

Interim Report

Axis AB (publ) · May–October 2000

Continued very strong turnover growth within Axis Camera Division (163 per cent)

- Total turnover amounted to SEK 345.3 million (SEK 361.5 million last year) – 13 per cent up on the last quarter
- Operating loss of SEK 110.8 million (operating profit of SEK 5.7 million last year) – SEK 10 million improvement on the last quarter
- 50 per cent owned Netch Technologies negatively influenced by weakened market
- Axis and Sony in advanced video server partnership
- Restructuring of Axis Storage Division

Income statement (SEK 000)	May-Oct 2000/01	May-Oct 1999/00	1999/00	1998/99
Net sales	345 298	361 539	695 183	559 789
Of which Netch	35 694	26 225	60 703	—
Costs of goods and services sold	-178 870	-157 015	-323 429	-238 835
Gross profit	166 428	204 524	371 754	320 954
Of which Netch	427	6 157	23 108	—
Selling expenses	-128 963	-115 177	-239 229	-184 212
Administrative expenses	-39 450	-23 919	-62 812	-36 950
Research and development expenses	-102 058	-56 061	-144 585	-93 657
Other operating expenses	-6 738	-3 618	-7 358	-1 163
Profit in associated companies before tax	—	—	—	2 115
Operating profit/loss	-110 781	5 749	-82 230	7 087
Of which Netch	-30 011	-2 465	-11 534	—
Net financial items	-3 698	-2 582	19 901	-6 273
After net financial items	-114 479	3 167	-62 329	814
Of which Netch	-31 218	-2 747	-12 409	—
Taxes on profit for the period	-313	-198	-4 112	-2 859
Minority interest in profit/loss for the period	15 014	1 374	-8 281	—
Net profit/loss	-99 778	4 343	-74 722	-2 045

Cash flow statement (SEK 000)	May-Oct 2000/01	May-Oct 1999/00	1999/00	1998/99
Cash flow from the operating activities before change in working capital	-103 519	15 209	-72 914	5 932
Change in working capital	-12 066	-21 022	23 206	-14 493
Cash flow from the operating activities	-115 585	-5 813	-49 708	-8 561
Cash flow from investment activities	-32 940	-13 476	-15 232	-12 985
Cash flow from investment activities	285 988	20 200	77 827	10 875
Cash flow for the period	137 463	911	12 887	-10 671
Liquid assets at beginning of period	12 419	-468	-468	10 203
Liquid assets at end of period	149 882	443	12 419	-468

Balance sheet (SEK 000)	May-Oct 2000/01	May-Oct 1999/00	1999/00	1998/99
Fixed assets	90 316	40 688	68 070	37 218
Inventories	83 769	63 996	69 887	77 587
Accounts receivable	150 905	144 843	131 996	102 277
Other receivables	70 257	40 667	41 586	31 427
Liquid assets	149 882	443	12 419	—
Total assets	545 129	290 637	323 958	248 509
Shareholders' equity	360 972	87 375	11 150	85 010
Minority interests	-5 109	1 965	9 905	—
Provisions	12 042	10 868	12 253	11 342
Long-term liabilities	—	103 834	162 822	79 713
Short-term liabilities	177 224	86 595	127 828	72 444
Total share equity and liabilities	545 129	290 637	323 958	248 509

Key ratios	May-Oct 2000/01	May-Oct 1999/00	1999/00	1998/99
Net sales growth (%)	neg	32.6	24.2	7.3
Gross margin (%)	48.2	56.6	53.5	57.3
Operating margin (%)	neg	1.6	neg	1.3
Profit margin (%)	neg	0.9	neg	0.1
Shareholders' equity (SEK m)	361	87	11	85
Capital employed (SEK m)	356	193	184	165
Interest-bearing liabilities (SEK m)	—	104	163	80
Net interest-bearing liabilities (SEK m)	-150	103	150	80
Total assets (SEK m)	545	291	324	249
Return on capital employed (%)	neg	7.6	neg	5.3
Return on total capital (%)	neg	5.2	neg	3.4
Return on equity (%)	neg	2.5	neg	neg
Interest coverage ratio (times)	neg	2.0	neg	1.1
Net debt/equity ratio (times)	neg	1.1	13.5	0.9
Equity/assets ratio (%)	65.3	30.7	6.5	34.2
Risk capital/ total capital (%)	67.5	34.5	10.3	38.8
Capital turnover rate (times)	2.6	4.0	4.0	3.5
Number of employees (average for the period)	509	419	445	313
Turnover per employee (SEK m)	0.7	0.9	1.6	1.8
Operating profit per employee (SEK m)	neg	0.0	neg	0.0

