



Axis AB
Annual Report 2003

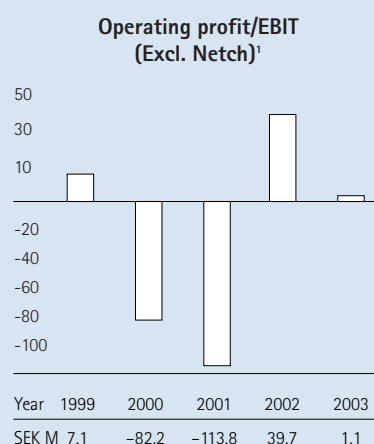
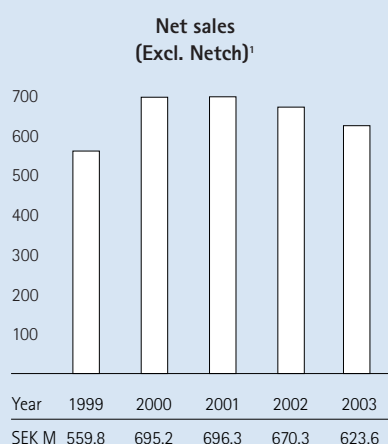


CONTENTS

3	The year in brief
4	This is Axis
6	President's message
8	Business concept, goals and strategy
10	Products & System Solutions
14	Platforms & Customized Products
15	Research & Development
16	Global Axis
18	Human resources
19	Environmental policy
20	Opportunities and risks
22	The Axis share
24	Board of Directors' report
27	Income statements
28	Balance sheets
30	Cash-flow statements
31	Notes
38	Auditors' report
39	Eight-year review
40	Key ratios
40	Definitions
41	Quarterly data
42	Senior executives
43	Board of Directors and Auditors
44	Board of Directors' working procedures
45	Glossary
45	Invitation to Annual General Meeting
46	Addresses

The year in brief

- **Video product area increasingly strong** with growth of 18 percent despite negative currency effects.
- **Net sales declined** by SEK 46 M to SEK 624 M. Currency effects impacted sales negatively by SEK 71 M.
- **Operating profit of SEK 1 M (40)**. Profit for the year was affected by restrained gross margins as a result of currency trends and some decline in prices.
- **Aggressive investments in technology and product development.** In addition to several successful product launches, the technical platform for Axis' new generation of video products was completed. These products will be launched successively during 2004.
- **Strategic acquisition of software company.** With the purchase of Attento, Axis' investment in software applications was strengthened, thus enabling the company to offer complete solutions for surveillance systems.



¹ Axis implemented a restructuring process during the second quarter of 2001, including divestment of the 59-percent holding in Netch Technologies.

FINANCIAL INFORMATION 2004

Three-month report	April 15, 2004
Annual General Meeting	May 13, 2004
Six-month report	July 9, 2004
Nine-month report	October 15, 2004
Year-end report for 2004	February 2005
Annual Report 2004	March 2005

Axis' financial information in Swedish and English is available on the Axis Web site www.axis.com/corporate/investor/.

Reports may also be ordered from Axis AB, Emdalavägen 14, SE-223 69 Lund, Sweden tel +46-46 27218 00, fax +46-46 13 61 30, e-mail ir@axis.com

Key data

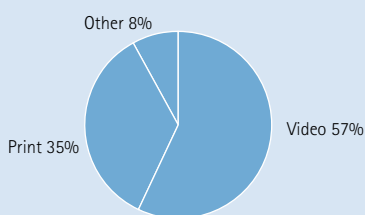
SEK M	2003	2002
Group		
Net sales	623.6	670.3
Operating profit	1.1	39.7
Earnings after net financial items	8.3	51.4
Liquid funds at end of period	103.0	130.0

This is 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's O-list. Axis operates globally with offices in 14 countries and in cooperation with distributors, systems integrators and OEM partners in 70 countries. Markets outside Sweden account for more than 95 percent of sales.

MARKET CHANNELS

Sales by product area



PRODUCTS & SYSTEM SOLUTIONS

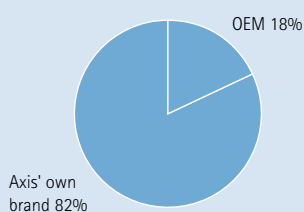
Products & System Solutions includes Axis' sales under its own brand. Axis focuses primarily on two product areas, Video and Print.

Video. Network cameras and video servers in systems that are primarily used for security surveillance and remote monitoring applications.

