

Year-end report

Axis AB (publ) May to December 2000

Year characterized by extensive investments in development

- Total sales for the shortened fiscal year increased 3 percent to SEK 494 M, compared with the corresponding eight-month period in the preceding year.
- Sales for the final two months of the fiscal year amounted to SEK 148 M.
- Profits were reported in Axis' established business areas (Document, Storage, Camera & Technology) during the final two months of the fiscal year. Structural measures were implemented to create conditions for improved profitability.
- The operating loss for the entire shortened fiscal year amounted to SEK 165 M.
- Investments in the new Mobile Internet business area totaling SEK 67 M were charged against income.
- The 50-percent ownership share in Netch Technologies resulted in a loss of SEK 57 M, which was charged against income. Additional costs for rationalization measures will be charged against income during the first quarter of 2001.
- Liquid funds amounted to SEK 196 M.

Axis is one of the global leaders in network connectivity and a pioneer in the field of local mobile networks. In an emerging market of intelligent networks with an increasingly greater need to connect various electronic devices, Axis has achieved an attractive strategic position through a well implemented technology and marketing investment program. It is clear that the Internet is a driving force for growth, particularly for digital network cameras. Axis' vision is to increase the value of the network for users by enabling access to everything, from anywhere, any time.

On June 27, 2000, Axis was listed on the OM Stockholm Exchange's O-list. The objective for the exchange listing was to provide Axis with the financial strength required for continued expansion both geographically and into new product areas and for acquisitions of companies and/or technology. The new share issue implemented in conjunction with the exchange listing generated SEK 446 M. This increase in equity gives Axis significantly greater freedom for developing basic technology and implementing product offerings. During the year 2000, Axis established the Mobile Internet division, took a clear position as a supplier of total solutions for local mobile networks and also generated the first earnings in this business area.

Significant events during the year

New products and solutions

During the period from May to December 2000, Axis invested SEK 67 M in the development of the new product area Mobile Internet. The Group's total costs for research and development amounted to SEK 133 M. These investments are part of Axis' fourth and thus far most extensive renewal and development phase, which began in 1998. Development work is being conducted in accordance with the company's basic vision for network connectivity for all types of devices and communication regardless of the underlying network structure or protocol. When the fourth phase is completed during 2001, Axis will have implemented major investments in development that include a new technical platform based on Linux, integration of unlicensed radio technology and the implementation of total solutions for local mobile networks.

In December 2000, Axis demonstrated its infrastructure for mobile access networks in San José, Hong Kong and Stockholm. In addition, a large number of new products were launched, including AXIS 2120, which is a new network camera with built-in motion detection and high image sensitivity.

Strategic partnerships

As a result of Axis' aggressive investments, a number of strategic partnerships were formed. The partnership with Canon, for example, was strengthened during the period with the result that Axis became one of Canon's largest global suppliers of network solutions. In November, the Camera division began a partnership with Sony for joint development of a video server. Successful efforts were also conducted during the period to secure additional strong distribution channels for Axis with the objective of strengthening the company's European presence.

Structural changes

Several structural changes were implemented during the period to promote stronger sales growth, increase profitability and generate positive cash flow. These include integrating CD- and hard-disk servers from the former Storage division in the Document division. Two new customer-focused units were also created in this division, one with focus on core operations relating to printing and storage solutions and one targeting the OEM market, thus better leveraging Axis' strong position as a supplier of network solutions to a number of leading printer and copier manufacturers. These changes will result in reduced costs and more efficient utilization of marketing resources and sales channels. Axis is also increasing opportunities for growth by moving away from a product-oriented organization toward a greater market orientation.

New Board member

In conjunction with the Annual General Meeting on August 30, 2000, Dr. Östen Mäkitalo was elected as a member of the Board of Directors,

thus further confirming Axis' ambitions in the areas of wireless communications and Mobile Internet.

