issued by the Financial Accounting Standards Council that became effective as of January 1, 2003.

The company's segment comprises one operating sector.

### **Nominating committee**

The Axis nominating committee consists of representatives for the three major shareholders: Mikael Karlsson (LMK Industri AB), Patrik Tigerschiöld (Skanditek Industriförvaltnings AB) and Martin Gren (AB Grenspecialisten). Mikael Karlsson, who is the company's Board Chairman and major owner, is the convener.

Suggestions and opinions from shareholders with respect to the Board composition can be submitted to the Board Chairman, either in writing to: Mikael Karlsson, Axis AB, Emdalavägen 14, 223 69 LUND, Sweden, or by telephone: +46-46-272 18 01.

### **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 2 M. Liquid funds amounted to SEK 24 M and total borrowing amounted to SEK 0.

### **Future financial reports**

Year-end report 2003: February 12, 2004

Three-month interim report: April 15, 2004

Lund, October 21, 2003

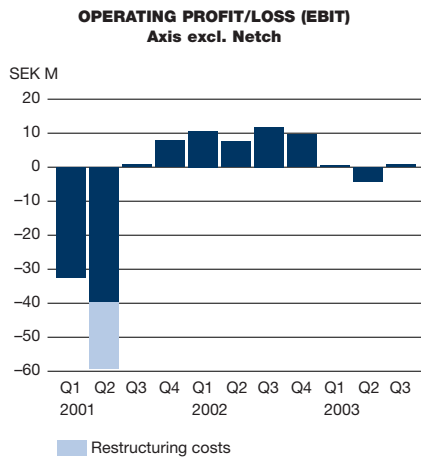
Ray Mauritsson  
President and CEO

Invoice sales by product group (SEK 000s)	Q1 2003	Q2 2003	Q3 2003	Q3 2002	Q1-Q3 2003	Q1-Q3 2002
Video	78,849	84,522	88,040	74,146	251,411	215,746
Print	60,796	57,795	54,063	72,554	172,654	217,782
Scan	3,042	2,047	2,232	2,704	7,321	9,703
Store	5,512	3,415	5,154	9,825	14,081	24,275
Access	338	573	850	801	1,761	4,736
Other	4,014	4,536	4,424	7,522	12,974	29,997
<b>TOTAL</b>	<b>152,551</b>	<b>152,888</b>	<b>154,763</b>	<b>167,552</b>	<b>460,202</b>	<b>502,239</b>

Invoice sales by region (SEK 000s)	Q1 2003	Q2 2003	Q3 2003	Q3 2002	Q1-Q3 2003	Q1-Q3 2002
EMEA	72,859	75,577	74,378	70,155	222,814	224,978
Americas	42,137	41,198	45,592	49,054	128,927	140,951
Asia	37,555	36,113	34,793	48,343	108,461	136,310
<b>TOTAL</b>	<b>152,551</b>	<b>152,888</b>	<b>154,763</b>	<b>167,552</b>	<b>460,202</b>	<b>502,239</b>

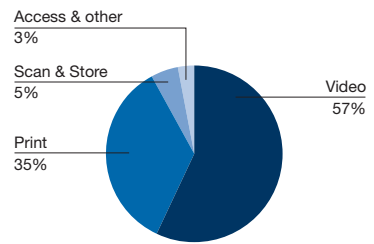
Income statement in brief (SEK 000s)	Q1 2003	Q2 2003	Q3 2003	Q3 2002	Q1-Q3 2003	Q1-Q3 2002
Net sales	152,551	152,888	154,763	167,552	460,202	502,239
Gross profit	81,949	80,783	79,068	94,573	241,800	287,410
Gross margin	53.7%	52.8%	51.1%	56.4%	52.5%	57.2%
Operating profit/loss	555	-4,290	813	11,775	-2,922	30,017
Operating margin	0.4%	-2.8%	0.5%	7.0%	-0.6%	6.0%
Profit/loss after financial items	2,656	-657	458	16,173	2,458	39,097

Quarterly data for 2001-2003, see last page in this report.