Print. Print servers for flexible print management.

Other. Scan, Store & Access – Solutions for efficient document management and data storage plus access points for wireless connection to local networks.

OEM – Proportion of sales



PLATFORMS & CUSTOMIZED PRODUCTS

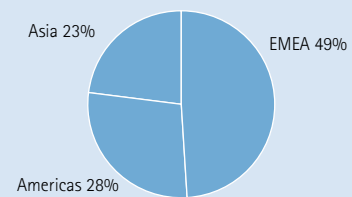
Platforms & Customized Products includes custom-tailored products that are sold under other brands through OEM licensing, as well as hardware and development platforms that are sold directly to third-party developers. OEM customers are primarily large, global manufacturers of printers/copiers and video products.



MARKETS AND SALES

Axis operates globally, with sales in more than 70 countries. The company's 14 subsidiaries conduct marketing work and have customer responsibility. Products and solutions reach the end customers through a well-developed network of distributors, OEM partners, systems integrators and resellers. The geographic distribution of sales between Asia, the Americas and EMEA contributes to an effective spread of risks.

Invoicing by regions



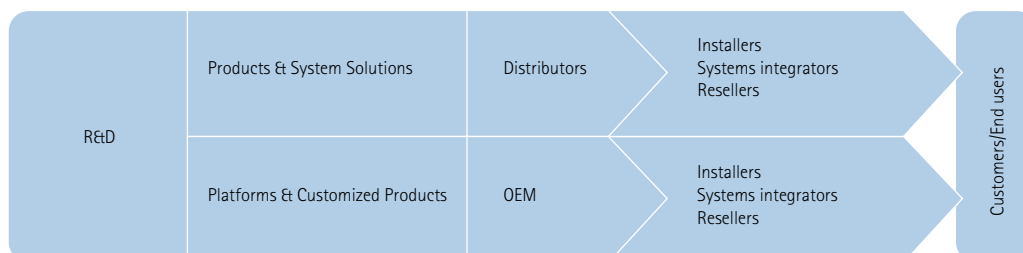
CUSTOMER SEGMENTS

Axis prioritizes six main customer segments for its own branded products.

Education. Universities, schools, educational institutions, etc.	Bank & Finance. Banks, post office, insurance companies, etc.	Retail. Stores, gas stations, superstores, etc.	Transportation. Airports, railways, ports, traffic monitoring, waterways, toll booths, etc.	Government. Government authorities, police, military, medical services, prisons, museums, casinos, etc.	Industrial. Process industries, engineering and construction, pharmaceutical companies, energy and mining companies, etc.
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LEADING TECHNOLOGY

Since Axis was founded in 1984, the company's solutions have been based on proprietary hardware and software that enable the company to offer leading products at attractive prices. At the core of Axis' products is ETRAX, a chip for network connectivity. In addition, Axis has developed ARTPEC, a chip for network cameras and video servers. Combined with Axis' software, these chips create a common technology platform.



Continued video growth despite currency effects

The very positive trend for Axis' largest product area, Video, continues. Despite negative currency effects, network video solutions showed a sales growth of 18 percent for the full year. A weaker U.S. dollar and a restrained IT market, however, affected consolidated sales and earnings during 2003.

As the newly appointed president of Axis, it is naturally a disappointment to note that operating profit for the year amounted to a modest SEK 1 M.

The drastic weakening in the U.S. dollar had a significantly greater impact on sales growth than we had anticipated at the beginning of the year. This, together with the global uncertainty and a restrained IT market, made increases in both sales and profit margins impossible. Sales, which amounted to SEK 624 M, declined by 7 percent, compared with the preceding year.

The gross margin, which amounted to 51.6 percent, was affected during the year by reduced revenues from customer-specific development projects, but also to some extent by declining prices in certain products and markets.

The balance sheet remains strong with an equity/assets ratio of 69 percent and liquid funds totaling SEK 103 M.

FOCUS ON PROFITABILITY

As in the preceding year, there was a strong focus on profitability. To offset the continued weak investment climate in the IT market and ensure stable and positive development for Axis over the long term, a number of cost-saving measures were implemented during the year. These included personnel reductions in the

Swedish organization. The savings effect of these measures amounts to approximately SEK 15 M annually and takes full effect from January 2004.