Rationalization program within Netch Technologies

Growth in Netch Technologies AB (Netch) was negatively affected by a weakening in the market for Internet-related services combined with new investments in the area of mobile services. This resulted in an operating loss of SEK 57 M during the period. To strengthen the company's capital base, a new share issue totaling SEK 57.6 M was implemented per February 2001. Axis subscribed for SEK 36.6 M, resulting in an ownership share of 59 percent. In parallel with the new issue, a number of measures were taken with the objective of achieving profitability in 2001. The personnel have been reduced by approximately 50 percent, and Netch's office in Helsingborg is being closed. In addition, operations are being streamlined to focus on two core business areas: e-commerce and mobile solutions. Costs amounting to SEK 30 M for these rationalization measures will be charged against the income for Netch during the first quarter of 2001.

Changed fiscal year

At the Annual General Meeting on August 30, 2000, a decision was taken to change the fiscal year from the split year from May to April to a calendar year. The shortened fiscal year 2000 thus corresponds to eight months from May to December.

Sales

Sales during the eight-month period amounted to SEK 494 M, an increase of 3 percent, compared with the corresponding period during the preceding year. For the final two-month period from November to December 2000, a growth in sales was reported of 23 percent, compared with the year-earlier period. The results of Axis' third renewal phase, meaning the product areas that were started from 1995 to 1997 are becoming increasingly evident. Of total sales during the eight-month period, more than half (55 percent) derived from these product areas, and sales of Camera products nearly tripled (+184 percent). Exchange-rate effects had a positive effect of SEK 32 M on sales.

The millennium shift had a general and significant impact on the entire IT industry. For Axis, this resulted in market changes in the more mature product segments within the Document and Storage business areas. A generally weaker market for these products replaced the unusually strong demand that prevailed during 1999. In addition, sharply declining hard disk prices reduced the competitiveness of Axis' CD-server products. The OEM market, however, was an exception with stable growth and a 33-percent sales increase during the period.

Operating loss

The Group's operating loss during the eight-month period amounted to SEK 165 M, of which R&D costs amounted to SEK 133 M. During the final two months of the fiscal year, profitability was achieved in Axis' operations relating to ThinServer products, which include the Document, Storage, Camera and Technology business areas. Structural measures in this area create conditions for continued improvements in profitability. Exchange-rate effects had a positive effect of SEK 6 M on operating results.

The loss for the fiscal year includes costs for investments in technical and business development in both established product areas and the new product area Mobile Internet of SEK 67 M, as well as the loss for Netch of SEK 57 M.

Cash flow and financial position

Cash flow from ongoing operations was negative in an amount of SEK 114 M for the eight-month period. Net investments amounted to SEK

38 M, in addition to investments charged directly within the Mobile Internet business area in the amount of SEK 67 M. Axis had at its disposal SEK 281 M on December 31, 2000, consisting of cash funds totaling SEK 196 M and unutilized credit guarantees of SEK 85 M. The company is thus financially strong as it enters fiscal year 2001. Changes in liquid funds during the fiscal year are shown in the table below.

Equity

After the new issue of 12,500,000 shares in conjunction with the exchange listing, the total number of Axis shares amounted to 68,900,000 on December 31, 2000. After full subscription of outstanding warrants, the total number of shares is 70,942,500. The new issue, which was priced at SEK 38, yielded SEK 446 M after all costs for the share issue. The Group's equity/assets ratio was 62.5 percent in December 31, 2000.

Investments

Axis invested an additional SEK 20 M in the US company nBand Communications Inc., which develops advanced circuitry for wireless infrastructure. Axis' ownership share amounts to 11 percent.

Parent Company

The Parent Company's operations are primarily focused on Group administration. The Parent Company has no employees. Sales amounted to SEK 2 M. The operating loss amounted to SEK 141 M before tax.

Prospects for 2001

After an intensive development phase during the year 2000, the pace of development will be normalized during 2001, and Axis will enter a phase with a focus on profitability during the year. The market for wireless local networks will be significant, according to several international industry analysts. However, it is difficult at present to specify when and at what pace the market will expand. Axis' position entering the year 2001 is strong with continued potential in the Camera product area. Opportunities for profitability are increasing in the core operations relating to printing and storage solutions and in the OEM segment through the creation of two customer-focused units. The long-term financial goals, as established in conjunction with the exchange listing, remain unchanged.

Events after the closing date

In January 2001, Axis signed an agreement with Canon's sales company in Japan for three different *Bluetooth*™ products, including the AXIS 9010 access point and a print server. The initial order value is about SEK 4 M, making it the first volume order in Axis' new business area. The first deliveries are expected to take place in April 2001.