Data per share	Oct 2000
Share price at the end of period	30.3
Earnings per share	-1.77
Dividends	—
P/E ratio	neg
Number of shares at the end of period	68 900 000

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General business information

Axis develops solutions and products enabling easy and affordable connections of all types of electronic devices to networks. The idea is to make it easier for users to gain efficient and extended access to different services, resources and units. Axis' vision is to increase the user value of networks by enabling access to everything, from anywhere, anytime.

In line with the development towards increasing mobility, Axis also wants to create conditions for new wireless solutions, and will be among the first in the market to launch products and solutions based on *Bluetooth™*.

With its unique competence in the field of network communications, Axis is a leading-edge company in many of its product areas, including network cameras. As well as having a broad product portfolio, Axis also focuses on providing end users with complete system solutions. Axis is able to operate globally via subsidiaries, distributors and strategic partners.

Turnover

Group turnover during the quarter amounted to SEK 183.1 million (192.7), which is an increase of 13 per cent compared with the previous quarter. Exchange currency changes constitute 5 percent units of the increase. Accumulated over the six-month period May to October 2000, turnover amounted to SEK 345.3 million (361.5).

American and Asian sales continue to develop favourably compared with previous quarter. In Japan, we have gained a strong strategic partner in the form of Sony. European sales have been stable compared with the previous quarter as a result of Axis' efforts to strengthen our European presence. Major new distributors have been contracted, among them Ingram Micro and Azlan, and our Nordic distribution network has been expanded and strengthened through a partnership agreement with EET Nordic, which will distribute Axis' products in Norway, Denmark and Finland. However, the generally weak market for Internet-related consulting services in Sweden during the period has negatively affected Netch Technologies expected invoicing and order book.

Document Division

Turnover for the Document Division amounted to SEK 87.8 million (120.5) during the quarter. Accumulated over the six-month period May to October 2000, turnover amounted to SEK 173.1 million (218.5). In September 2000, Axis launched the first ever platform for mobile printing, based on *Bluetooth*. An initial delivery of an in-built solution for wireless printing will be made to a major Japanese partner in November.

Camera Division

Turnover for the Camera Division amounted to SEK 55.6 million (19.2) during the quarter. Accumulated over the six-month period May to October 2000, turnover amounted to SEK 96.6 million (36.8). Thanks to the strong sales growth (163 per cent), the rapidly growing Camera Division now accounts for 28 per cent of Axis' total turnover.

During November, Axis entered into a strategic partnership with Sony, and the two companies have jointly developed an advanced video server, SNT-V304 Video Network Station, which will be sold all over the world.

Storage Division

Turnover for the Storage Division amounted to SEK 18.6 million (39.1). Accumulated over the six-month period May to October 2000, turnover amounted to SEK 33.6 million (76.4). A strategic partnership has been initiated with the British company Fibrenetix. The partnership entails that Axis Store Point NAS 100 will be integrated with Fibrenetix' new server solution, which will be sold in large parts of Europe.

In order to increase profitability and to better utilize the strength within Axis' acquired competence, parts of Storage Division are trans-

ferred to Camera and Mobile Internet Divisions. The transferred recourses will focus on two areas that show rapid growth, Axis Digital Video Recorder and Axis Mobile Internet Server. The remaining Storage business is organized as part of Document Division. Thus, the amount of Axis' divisions will be reduced to four.