At the same time, it is pleasing to note that the year was characterized by several positive signals. The company can report a continued highly positive trend for network video solutions, which despite a weak market climate and negative currency effects, showed sales growth of 18 percent for the full year. The growth, measured in local currencies, was more than 30 percent in both EMEA and the U.S. This is a trend that strengthens our conviction that the growth potential in the Video product area remains significant.

Several factors also confirm a clear breakthrough for the technology shift from analog to network-based surveillance solutions. Apart from a steadily increasing interest in security and surveillance, we were able to note increased activity in all customer segments with several significant orders as a result. At the same time, several global IT players, such as IBM, Cisco and Ingram Micro, announced that they would intensify their efforts in IP-based video solutions. Further proof of the shift in technology is the increasing competition that has emerged in keeping with the growth during the year. Several of the major players in traditional analog CCTV* now have network-based products in their portfolio.

NUMEROUS PRODUCT LAUNCHES

Axis has therefore, continued its aggressive investments in technology and product development during the period. This has resulted in several successful product launches, as well as the completion of the ARTPEC-2 technology platform for the new generation of video products to be introduced in 2004.

In December, we also strengthened our development efforts in software applications through the acquisition of Attento. This was a strategically important

*Closed Circuit Television



step in ensuring that our products will continue to be competitive components in total solutions. It also provides Axis with a better opportunity to supply our Application Development Partners (ADPs) with components that further simplify integration with Axis' products.

The development of sales channels also proceeded according to plan. This resulted in a large number of new reseller and systems integration partners in both the IT and security sectors. In addition, new strategic distribution agreements were signed with such partners as Anixter.

Our strategic focus remains firm going into 2004. Axis is active in a dynamic growth market with its network video solutions, as well as in a more mature market for print and document management products. Our product and market activities will continue to prioritize the fast-growing video product area with a renewal of the product portfolio during 2004. The new generation of Axis video products offers better performance and enhanced functionalities. Examples of higher performance are superior image quality, high quality video streams and the ability to handle large volumes of data. An example of a new functionality is MPEG-4. Our overall ambition is to strengthen Axis' position as the market leader in network video solutions, while continuing to defend our position as the second-largest player in the market for print servers. We will also continue to leverage the company's core competence in networked solutions for OEM and technology customers in the area that we call Platforms & Customized Products.

FUTURE OUTLOOK

Although the economic trend remains difficult to predict, we have a positive outlook for Axis. During the year, players in the security market began in earnest to make the transition from analog to digital video solutions. With our strong market position and the extensive renewal of the product portfolio that Axis is now initiating, the growth potential in this product area is very good. At the same time, we must naturally remain aware of the increasing competition that is emerging in keeping with the shift in technology. However, we cannot expect the same growth opportunities in print servers, which is a significantly more mature product area. In addition, some uncertainty continues to prevail as to whether the investment climate in the IT market will really improve during 2004.

Given our leading technology, strong market position, clearly focused strategy and stable financial base, I am optimistic. All the prerequisites are in place to achieve profitable growth during 2004.

The past year presented many challenges, and I would like to close by thanking all Axis employees for their excellent efforts during 2003.

Lund, February 2004

Ray Mauritsson



Business concept, goals and strategy

BUSINESS CONCEPT

Axis' business concept is to offer the market intelligent network products and solutions. The company is focused on two main areas: network video and print servers. Axis' in-house developed products are primarily used in applications for security surveillance, remote monitoring and document management. These solutions aim to provide maximum customer value through less administration, reduced costs and expanded areas of application.

OVERALL GOALS

Axis' overall goal is to maintain satisfactory profitability while further strengthening and enhancing its position as the market-leading supplier of IP-based solutions in the Video product area and to retain the corresponding position within the Print product area. By so doing, long-term growth in value is also created for shareholders.

FINANCIAL GOALS

Axis' long-term goals are to achieve the following no later than 2005:

- Annual sales growth of 30 percent. This goal was established based on the long-term growth trend for digital video solutions in combination with Axis' leading position in this segment, as well as a stable trend within print servers. As a comparison, Axis' video sales increased by 50 percent between 2001 and 2003.
- A profit margin before tax of 10 to 15 percent. The profit target was established on the bases of an anticipated improvement in the gross margin resulting from the potential of Axis' new product generation in Video and that the video offering can be supplemented by a broader range of proprietary applications that result in a higher degree of refinement.

- An equity/assets ratio of at least 50 percent. This goal was established on the basis of the anticipated growth and the financial resources that may be required during the period.

