

## Year-end Report for 2004

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# Improved earnings and continued growth within video

- Net sales during the period amounted to SEK 691 M (624).
- Operating profit amounted to SEK 48 M (1).
- Profit before tax was SEK 57 M (8).
- Profit after tax amounted to SEK 37 M (loss: 3).
- Earnings per share were SEK 0.54 (loss: 0.04).
- Board proposes a dividend of SEK 0.50 per share of which SEK 0.30 extraordinary dividend.

**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 Stockholm Stock Exchange (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. Information about Axis can be found at [www.axis.com](http://www.axis.com).*

## Sales

Axis' net sales in 2004 amounted to SEK 691 M (624), up 11 percent compared with the preceding year. Exchange rates had a negative impact of SEK 36 M on sales during the period.

The positive development for Video, Axis' largest product area, continued. Network-based video solutions showed sales growth of 33 percent for the full year. Expressed in local currencies, growth was more than 40 percent in Europe and the United States.

Axis' sales within the Print product area did not develop as favourably during the year. The mature market for Print also affected Axis' OEM sales, which declined compared with the preceding year. OEM sales accounted for 14 percent of Axis' total sales.

Within geographic regions, the US showed the strongest growth.

Sales for the fourth quarter amounted to SEK 199 M (163). Video, which showed growth of 38 percent compared with the corresponding three months of 2003, accounted for 73 percent of total sales for the quarter.

## Operating profit

The Group's operating profit rose to SEK 48 M during the year, compared with SEK 1 M in 2003. The operating margin was 7.0 percent (0.2). Currency exchange rates had no significant impact on operating profit for the year.

Profit after financial items amounted to SEK 57 M (8) and profit after tax was SEK 37 M (loss: 3).

The gross margin for the full year was 52.0 percent (51.6).

Operating earnings during the fourth quarter amounted to SEK 29 M (4), an improvement of SEK 25 M compared with the preceding year. The gross margin was 53.0 percent (48.9).

## Cash flow and financial position

Cash flow from current operations amounted to SEK 30 M (negative: 2). Net investments totaled SEK 15 M (28). During the year, development costs amounting to SEK 12 M were capitalized. Axis had SEK 121 M in liquid funds and unutilized credit facilities totaling SEK 80 M. Accordingly,

the company had total available disposable funds of SEK 201 M on December 31, 2004.

## Shareholders' equity

The Group's shareholders' equity amounted to SEK 339 M (300). The total number of shares on the closing date was 68,900,000. After full exercise of all warrants outstanding, the number of shares amounts to 70,851,300. The Group's equity/assets ratio at December 31, 2004 was 72 percent (69). The table shows the changes in shareholders' equity.

	Share capital	Restricted reserves	Unrestricted equity	Total shareholders' equity
Dec. 31, 2003	689	265,408	34,227	300,324
Transfers between unrestricted and restricted shareholders' equity		55	-55	-
Earnings for the year			37,337	37,337
VAT refund pertaining to share issue expenses	1,748	1,748		1,748
Other adjustments		150	-172	-22
Dec. 31, 2004	689	267,361	71,337	339,387

## Highlights during the year

During the year, Axis strengthened its position as the market leader within network video. This was in pace with the growing trend of increased demand for digital video solutions at the expense of analog installations. Axis also consolidated its position in the international network video market during the year, and the company signed a number of strategic customer agreements that clearly confirmed the market's recognition of both Axis and the growing importance of IP-based video systems. Business was secured in all prioritized customer segments, notable customer examples being the Western Australia Public Transport Authority and Turning Stone Casino in the US.

During 2004, Axis also renewed and expanded its product portfolio. This resulted in the launch of a total of 20 new video products and software solutions. Most of the video products are based on the internally developed integrated chip ARTPEC-2. The introduction of Axis' new video products and cooperation with both local and international partners is a strong factor underlying the positive trend of sales. During the year, significantly

increased interest was noted in IP-based video solutions in conjunction with major security industry exhibitions in Europe, Asia and the US.