Dividend

The Board of Directors proposes that the company should pay no dividend for the fiscal year 2000.

Annual General Meeting

The Annual General Meeting will be held on May 23, 2001.

Lund, February 12, 2001

Board of Directors

BLUETOOTH is a registered trademark owned by Telefon AB LM Ericsson and licensed to Axis Communications.

Sales by region

SEK 000s				1999	
	May–July	Aug.–Oct.	Nov.–Dec.	2000 8 months	8 months pro forma
EMEA (Europe, Middle East, Africa)	78,420	84,975	87,340	250,735	264,988
Americas (North, South, Central)	46,900	57,531	29,826	134,257	136,797
Asia	36,841	40,631	31,187	108,659	79,363
TOTAL	162,161	183,137	148,353	493,651	481,148

Sales by business area

SEK 000s				1999	
	May–July	Aug.–Oct.	Nov.–Dec.	2000 8 months	8 months pro forma
Document	85,325	87,793	68,367	241,485	290,917
of which OEM	24,912	21,826	23,799	70,537	53,074
Camera	41,002	55,628	40,282	136,912	48,163
Storage	14,983	18,583	14,443	48,009	98,512
Technology	128	463	1,043	1,634	–
Other	2,012	3,038	16,547	21,597	6,163
(ThinServer products, total)	143,450	165,505	140,682	449,637	443,755
Mobile Internet	134	515	521	1,170	–
Netch	18,577	17,117	7,150	42,844	37,393
TOTAL	162,161	183,137	148,353	493,651	481,148

Growth by business area*

	2000			
	May–July	Aug.–Oct.	Nov.–Dec.	8 months
Document	–12.9%	–27.2%	–5.6%	–17.0%
of which OEM	208.3%	–10.1%	14.9%	32.9%
Camera	132.9%	190.5%	253.2%	184.3%
Storage	–59.8%	–52.5%	–34.6%	–51.3%
Technology	–	–	–	–
Other	–4.5%	96.1%	560.0%	250.4%
(ThinServer products, total)	–7.4%	–8.2%	29.7%	1.3%
Mobile Internet	–	–	–	–
Netch	34.2%	38.2%	–36.0%	14.6%
TOTAL	–3.9%	–5.0%	24.0%	2.6%

*In relation to the corresponding period in the preceding year.

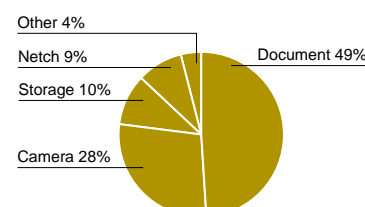
Operating profit/loss

SEK 000s	2000			
	May–July	Aug.–Oct.	Nov.–Dec.	8 months
(ThinServer products)	–12,135	–5,760	6,370	–11,525
	–8.5%	–3.5%	4.5%	–2.6%
Mobile Internet	–21,365	–20,429	–25,541	–67,335
Groupwide costs	–11,755	–9,326	–8,207	–29,288
Operating loss Axis, excl. Netch	–45,255	–35,515	–27,378	–108,148
	–31.5%	–21.4%	–19.4%	–24.0%
Operating loss, Netch	–14,897	–15,114	–16,966	–46,977
Netch non-recurring costs			–9,900	–9,900
TOTAL	–60,152	–50,629	–54,244	–165,025

Change in liquid funds

SEK 000s	May–Dec.
Liquid funds on opening date	12,419
New share issue	445,520
Amortization of loans	–111,459
Cash flow from operations, including Netch	–113,993
Investment in nBand Communications	–20,005
Other investments in tangible and intangible assets	–18,460
Other	1,971
Liquid funds on closing date	195,993