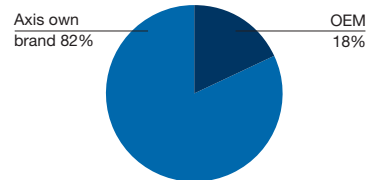
Operating profit during the third quarter increased by SEK 5 M compared with the same period last year.

**INVOICED SALES BY PRODUCT GROUP Q3, 2003**



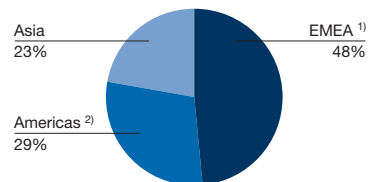
Video is the largest product area of the Axis Group, and demand for network cameras and video servers continues to increase.

**SALES BRANDED PRODUCTS/OEM Q3, 2003**



The percentage of OEM sales declined, accounting for 18% (20) of total sales during the quarter.

**INVOICED SALES BY REGION Q3, 2003**



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

Compared with the preceding quarter, sales increased in America but declined slightly in EMEA and Asia.

## Income statement

(SEK 000s)	12 months					
	Q3 2003	Q3 2002	Q1-Q3 2003	Q1-Q3 2002	Full year 2002	Sept 02- Sept 03
Net sales	154,763	167,552	460,202	502,239	670,277	628,240
Cost of goods and services sold	-75,694	-72,979	-218,401	-214,829	-286,270	-289,842
<b>Gross profit</b>	<b>79,068</b>	<b>94,573</b>	<b>241,801</b>	<b>287,410</b>	<b>384,007</b>	<b>338,398</b>
Sale costs	-40,158	-43,881	-124,629	-130,736	-177,522	-171,415
Administrative costs	-13,189	-12,749	-35,459	-42,967	-56,334	-48,826
Research and development costs	-25,680	-27,054	-86,745	-89,641	-117,847	-114,951
Other operating income and expenses	773	886	2,111	5,951	7,354	3,514
<b>Operating profit</b>	<b>813</b>	<b>11,775</b>	<b>-2,922</b>	<b>30,017</b>	<b>39,658</b>	<b>6,719</b>
Net financial items	-355	4,398	5,380	9,080	11,778	8,078
<b>Profit after financial items</b>	<b>458</b>	<b>16,173</b>	<b>2,458</b>	<b>39,097</b>	<b>51,436</b>	<b>14,797</b>
Tax	-681	-850	472	-8,112	-15,581	-6,997
<b>Profit for the period</b>	<b>-223</b>	<b>15,323</b>	<b>2,930</b>	<b>30,985</b>	<b>35,855</b>	<b>7,800</b>
Earnings per share before dilution (SEK)	0.00	0.22	0.04	0.45	0.52	0.11
Earnings per share after dilution (SEK)	0.00	0.22	0.04	0.45	0.52	0.11
Number of shares before dilution, average (000s)	68,900	68,900	68,900	68,900	68,900	68,900
Number of shares after dilution, average (000s)	68,900	68,998	68,906	68,998	68,985	68,906

## Cash flow analysis

(SEK 000s)	12 months					
	Q3 2003	Q3 2002	Q1-Q3 2003	Q1-Q3 2002	Full year 2002	Sept 02- Sept 03
Cash flow from ongoing operations before change in operating capital	550	17,424	330	35,673	45,819	10,476
Change in operating capital	-17,825	-18,453	-25,056	-27,543	-39,006	-36,519
Cash flow from ongoing operations	-17,275	-1,029	-24,726	8,130	6,813	-26,043
Cash flow from investment operations	-5,860	-292	-14,557	-5,838	-15,404	-24,123
Cash flow from financing operations	5,865	-	-1,439	-49,075	-42,226	5,410
<b>Cash flow for the period</b>	<b>-17,270</b>	<b>-1,321</b>	<b>-40,722</b>	<b>-46,783</b>	<b>-50,817</b>	<b>-44,756</b>
Liquid funds on the opening date	106,504	135,311	129,956	180,773	180,773	133,990
Liquid funds on the closing date	89,234	133,990	89,234	133,990	129,956	89,234