Work with Axis' sales channels was expanded during the year. Most of the channels take the form of systems integrators and companies focusing on large integrated security solutions. Cooperation with Honeywell was strengthened and Axis was appointed strategic supplier. Notable among significant events on the partner side was the cooperation with Securitas on IP-based surveillance, which was started in June. Network video products also continued to be developed during the year on the distributor front. Axis strengthened its relations within this area and in November the company was presented with Ingram Micro's Award of Excellence.

In the Print product area, Axis defended its position as No. 2 in the global market for print-servers. During the year, the company launched two new printer servers aimed at small and medium-sized companies and advanced home users.

#### **Future prospects**

Axis' overall goal is to drive the technology shift from analogue to digital network security solutions and to strengthen its positions in this market. This area is predicted to continue to grow and develop at a fast pace, which logically will present Axis with good growth opportunities. The principal driving force behind this market growth is the range of customer benefits provided by digital network-based solutions in terms of flexibility, integration and scalability. Axis also plans to maintain a continuously high launch rate within the Video product area during 2005.

The increasingly dominant video sales and the ongoing strong growth expected in this area constitute a good base for continued profitable growth. Axis' financial goals can be summarized in two key catchwords: profitability and growth.

In the Video product area, Axis' strategy is to defend its leading position and grow with the market.

The market for printserver solutions must be regarded as mature, which limits expectations in the Print product area.

Given this background, the goal for the next

three to five years is an average annual total growth of about 20 percent for the Group. At the same time, Axis shall achieve its profitability target. Given the current market trend, the company's goal is to achieve at least a 10-percent profit margin in the years ahead. Axis' equity/assets shall not be lower than 50 percent.

#### **Accounting principles**

The full-year report has been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendations. The accounting principles and methods of calculation are the same as those applied in the most recent Annual Report. The company's segment comprises one operating sector. With regard to the Swedish Financial Accounting Standards Council's recommendation RR29, Employee Benefits, the Axis Group has pension undertakings that are partly defined-benefits plans, but due to, among other factors, equalization in the insurance companies, these pension plans, which include several employers, are so-called multi-employer plans. Insufficient information is currently available from the insurance companies to be able to report the pension undertaking as a defined-benefit undertaking. Consequently, these plans are reported as if they were defined-contribution plan undertakings.

#### **Transition to International**

##### **Financial Reporting Standards (IFRS)**

In accordance with the requirements placed on listed EU companies as of 2005, Axis will change its accounting to conform with IFRS.

To evaluate the effects of the transition to IAS and subsequently IFRS, a project group was set up in 2002 under the direction of the Group Controller and supported by the company's auditors. Identified key effects have been reported on an ongoing basis to Group Management and the Board. The company's financial manual and reporting routines have been adapted on a continuous basis to meet the changed regulatory system.

Axis will report in accordance with IFRS requirements for the first time in conjunction with the interim report for the first quarter of 2005. Accounting in accordance with IFRS will be effect-

ed through the establishment of an opening balance in accordance with IFRS as per January 1, 2005.

Although the recommendations of the Swedish Financial Accounting Standards Council have been gradually adapted to IFRS, a number of differences still remain, which will have an effect on Axis' accounts. The differences between Axis' accounting principles applied in accordance with the recommendations of the Swedish Financial Accounting Standards Council as per December 31, 2004 and IFRS principles are as follows:

- Reporting and valuation of financial instruments (IAS 39). The effects on the opening balance related to IAS 39 will be reported in the quarterly reports during 2005.
- The effects of changes in exchange rates (IAS 21) will result in Axis moving from having earlier applied the monetary method to applying the current method in translating the financial statements of foreign subsidiaries. The most significant consequence of the shift to the current method is that the translation difference, combined with the outcome from hedging of net investments in the subsidiaries, is reported directly in shareholders' equity instead of in the income statement. Accumulated translation differences will be reported separately with comparison material as of January 1, 2004.

Reporting in accordance with IAS 39 will become effective as of January 1, 2005.

The Stockholm Stock Exchange has recommended that listed companies submit information about the most important differences between current accounting principles in accordance with Swedish Financial Accounting Standards Council recommendations and the IFRS principles that shall be adopted as of 2005, plus a quantitative review of the monetarily most significant items plus information about how 2004 earnings and positions would have been affected if IFRS principles had been applied instead of the prevailing accounting principles. This quantitative review is shown in the table below.