STRATEGY

Technology and products

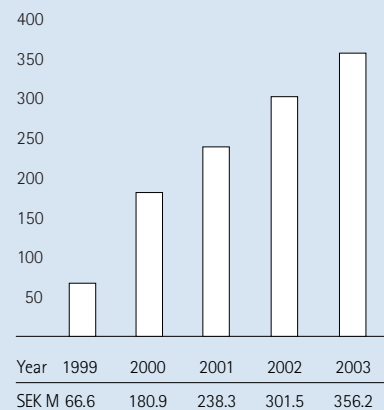
- Continuously developing, strengthening and broadening the company's offering. During 2004, virtually the entire product portfolio in Video will be renewed. The new generation of video products offers higher performance and enhanced functionalities. At the same time, the video offering will be supplemented with proprietary software, thus enabling Axis to offer customers complete, scalable and flexible solutions for security surveillance and remote monitoring applications. Part of the implementation of this strategy was the acquisition of the Danish software company Attento in December 2003.
- Further refine the portfolio and increase the number of solutions within each customer segment through greater knowledge of customer requirements.
- Retain a technologically leading position by continuing to increase knowledge in the areas of network and video technology and new intelligent network products and solutions that contribute to future growth. Over the coming years, additional software, integrated chips, products and total solutions will be introduced to create future sales under the Axis brand, to OEM partners and to third-party developers.



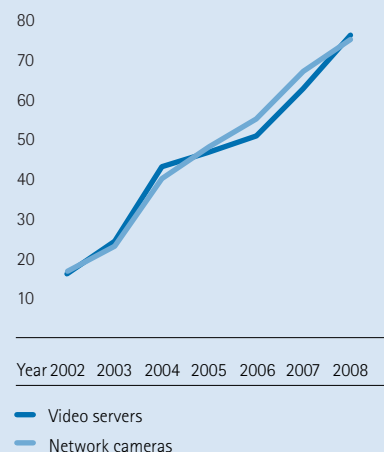
Market and sales

- Continue the strong investments in marketing and market education that have been started while strengthening market presence through additional contracts with strategic partners. Axis products and solutions reach end users through a global network of distributors, resellers and systems integrators.
- Continue to develop the vertical market focus that was initiated in 2003 by actively working up six prioritized customer segments.
- Retain the market position with respect to print servers through increased efforts in sales and marketing together with existing sales partners.
- Continue to expand partnerships with new OEM partners who require solutions for networked video products while continuing to focus on existing partners.
- Supplementing organic developments with acquisitions as necessary. The objective should be to strengthen Axis both in terms of products and markets, as well as geographically, particularly in the Video product area.

Axis Video sales trend



IMS Research's growth forecast for network cameras and video servers (EMEA)



Sales in EUR M at manufacturing level, according to IMS Research's report titled "The EMEA market for CCTV and Video Surveillance Equipment."



Australian wine merchant saves 250,000 dollars

The leading wine and spirits merchant in Queensland, Australia is the Grape Group. When the company was looking for a solution to reduce losses in stores, one requirement was that the surveillance system should be easy to operate for wine enthusiasts who were not technically skilled. It also had to be possible to administer the system locally in each store and from the head office in Fortitude Valley. Axis was selected, and nearly 80 network cameras were installed in 30 stores. The company already knew that most thefts occurred when staff were fully occupied. The monitors were

therefore installed by the cash register so that employees could see if anyone tried to pilfer a bottle. In addition, thieves who try to break into the store at night and disable the video system were also outwitted. One camera in each store is connected via broadband to the head office and continues to function. Since the system was installed, loss has been reduced by AUD 250,000 on an annual basis. The system also allows better inventory control, since images from the cameras can be compared with cash reports.

Products & System Solutions

Axis' sales of products under its own brand accounts for 82 percent of total sales. The fastest growing product area is Video, which during 2003 accounted for 57 percent of sales.

Video

The market for network video solutions continued to develop very rapidly. During 2003, the Video product area increased the installed base by nearly 50 percent to about 300,000 units. A new generation of network cameras and video servers is expected to result in a continued favorable growth during 2004 and should further strengthen Axis' position as the world's leading supplier in this product area.

Since 1996, when Axis launched the first network camera that could be connected to a data network, the company has been the market leader in network video solutions. Axis currently offers a broad range of network cameras and video servers for a large number of applications, of which the most prominent are systems for security surveillance, remote monitoring and broadcasting.

Network video offers users new possibilities and increased flexibility. One advantage is that security and surveillance equipment can use existing network infrastructure, which simplifies the applications and reduces costs for both installation and operation.