Sales by business area



Income statement	1999		2000		1999/2000	1998/1999
	2000	8 months	12 months	12 months		
SEK 000s	8 months	pro forma	pro forma	1999/2000	1998/1999	
Net sales	493,651	481,148	707,686	695,183	559,789	
of which Netch	42,844	37,393	66,154	60,703		–
Cost of goods and services sold	–283,356	–208,864	–397,921	–323,429	–238,835	
Gross profit	210,295	272,284	309,765	371,754	320,954	
of which Netch	–18,109	15,257	–10,258	23,108		–
Sales costs	–186,648	–150,178	–275,699	–239,229	–184,212	
Administrative costs	–53,483	–32,893	–83,402	–62,812	–36,950	
Research and development costs	–133,065	–92,352	–185,298	–144,585	–93,657	
Other operating expenses	–2,139	–4,579	–4,918	–7,358	–1,163	
Shares in associated companies before tax	15	–	15	–	2,115	
Operating profit/loss	–165,025	–7,718	–239,537	–82,230	7,087	
of which Netch	–56,877	–5,351	–63,060	–11,534		–
Net financial items	–5,710	–5,689	19,880	19,901	–6,273	
Profit/loss after financial items	–170,735	–13,407	–219,657	–62,329	814	
of which Netch	–58,638	–5,713	–65,334	–12,409		–
Tax on profit/loss for the period 35,790				18,942	–2,859	
Minority share in loss for the period	27,091			–8,281		
Loss for the year	–107,854			–51,668	–2,045	

Balance sheet

SEK 000s	Dec., 31, 2000	April 30, 2000	April 30, 1999
Fixed assets	160,119	91,124	37,218
Inventories	60,119	69,887	77,587
Receivables from customers	137,960	131,996	102,277
Other receivables	73,247	34,522	31,427
Liquid funds	195,993	12,419	–
Total	627,438	339,948	248,509
Equity	379,739	27,140	85,010
Minority interest	12,125	9,905	–
Provisions	15,175	12,253	11,342
Long-term liabilities	51,363	162,822	79,713
Current liabilities	169,036	127,828	72,444
Total	627,438	339,948	248,509

The accounting principles are unchanged, compared with the preceding year, with the exception of reporting of income tax for which recommendation 9 of the Swedish Financial Accounting Standards Council was applied. Figures for the preceding year were adjusted accordingly.

Forthcoming reporting dates

Three-month report	April 20, 2001
Six-month report	August 20, 2001
Nine-month report	October 18, 2001

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The Annual Report for 2000 will be published at www.axis.com/corporate/investor/

Cash flow analysis

SEK 000s	2000		1998/1999
	8 months	1999/2000	
Cash flow from ongoing operations before change in operating capital	–107,706	–79,978	5,932
Change in operating capital	–6,287	30,270	–14,493
Cash flow from ongoing operations	–113,993	–49,708	–8,561
Cash flow from investment operations	–38,465	–15,232	–12,985
Cash flow from financing operations	336,032	77,827	10,875
Cash flow for the period	183,574	12,887	–10,671
Liquid funds on the opening date	12,419	–468	10,203
Liquid funds on the closing date	195,993	12,419	–468

Key ratios

	2000		1998/1999
	8 months	1999/2000	
Net sales growth (%)	2.6	24.2	7.3
Gross margin (%)	42.6	53.5	57.3
Operating margin (%)	neg	neg	1.3
Profit margin (%)	neg	neg	0.1
Equity (SEK M)	380	27	85
Capital employed (SEK M)	447	200	165
Interest-bearing liabilities (SEK M)	51	163	80
Net interest-bearing liabilities (SEK M)	–145	150	80
Total assets (SEK M)	627	340	249
Return on capital employed (%)	neg	neg	5.3
Return on total equity (%)	neg	neg	3.4
Return on shareholders' equity (%)	neg	neg	neg
Interest coverage ratio (multiple)	neg	neg	1.1
Net debt/equity ratio (multiple)	neg	5.6	0.9
Equity/assets ratio (%)	62.5	10.9	34.2
Share of risk-bearing capital (%)	64.9	14.5	38.8
Capital turnover multiple	2.3	3.8	3.5
Number of employees (average for the period)	540	445	313
Sales per employee (SEK M)	0.9	1.6	1.8
Earnings per employee (SEK M)	neg	neg	0.0

Per-share data

	2000	
	8 months	
Share price on closing date (SEK)		17.50
Earnings per share (SEK)		–3.89
Dividend (SEK)		–
P/E ratio		neg
Number of shares outstanding		68,900,000