#### Effects of application by IFRS

SEK 000s	Closing balance 2003	Translation of subsidiaries, IAS 21	IFRS 1 Jan. 2004
Fixed assets	131,785	712	132,497
Shareholders' equity	300,324	712	301,036

IFRS is subject to continuously review and approval by the EU, whereby changes can still occur.

#### Nominating Committee

Axis' Nominating Committee consists of representatives of the three largest owners: Mikael Karlsson (LMK Industri AB), Patrik Tigerschiöld (Skanditek Industriförvaltnings AB) and Martin Gren (AB Grenspecialisten). Mikael Karlsson, who is also Chairman of the Board and the largest owner, is the convener.

Proposals and opinions from other shareholders regarding the composition of the Board can be submitted either in writing to Mikael Karlsson, Axis AB, Emdalavägen 14, SE-223 69 LUND, or by calling +46-8-272 18 01.

#### Parent Company

The Parent Company's activities focus primarily on Group-wide administration. The Parent Company has no employees. The Parent Company reported an operating loss of SEK 3 M (loss: 3) in 2004. Liquid funds amounted to SEK 38 M (SEK 0 on January 1, 2004) and total borrowing amounted to SEK 0 (neg. SEK 38 M on January 1, 2004). Investments during the full year amounted to 0 (0).

#### Annual General Meeting

The Annual General Meeting will be held at 5.00 p.m. on April 19, 2005 at Edison Park, Lund. The Board proposes that an ordinary dividend of SEK 0.20 per share be paid for the 2004 financial year and an extraordinary dividend of SEK 0.30 taking into account the Company's strong financial position.

The first-quarter 2005 report will be published on April 18, 2005.

The Annual Report for 2004, will be available on Axis' Web site in the middle of March.

Lund, February 9, 2005

*Board of Directors*

Closing balance 2004	Translation of subsidiaries, IAS 21	IFRS 31 Dec. 2004
117,930	457	118,387
339,387	457	339,844

Invoiced sales by product group (SEK 000s)	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q4 2003	Q1-Q4 2004	Q1-Q4 2003
Video	96,744	115,193	117,576	144,563	104,817	474,076	356,228
Print	43,053	45,832	39,010	41,154	46,932	169,049	219,586
Scan	1,871	935	5,824	2,932	3,033	11,562	10,354
Store	3,025	1,936	2,243	2,483	4,285	9,687	18,366
Access	3,428	265	163	82	292	3,938	2,053
Other	3,948	3,413	7,682	8,126	4,076	23,169	17,050
<b>TOTAL</b>	<b>152,069</b>	<b>167,574</b>	<b>172,498</b>	<b>199,340</b>	<b>163,435</b>	<b>691,481</b>	<b>623,637</b>

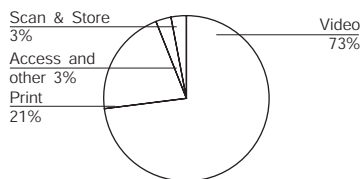
Invoiced sales by region (SEK 000s)	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q4 2003	Q1-Q4 2004	Q1-Q4 2003
EMEA	78,058	81,019	83,022	105,130	85,525	347,229	308,339
Americas	39,713	55,127	56,530	58,149	43,478	209,519	172,405
Asia	34,298	31,428	32,946	36,061	34,432	134,733	142,893
<b>TOTAL</b>	<b>152,069</b>	<b>167,574</b>	<b>172,498</b>	<b>199,340</b>	<b>163,435</b>	<b>691,481</b>	<b>623,637</b>

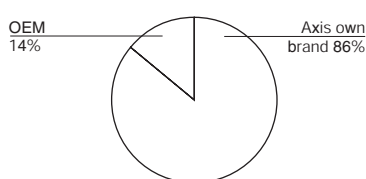
Income statement in brief (SEK 000s)	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q4 2003	Q1-Q4 2004	Q1-Q4 2003
Net sales	152,069	167,574	172,498	199,340	163,435	691,481	623,637
Gross profit	74,915	86,585	92,368	105,646	79,930	359,514	321,731
Gross margin	49.3%	51.7%	53.5%	53.0%	48.9%	52.0%	51.6%
Operating profit/loss	-5,942	7,885	17,637	28,792	4,064	48,372	1,142
Operating margin	-3.9%	4.7%	10.2%	14.4%	2.5%	7.0%	0.2%
Profit/loss after financial items	-1,644	9,001	18,597	31,115	5,867	57,069	8,324

Quarterly data for 2002–2004 is presented on the last page of this report.