Unlike analog CCTV (Closed Circuit Television), network cameras do not require their own infrastructure in the form of separate cabling and special monitoring stations. Network cameras are connected directly to IP networks and provide fast and easy access to video in real time, regardless of where in the world the user is located.

Axis video servers digitize images from analog cameras, thus making it possible to transfer images and sound over an IP network. Video servers offer a cost-efficient bridge to existing CCTV systems where the analog information is digitized and can be processed in the same manner as information from digital network cameras.

CUSTOMER BENEFITS WITH NETWORK VIDEO

- Lower installation cost.
- Easier to store and distribute images.
- Image processing and analysis are easier.
- Accessible over the Internet and wireless networks.
- Lower operational costs and ease of use.

THE YEAR IN BRIEF

During 2003, Axis signed several strategic contracts with such partners as Lenel and Anixter that constitute a clear recognition of Axis' technology, as well as the increased importance of IP-based video solutions for security surveillance and remote monitoring. A large number of orders were received in all customer segments, ranging from the school segment in the U.S. to industrial monitoring in Asia.



Better protection against car break-ins with images on hard disk

Vandalism and theft are an increasingly serious problem in parking lots. Owners of parking facilities are therefore investing greater sums in surveillance. In December 2002, a digital system based on Axis network solutions was implemented by the German company Ruhr-Park Parkhausbetriebsgesellschaft in Essen. The system uses the existing data network and is easy to use. Costs can therefore be kept down. Images from entrances and exits, payment stations, fences and other locations on the facility are recorded and simultaneously displayed

on a number of monitors in a monitoring center. In these respects, the system is no different from older analog systems. However, the IP-based system, which was developed by DSS, Datensicherheit & Service, has many more advantages than an analog system can deliver.

Images can be stored on a hard disk and quickly retrieved for analysis. Alarms can be sent by e-mail, SMS and even via MMS, the new standard for images being used in modern mobile phones with a built-in camera.

Axis also strengthened and broadened its offering with a number of new products during 2003. The product that generated the greatest interest internationally was the AXIS 205, the world's smallest network camera, which was launched during the autumn. This product primarily targets small and medium-sized companies, as well as demanding home users.

Three months after the launch, the new camera had already exceeded sales expectations by a wide margin and also received several international awards. Axis also introduced its most advanced camera to date, the AXIS 230, an MPEG-2 camera that offers advanced functionality including DVD-quality video (30 frames per second on NTSC or 25 frames per second on PAL) and synchronized sound over an IP network. In addition, AXIS 230 can operate with both day light and infrared light, which means that it can also be used at night.

Axis' software offerings were strengthened through the strategically important acquisition of the Danish software company Attento in December. Axis thus supplements its video offering and is able to provide complete, scalable and flexible solutions for security surveillance and remote monitoring.

PARTNER PROGRAM STRENGTHENS AXIS

An important component in Axis' continued expansion of its product range and its focus on the professional market is the successful ADP (Application Development Partner) program. This is an initiative that ties external product developers closer to Axis while ensuring a broad range of applications for the company's products.

In addition, the ADP program broadens Axis' presence in both new market segments and new language areas. Currently the program comprises just over 140 companies in 29 countries and includes such key players as Honeywell, Lenel, Nice and ABB.

MARKET TRENDS

Axis is the leader in a market that is undergoing a transition from analog systems to IP-based video systems. This creates opportunities for new solutions in the security sector, but also opens the door to completely new application areas. Surveillance has primarily been associated with security applications but will increasingly be used in other applications in such customer segments as Industry and Retail.

An important driving force in the sale of Axis solutions is that IT and security departments are rapidly being integrated with each other in many companies. This is an advantage for Axis, since IT departments already have in-depth knowledge of IP networks.

In keeping with the increase in the number of IP-based solutions, competition has become tougher. All major manufacturers of analog surveillance cameras have begun producing network video products. These include Panasonic, Sony, Sanyo and Pelco. In addition, a number of local suppliers, primarily in Asia, have begun to develop and market network cameras and video servers.

Axis is currently competing successfully against both large and small competitors. The company has built up extensive expertise in both R&D and sales, which provides synergies with respect to availability and service. Axis can also offer the market's broadest product range in combination with extensive experience and established technology.

Axis prioritizes the professional segment where the demand for sophisticated systems is growing rapidly. At the same time, the company has developed a very competitive alternative in the entry-level market with the launch of the AXIS 205 Network Camera.