## Balance sheet

(SEK 000s)	Sept 30, 2003	Sept 30, 2002	Dec 31, 2002
Fixed assets	130,929	125,961	122,434
Inventories	73,051	61,268	57,994
Receivables from customers	90,334	87,400	88,385
Other receivables	38,780	29,004	31,714
Liquid funds	89,234	133,990	129,956
<b>Total</b>	<b>422,328</b>	<b>437,623</b>	<b>430,483</b>
Shareholders' equity	305,387	307,498	312,532
Provisions	1,464	7,936	3,826
Long term receivables	6,930	-	-
Current receivables	108,547	122,189	114,125
<b>Total</b>	<b>422,328</b>	<b>437,623</b>	<b>430,483</b>

## Key ratios

	Q3 2003	Q3 2002	Q1-Q3 2003	Q1-Q3 2002	Full year 2002
Net sales growth (%)	-7.6	8.3 <sup>1)</sup>	-8.4	3.2 <sup>1)</sup>	-0.8 <sup>1)</sup>
Gross margin (%)	51.1	56.4	52.5	57.2	57.3
Operating margin (%)	0.5	7.0	-0.6	6.0	5.9
Profit margin (%)	0.3	9.7	0.5	7.8	7.7
Depreciation (SEK M)	9	19	9	17	14
Shareholders' equity (SEK M)	305	307	305	307	313
Capital employed (SEK M)	308	307	308	307	311
Interest-bearing liabilities (SEK M)	7	-	7	-	-
Net interest-bearing liabilities (SEK M)	-82	-134	-82	-134	-130
Total assets (SEK M)	422	438	422	438	430
Return on capital employed (%)	0.9	19.9	1.3	16.4	16.5
Return on total capital (%)	0.6	14.3	0.9	11.7	11.7
Return on shareholders' equity (%)	0.4	15.7	0.8	12.6	12.6
Interest coverage ratio (multiple)	3.0	78.8	6.0	29.7	24.0
Net debt/equity ratio (multiple)	-0.3	-0.4	-0.3	-0.4	-0.4
Equity/assets ratio (%)	72.3	70.3	72.3	70.3	72.8
Proportion of risk-bearing capital (%)	73.6	72.1	73.6	72.1	73.9
Capital turnover rate (multiple)	2.0	2.0	2.0	2.0	2.1
Number of employees (average for the period)	354	334	358	331	334
Sales per employee (SEK M)	1.7	2.0	1.7	2.0	2.0
Operating result per employee (SEK M)	0.0	0.1	0.0	0.1	0.1

<sup>1)</sup> Compared pro forma excl. Netch

## Per-share data

	Sept 30, 2003	Sept 30, 2002	Dec 31, 2002
Share price on closing date (SEK)	14.30	14.80	18.40
Proposed dividend (SEK)	0.15	-	-
P/E ratio	268	25	35
Number of shares outstanding (000s)	68,900	68,900	68,900

## Quarterly data

Invoiced sales by product group excl. Netch (000s)	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003
Video	52,419	53,562	58,671	73,670	66,844	74,756	74,146	85,730	78,849	84,522	88,040
Print	80,821	75,326	70,562	81,828	71,184	74,044	72,554	60,152	60,796	57,795	54,063
Scan	8,211	7,904	5,781	3,281	3,574	3,425	2,704	3,379	3,042	2,047	2,232
Store	14,130	12,316	10,478	13,720	8,321	6,129	9,825	7,829	5,512	3,415	5,154
Access	1,062	677	1,273	2,146	848	3,087	801	1,059	338	573	850
Other	6,938	18,705	7,923	14,450	13,266	9,209	7,522	9,889	4,014	4,536	4,424
<b>TOTAL</b>	<b>163,581</b>	<b>168,490</b>	<b>154,688</b>	<b>189,095</b>	<b>164,037</b>	<b>170,650</b>	<b>167,552</b>	<b>168,038</b>	<b>152,551</b>	<b>152,888</b>	<b>154,763</b>