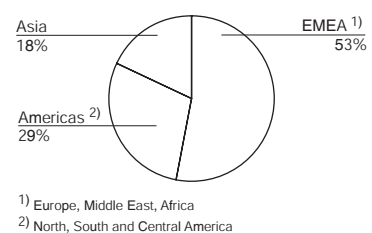
INVOICED SALES BY PRODUCT GROUP  
Q4, 2004



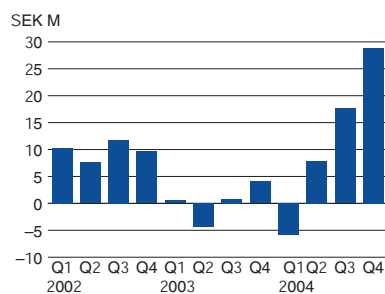
SALES BRANDED PRODUCTS/OEM  
Q4, 2004



INVOICED SALES BY REGION  
Q4, 2004



OPERATING PROFIT/LOSS (EBIT)



## Income statement

	Q4 2004	Q4 2003	Q1-Q4 2004	Q1-Q4 2003
Net sales	199,340	163,435	691,481	623,637
Cost of goods and services sold	-93,695	-83,505	-331,968	-301,906
<b>Gross profit</b>	<b>105,646</b>	<b>79,930</b>	<b>359,514</b>	<b>321,731</b>
Sales costs	-37,947	-40,432	-152,025	-165,062
Administrative costs	-10,481	-9,307	-42,277	-44,766
Research and development costs	-29,050	-25,236	-114,787	-111,982
Other operating income and expenses	624	-890	-2,053	1,221
<b>Operating profit/loss</b>	<b>28,792</b>	<b>4,065</b>	<b>48,372</b>	<b>1,142</b>
Net financial items	2,323	1,802	8,697	7,183
<b>Profit after financial items</b>	<b>31,115</b>	<b>5,867</b>	<b>57,069</b>	<b>8,324</b>
Tax	-14,547	-11,373	-19,732	-10,900
<b>Profit/loss for the period</b>	<b>16,568</b>	<b>-5,506</b>	<b>37,337</b>	<b>-2,576</b>
Earnings per share before dilution (SEK)	0.24	-0.08	0.54	-0.04
Earnings per share after dilution (SEK)	0.24	-0.08	0.54	-0.04
Number of shares before dilution, average (000s)	68,900	68,900	68,900	68,900
Number of shares after dilution, average (000s)	68,900	68,900	68,900	68,906

## Cash-flow statement

	Q4 2004	Q4 2003	Q1-Q4 2004	Q1-Q4 2003
Cash flow from ongoing operations before change in operating capital	36,395	14,949	58,881	15,279
Change in operating capital	-26,179	7,937	-29,038	-17,119
Cash flow from ongoing operations	10,216	22,886	29,843	-1,840
Cash flow from investment operations	-3,730	-13,905	-14,767	-28,462
Cash flow from financing operations	400	4,763	2,969	3,324
<b>Cash flow for the period</b>	<b>6,886</b>	<b>13,744</b>	<b>18,045</b>	<b>-26,978</b>
Liquid funds on the opening date	114,137	89,234	102,978	129,956
Liquid funds on the closing date	121,023	102,978	121,023	102,978

## Balance sheet

	Dec. 31, 2004	Dec. 31, 2003
Fixed assets	117,930	131,785
Inventories	85,788	67,074
Receivables from customers	107,032	94,078
Other receivables	37,767	37,656
Liquid funds	121,023	102,978
<b>Total</b>	<b>469,540</b>	<b>433,571</b>
Shareholders' equity	339,387	300,324
Provisions	6,830	7,081
Long-term liabilities	6,375	10,200
Current liabilities	116,948	115,966
<b>Total</b>	<b>469,540</b>	<b>433,571</b>