Network cameras increase security and lower costs

Increased security in schools is high on the wish list of many American parents. Security costs money, however, and Canton High School in Mississippi therefore sought a solution that would not exhaust the school's budget. The final choice was a system from Camera WATCH, which installed 24 cameras that were linked to the Internet via Axis video servers. Fights and crime were quickly eliminated when the system was installed. The Internet connection meant that the principal,

teachers and security personnel could see what was happening from any Internet-connected PC, both in and outside the school. If something serious occurred, school personnel could send images via e-mail to the police so that they would know who to look for.

A positive side effect is that the school's costs for security are now lower than previously, since security personnel are not needed around the clock, thus reducing salary costs.



FAST-GROWING MARKET

Internet-based solutions still account for less than five percent of the total sales of surveillance systems. This means that the replacement market for analog systems presents a very great potential for Axis products. The CCTV market is estimated at about USD five billion annually.

Over the past two years, the move toward network cameras has been relatively rapid, and the trend is expected to continue. The market for digital monitoring systems is expected to grow by about 15 percent annually at a global level through 2007, according to security analyst JP Freeman in a 2002 report. In 2001, Frost & Sullivan valued the global market for network cameras and video servers at USD 791 M in 2005.

SURVEYS CONFIRM AXIS' POSITION

In a 2003 report titled "The EMEA market for CCTV and video surveillance equipment," IMS Research predicted continued strong growth for IP-based network video products in the region. The average market growth over the coming five years is expected to amount to 28.4 percent for network cameras and 30.3 percent for video servers. IMS Research estimated in the report that the EMEA market for network cameras and video servers would amount to EUR 151.1 M in 2008. Axis is positioned as the undisputed market leader in network video products in the region. The survey shows that Axis has a market share of 59.8 percent for network cameras. In the video server segment, Axis is also the leader with a market share of 35.4 percent, which is far ahead of the nearest competitor.

Scan, Store & Access

In addition to Axis' two main product areas, Video and Print, systems for document management and wireless access are sold in the Scan, Store and Access product area.

Axis' document servers simplify the management of paper documents in a cost-efficient manner. By connecting a scanner and/or a digital copier to the network via a document server, it is very easy to digitize paper documents and forward them directly. With an Axis CD/DVD server, everyone in a workplace can retrieve information simultaneously from the same CD and DVD discs, regardless of whether they are working in a Windows, Macintosh or UNIX environment.

Axis' access points are based on the Bluetooth communication standard and allow users to connect wirelessly to the Internet and the local network.

MARKET TRENDS

Scan, Store & Access offers user-friendly and effective products that complement the larger Video and Print product areas and make it possible to deliver to those users who desire more extensive network solutions. As a result of continued weak demand and tough competition in both document management and access points, sales in this area declined during 2003.

More efficient printer administration at Föreningssparbanken

Printing problems are a major source of irritation in many companies. In several surveys, the Gartner Group has shown that computer problems in companies also result in substantial costs in the form of lost working time and lower productivity. Employees spend many working hours solving problems with computers and printers. The U.S. industry analyst calls these hidden IT costs.

When Föreningssparbanken decided to update large portions of its IT system, one of the most

important requirements was to obtain a uniform administration of printers so that it would be easier to identify any printing problems.

Föreningssparbanken chose print servers from Axis to obtain a uniform, future-proof and cost-effective solution. The goal was to create an IT environment with the highest possible customer value.



Print

Axis is one of the world's leading manufacturers of print servers, which enable the implementation of cost-efficient and user-friendly printing functions regardless of the network environment and printing equipment. With the market's largest range of external print servers, Axis can meet the demands of large companies and organizations, as well as small customers.

Print servers allow a printer to be shared by many users connected to a network. Axis servers are independent of printer model and manufacturer and can be accessed from many different computers, including PCs, Macs, UNIX and IBM mainframes. Integrated administrative tools allow IT administrators to monitor and control the printing system simply from a single computer using a standard Web browser.

THE YEAR IN BRIEF

Axis is the world's second largest brand in print servers, a position it has held for several years, and has an installed base of more than two million units worldwide.

The past year was characterized by a weak IT market and negative currency effects. Sales in the product area declined by 21 percent during the period.

Despite a restrained market, Axis consolidated its position as number two in the global print server market through a broader product offering and several important contracts.