Mobile Internet Division

Turnover for the Mobile Internet Division amounted to SEK 0.5 million during the quarter. Accumulated over the six-month period May to October 2000, turnover amounted to SEK 0.6 million. Turnover relates to the sale of early prototypes since no products have yet been released onto the market. The Mobile Internet Division was set up in January 2000 with the aim of creating new infrastructure for wireless broadband services in local unlicensed mobile networks as a complement to licensed mobile systems such as GSM, GPRS and 3G.

Axis Access Point (Axis 9010) is one of the first products using *Bluetooth* Wireless Technology to have been approved for the Japanese market by Telec, the Japanese authority that approves radio products. In October, Axis 9010 was displayed at Asia's largest computer fair, World PC Expo in Tokyo, together with IBM and Sharp, which demonstrated Axis Access Point at their stands.

The commercial launch of Access Point (Axis 9010) starts during the first quarter of 2001, and constitutes an important part of the infrastructure solutions for mobile access networks that Axis plans to introduce during 2001.

Axis is currently undertaking discussions with a number of *Bluetooth* network operators, including Nomad, an airport operator in the USA to which Axis has supplied Access Point prototypes. Discussions are also being held with mobile and service operators, airports, hotels and shopping chains in Europe, USA and Asia.

Axis has invested a further USD 0.6 million in the American company nBand, which develops advanced circuit technology for wireless infrastructure. Ownership in nBand Technologies, Inc. has also been broadened since a global telecom company invested USD 2 million in the company. Following these transactions, Axis' shareholding in nBand amounts to 11.8 per cent.

Technology Division

Turnover for the Technology Division amounted to SEK 0.5 million during the quarter. Accumulated over the six-month period May to October 2000, turnover amounted to SEK 0.6 million. The Technology Division was set up in the first quarter of this financial year with the aim of further improving conditions for selling technology developed by Axis to interested external parties. At the beginning of November 2000, Axis presented a new platform for developers of in-built systems based on Linux. This solution is based on Axis ETRAX™ 100LX, a newly developed single chip system for various integrated applications. During October and November, Axis has entered into technology partnerships with Free2Move, Translogic and Trygghetsbolaget, whereby the platforms have been sold for use in industrial applications using *Bluetooth*, mobile positioning and in security alarms via broadband.

Netch Technologies

Sales for Netch Technologies amounted to SEK 17.1 million (12.4) during the quarter. Accumulated over the six-month period May to October 2000, turnover amounted to SEK 35.7 million (26.2). Axis has a 50 per cent shareholding in Netch Technologies. During the period, weak demand in relation to the expanded capacity during the year led to a weak earnings trend. In parallel with the programme currently underway to increase sales and profitability, the board of Netch Technologies has suggested to the shareholder's meeting to carry out a new share issue with preferential right to its current shareholders, at a maximum of SEK 63 million, in order to strengthen the company's capital base. It is estimated that this will boost Netch's competitive edge and profitability in 2001.

Earnings

During the quarter, the Group made an operating loss of SEK -50.6 million (profit of SEK 4.1 million), which is an improvement of SEK 9.5 million on the last quarter. Currency effects have negatively affected the operating loss with SEK -4 million compared with previous quarter. Accumulated over the six-month period May to October 2000, operating loss for the Group amounted to SEK -110.8 million (5.7). For the quarter, net loss for the Group after financial items amounted to SEK -53.4 million (2.4). Accumulated over the six-month period May to October 2000, the Group's net loss after financial items amounted to SEK -114.5 million (3.2). The operating result is improving according to plan. During the period, the number of employees in the Axis Group amounted to 509 on average.

Cash flow and financial position

The group's cash flow during the period amounted to SEK 137.4 million (0.9). Net investments during the period amounted to SEK 32.9 million. After the new share issue in connection with the quotation of Axis, the group's liquid net assets amount to SEK 149.9 million. Funds generated from the new share issue have been invested in interest-bearing securities with a KI rating.

Shareholders' equity

Following the new issue of 12 500 000 shares in connection with the quotation of Axis, the total number of shares on 31 October 2000 was 68 900 000. The new share issue, which was undertaken at SEK 38 per share, provided the company with SEK 445 million after deductions for issue costs. The equity/assets ratio on 31 October was 65.3 per cent.