## Key ratios <sup>1)</sup>

	Q4 2004	Q4 2003	Q1-Q4 2004	Q1-Q4 2003
Net sales growth (%)	22.0	-2.7	10.9	-7.0
Gross margin (%)	53.0	48.9	52.0	51.6
Operating margin (%)	14.4	2.5	7.0	0.2
Profit margin (%)	15.6	3.6	8.3	1.3
Depreciation (SEK M)	11	9	11	9
Shareholders' equity (SEK M)	339	300	339	300
Capital employed (SEK M)	352	315	352	315
Interest-bearing liabilities (SEK M)	6	10	6	10
Net interest-bearing liabilities (SEK M)	-115	-93	-115	-93
Total assets (SEK M)	470	434	470	434
Return on capital employed (%)	37.5	8.0	17.3	2.9
Return on total capital (%)	27.7	5.8	12.8	2.1
Return on shareholders' equity (%)	28.0	5.5	12.9	2.0
Interest coverage ratio (multiple)	173.9	15.1	76.1	13.8
Net debt/equity ratio (multiple)	-0.3	-0.3	-0.3	-0.3
Equity/assets ratio (%)	72.3	69.3	72.3	69.3
Proportion of risk-bearing capital (%)	72.4	69.9	72.4	69.9
Capital turnover rate (multiple)	2.4	2.1	2.1	2.0
Number of employees (average for the period)	346	351	343	356
Sales per employee (SEK M)	2.3	1.9	2.0	1.8
Operating result per employee (SEK M)	0.3	0.0	0.1	0.0

## Per-share data

	Dec. 31, 2004	Dec. 31, 2003
Share price on closing date (SEK)	18.00	17.00
Dividend (SEK)	-	0.15
P/E ratio	33	neg
Earnings per share before dilution (SEK)	0.54	-0.04
Earnings per share after dilution (SEK)	0.54	-0.04
Number of shares before dilution, average (000s)	68,900	68,900
Number of shares after dilution, average (000s)	68,900	68,900
Number of shares outstanding (000s)	68,900	68,900

1) Where necessary, key ratios have been adjusted to 12 months.

## Quarterly data

Invoiced sales by product group (SEK 000s)	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004
Video	66,844	74,756	74,146	85,730	78,849	84,522	88,040	104,817	96,744	115,193	117,576	144,563
Print	71,184	74,044	72,554	60,152	60,796	57,795	54,063	46,932	43,053	45,832	39,010	41,154
Scan	3,574	3,425	2,704	3,379	3,042	2,047	2,232	3,033	1,871	935	5,824	2,932
Store	8,321	6,129	9,825	7,829	5,512	3,415	5,154	4,285	3,025	1,936	2,243	2,483
Access	848	3,087	801	1,059	338	573	850	292	3,428	265	163	82
Other	13,266	9,209	7,522	9,889	4,014	4,536	4,424	4,076	3,948	3,413	7,682	8,126
<b>TOTAL</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>	<b>163,435</b>	<b>152,069</b>	<b>167,574</b>	<b>172,498</b>	<b>199,340</b>

Invoiced sales by region (SEK 000s)	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004
EMEA	76,790	78,033	70,155	90,925	72,859	75,577	74,378	85,525	78,058	81,019	83,022	105,130
Americas	44,926	46,971	49,054	39,229	42,137	41,198	45,592	43,478	39,713	55,127	56,530	58,149
Asia	42,321	45,646	48,343	37,884	37,555	36,113	34,793	34,432	34,298	31,428	32,946	36,061
<b>TOTAL</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>	<b>163,435</b>	<b>152,069</b>	<b>167,574</b>	<b>172,498</b>	<b>199,340</b>

This interim report has been reviewed in accordance with the recommendations issued by the FAR. A reviews 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, February 9, 2005

Öhrlings PricewaterhouseCoopers AB

Anders Lundin, Authorized Public Accountant  
Senior Auditor

Dan Andersson, Authorized Public Accountant

The Annual Report for 2004 will be available on Axis' Web site in the middle of March, [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, CFO Fredrik Sjöstrand or Manager Investor Relations Margareta Lantz at tel: +46-46 272 18 00.



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