During the year, five new print servers with a USB (Universal Serial Bus) connection were introduced, of which two are designed for IBM mainframes. USB enables peripherals to be easily connected to a computer.

MARKET TRENDS

The market for print servers is mature and thus more affected by business cycles than more pronounced growth markets. Against this background, Axis prioritizes investments in sales and marketing together with existing sales partners.

Although market trends in this product area are highly influenced by general trends in IT investments, there are other driving forces that favor the product area.

One of these is the transition to USB, which is expected to shape trends over time. This is a significant technology shift for external print servers since demanding requirements are placed on the market players' ability to change their product offering.

Axis adapted to this trend at an early stage and can offer a broad range of products with a USB interface. Another driving force is the trend towards wireless networks where Axis also has products at the forefront of development.

By strengthening its sales efforts through its extensive distribution network and leveraging its strength as a technology leader, Axis will be able to maintain its position and even to take market share in the print server market.



Platforms & Customized Products

In addition to products sold under its own brand, Axis' technology is used in a large number of contexts by other players.

OEM sales account for the major share of Axis' technology sales. Customers are global manufacturers of printers and copiers, as well as companies that develop video products. Customers include such major players as Canon, Sony, Toshiba and Konica Minolta. Axis currently supplies customized network solutions to these customers. The major share of sales consists of printer solutions, although video solutions account for a growing share of OEM sales.

Central to the OEM offering is the proprietary chip ETRAX, which together with Axis' software, makes it possible to develop networked applications quickly and cost-efficiently.

In addition to OEM licensing, Axis sells hardware and development platforms to third-party developers, who create proprietary solutions based on Axis' technology. Axis' development platforms are very flexible, which makes them attractive for a broad market. There is currently a need for networked solutions in most industries, and Axis' technology is therefore offered to a large number of third-party developers. Volume sales to this group, as with OEM licenses, are often preceded by a long design and development phase

THE YEAR IN BRIEF

During 2003, Axis further strengthened its position as the internationally leading OEM supplier of customized solutions in Video and Print, and as a supplier of network technology to third-party developers. Several existing partnerships were expanded and new ones established. Several volume orders were signed with third-party developers.

A partnership was also established with PI Vision in the U.K. This company is the world leader in large video systems for the security industry. PI Vision's Universal Video Management System can be fitted to include 5,000 video channels and can be used with

variants of the AXIS 2400+ and AXIS 250S video servers for both video and audio.

An OEM contract for Axis' video server technology was signed with the Chinese manufacturer YAAN. This company is a leading player in the Chinese market for surveillance cameras.

One example of how Axis' network technology can be used in other contexts is the contract with the Swedish security experts Rosengrens regarding SafePay, a system for cash handling. Axis' ETRAX chip is integrated with SafePay to create an intelligent network connection.

MARKET TRENDS

Through well-functioning relationships with the major global equipment manufacturers, Axis has developed a strong position, and its proprietary technology is recognized as the leader in several application areas.

Axis has a stable revenue base in OEM and third-party sales, which has accounted for nearly one fourth of the company's sales in recent years. During 2003, however, the OEM share declined to 18 percent as a result of both the negative currency effects and continued restraint in the IT market, which affected printer manufacturers among others.

The international trend is that manufacturing companies are focusing on their core business and are thus increasingly predisposed to purchasing basic technology and solutions from such suppliers as Axis.

A driving force for OEM sales is the transition from analog to digital, network video solutions. Axis' position as a global leader and its broad product portfolio in this area mean that most of the future growth in OEM sales will come from companies that require video solutions.



AXIS
COMMUNICATIONS
ARTPEC—2™
19054
L5A9509
G 0331
WJF31933
KOREA

Research & Development

Axis' development work is focused on hardware and software for networked solutions, primarily in Video and Print. In these areas, the company has an R&D staff of 120 people with world-class expertise. Operations are centralized in Lund, Sweden. Since its founding in 1984, Axis has been able to offer world-leading products at attractive prices.

During 2003, 18 percent of Axis' total sales was invested in research and development in hardware and software, as well as customer-specific development.

The core of Axis' products is ETRAX, an application-specific integrated circuit (ASIC) for connection to fixed and wireless networks. This chip is included in all products and, together with Axis' software platforms, constitutes a very flexible technology base on which world-leading products can be developed quickly and cost-efficiently.

DEVELOPMENT OF INTEGRATED CHIPS

Axis has two families of proprietary chips, ETRAX and ARTPEC.