Incentive program

On 30 August 2000, the annual general meeting approved the decision of the Axis board of directors to offer employees in the Axis group a total of 344.500 subscription warrants. A warrants issue and transfer to employees have been implemented during the period.

Financial targets

Axis' growth target for the next five years (the current financial year being the first year) is to increase sales by an average of 30 per cent per year, and to achieve a pre-tax margin of 10-15 per cent in three years' time. A further goal stipulated by Axis is that the equity/assets ratio should not normally fall below 50 per cent. The positive trend is expected to last the year out.

Financial year

At the annual general meeting held on 30 August 2000, it was resolved to change the company's financial year to coincide with the calendar year. The current financial year will be thus shortened to cover 1 May 2000 until 31 December 2000.

Next reporting date

The preliminary annual figures for the financial year 1 May 2000 to 31 December 2000 will be published on 12 February 2001.

Lund, 29 November 2000

The board of directors

We have reviewed this Interim Report and have thereby complied with the recommendation issued by FAR, the Swedish Institute of Authorised Public Accountants. Compared to an audit, a review is essentially limited. Nothing has, however, emerged which would indicate that the Interim Report does not comply with requirements of the Swedish Stock Exchange and the Annual Accounts Act.

Lund, 29 November 2000

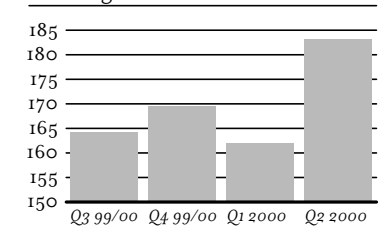
Öhrlings PricewaterhouseCoopers AB

Anders Lundin, *Certified Public Accountant*

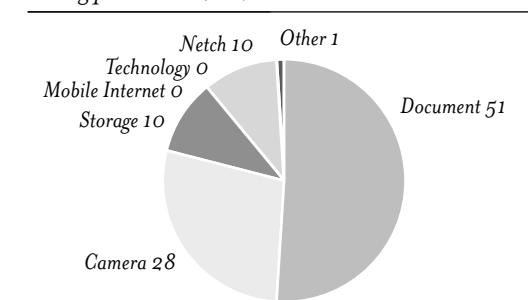
INVOICING PER REGION

SEK 000s	Q1 2000	Q2 2000	Q2 1999-00	MAY-OCT 2000	MAY-OCT 1999-00
EMEA	78 420	84 975	95 803	163 395	187 445
Americas	46 900	57 531	61 895	104 431	113 562
Asia	36 841	40 631	35 033	77 472	60 532
TOTAL	162 161	183 137	192 731	345 298	361 539

Invoicing, SEK 000



Selling per Division, %, MAY-OCTOBER 2000



INVOICING BY BUSINESS AREA

SEK 000s	Q1 2000	Q2 2000	Q2 1999-00	MAY-OCT 2000	MAY-OCT 1999-00
Document	85 325	87 793	120 514	173 118	218 476
- Of which OEM	24 912	21 826	24 283	46 738	32 364
Camera	41 002	55 628	19 151	96 630	36 758
Storage	14 983	18 583	39 132	33 566	76 424
Mobile Internet	134	515	—	649	—
Technology	128	463	—	591	—
Netch Technologies	18 577	17 117	12 385	35 694	26 225
Other	2 012	3 038	1 549	5 110	3 656
TOTAL	162 161	183 137	192 731	345 298	361 539

EARNINGS TREND, PER QUARTER

SEK 000s	Q1 2000	Q2 2000	Q2 1999-00	MAY-OCT 2000	MAY-OCT 1999-00
Operating profit/loss	-60 152	-50 629	4 162	-110 781	5 735
Of which Netch	-14 897	-15 114	-3 065	-30 011	-2 465
Net profit/loss after Financial items	-61 073	-53 406	2 451	-114 479	3 153
Of which Netch	-15 205	-16 013	-3 209	-31 218	-2 747

Operating profit per quarter