Invoiced sales by region excl. Netch (000s)	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003
EMEA	71,553	87,000	66,359	85,494	76,790	78,033	70,155	90,925	72,859	75,577	74,378
Americas	44,579	44,748	51,873	68,576	44,926	46,971	49,054	39,229	42,137	41,198	45,592
Asia	47,449	36,742	36,456	35,025	42,321	45,646	48,343	37,884	37,555	36,113	34,793
<b>TOTAL</b>	<b>163,581</b>	<b>168,490</b>	<b>154,688</b>	<b>189,095</b>	<b>164,037</b>	<b>170,650</b>	<b>167,552</b>	<b>168,038</b>	<b>152,551</b>	<b>152,888</b>	<b>154,763</b>

Income statement pro forma (SEK 000s)	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003
Net sales	163,581	168,490	154,689	189,095	164,037	170,650	167,552	168,038	152,551	152,888	154,763
Cost of goods and services sold	-84,739	-79,363	-69,021	-81,249	-67,801	-74,049	-72,979	-71,441	-70,602	-72,105	-75,694
<b>Gross profit</b>	<b>78,842</b>	<b>89,127</b>	<b>85,668</b>	<b>107,846</b>	<b>96,236</b>	<b>96,601</b>	<b>94,573</b>	<b>96,597</b>	<b>81,949</b>	<b>80,783</b>	<b>79,068</b>
Sales costs	-53,417	-61,302	-39,343	-49,870	-41,605	-45,250	-43,881	-46,786	-42,119	-42,351	-40,158
Administrative costs	-17,038	-16,662	-13,342	-15,523	-14,937	-15,281	-12,749	-13,367	-11,412	-10,858	-13,189
Research and development costs	-38,250	-49,797	-30,812	-32,193	-31,421	-31,166	-27,054	-28,206	-29,927	-31,138	-25,680
Items affecting comparability	-	-20,296	-	-	-	-	-	-	-	-	-
Other operating income	-	-	-	-	2,379	2,686	886	1,403	2,064	-	773
Other operating expenses	-2,486	-484	-1,455	-2,497	-	-	-	-	-	-726	-
<b>Operating profit/loss</b>	<b>-32,349</b>	<b>-59,414</b>	<b>715</b>	<b>7,763</b>	<b>10,652</b>	<b>7,590</b>	<b>11,775</b>	<b>9,641</b>	<b>555</b>	<b>-4,290</b>	<b>813</b>
Net financial items	3,616	-8,555	548	-30,126	3,007	1,675	4,398	2,698	2,101	3,633	-355
<b>Profit/loss for the period</b>	<b>-28,733</b>	<b>-67,969</b>	<b>1,263</b>	<b>-22,363</b>	<b>13,659</b>	<b>9,265</b>	<b>16,173</b>	<b>12,339</b>	<b>2,656</b>	<b>-657</b>	<b>458</b>

This interim report has been reviewed in accordance with the recommendations issued by the FAR. A review is considerably limited in scope compared with an audit. There is nothing to indicate that this interim report does not comply with the requirements of the Securities and Clearing Operations Act and the Accounts Act.

Lund, October 21, 2003

Öhrlings PricewaterhouseCoopers AB

Anders Lundin, Authorized Public Accountant  
Senior Auditor

Dan Andersson, Authorized Public Accountant

The Annual Report for 2002 is available on Axis' Web site,  
[www.axis.com/corporate/investor/financial\\_reports.htm](http://www.axis.com/corporate/investor/financial_reports.htm)

Further information is available from the President, Ray Mauritsson, tel: +46-46 272 18 00,  
the CFO, Jörgen Lindquist, tel: +46-46 272 18 00 or Anne Rhenman, Director,  
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