ETRAX handles calculation, memory management and all communication. The chip gives Axis many advantage since it is both less expensive and contains more functions than corresponding solutions available on the market. In addition, the chip is small and uses relatively little power, making it possible to build small but intelligent products.

The chip includes a number of features such as processor and network functionality. During 2003, an advanced version was launched that also includes a memory module in which the Linux operating system can be stored. ETRAX thus became a single-chip Linux computer, which opens the door to new applications that have generated interest among Axis' OEM customers.

ARTPEC is used in network cameras and video servers where it performs image analysis and compression. During 2003, a second-generation chip was developed called ARTPEC-2. Enhancements include significantly faster image compression, support for MPEG-4, superior image quality and the ability to connect various types of image sensors. The chip also provides an open interface for advanced image processing.

DEVELOPMENT OF PROPRIETARY PRODUCTS

A majority of the employees in R&D work with the development of Axis' own products, which are sold under the Axis brand and include network cameras, and video and print servers. A significant portion of this work is devoted to software platforms and applications. During 2003, a new software platform was developed that provides the foundation for the next generation of video products.

CUSTOMER-SPECIFIC DEVELOPMENT

Axis' R&D department also conducts customer-specific development on behalf of the company's OEM customers. This development work is based on Axis' ETRAX and ARTPEC chips around which functions and products are developed according to customer specifications.

The chips launched in 2003 and those scheduled for launch in 2004 provide significantly greater opportunities for developing new, customized solutions and have therefore attracted considerable interest among both existing customers and other companies that sell networked solutions.

PATENTS AND PARTNERSHIPS

An active patent strategy is pursued to protect Axis' investments in core technology and intellectual capital. During the year, 14 new patents were granted, of which most were in Video. Axis has been awarded 33 patents over the years.

Lund University is an important partner in research that relates to chip architecture and image analysis.



More cars with less stress in Chinese plant

In May 2000, Volkswagen began manufacturing its mid-range car Passat in the Chinese city of Anting, 50 km outside of Shanghai. As in most auto manufacturing plants, a barcode is attached to each car as it moves along the assembly line. The barcode follows the car throughout the manufacturing process and is read with a scanner so that the right parts are automatically supplied to each assembly station. However, like food items in a supermarket cash line, not all barcodes can be read. A human

must then intervene, which often delays production. In Anting, such a case triggers an alarm, which then directs an Axis network camera to take a photo of the illegible barcode and forward the image to a PC. A window then automatically opens on a computer screen to display an image of the barcode sticker. This allows the car to be quickly identified and the problem corrected, resulting in a higher production rate. This system was created by SeeTec and Industrielle Automatisierungssysteme.

Global Axis

Axis, with its head office in Lund, Sweden, is represented globally through its own subsidiaries in 14 countries and through partners in 70 additional countries. These partners are distributors, resellers, systems integrators and OEM partners. More than 95 percent of sales take place outside Sweden.

Since the company was founded, a conscious effort has been made to continuously increase its internationalization and to develop a network of business partners in all regions. Extensive international experience, in-depth knowledge of local conditions and an increasingly strong partner network are a few of Axis' most important success factors.

This consistent focus on indirect distribution has created a strong trust between Axis and its business partners. Sales take place via distributors, systems integrators and suppliers of security systems. This indirect sales model has become one of Axis' strengths as the company in this manner attains greater geographic scope and reaches a greater number of users than would be possible through direct sales to end customers.

To simultaneously establish a channel to end users, the company has created the Axis Channel Partner Program, which is intended to create close relationships with value-added resellers (VARs) and systems integrators. These partners are closest to end customers in the professional segment where advanced network video solutions are expected to show rapid growth. Axis has now recruited more than 1,000 qualified partners to the company's Channel Partner Program. The increase in the number of partners constitutes a clear recognition both of Axis' technology and the importance of IP-based video systems for such applications as security surveillance and remote monitoring.

During 2003, Axis also signed a number of strategic agreements with such customers as Lenel and Anixter, which are both active globally. During the autumn, Ingram Micro, IBM and Cisco all announced that greater effort would be devoted to security products, which further strengthens the perception of a growing market potential for digital security solutions.

SALES TRENDS IN 2003

Axis has a leading international position in network video products. The trend over the preceding year continued to be extremely positive in all regions, despite weak economic conditions. Overall, the Video product area reported a growth of 18 percent, compared with 26 percent during the preceding year. Growth, measured in local currencies, was significantly higher and constituted more than 30 percent in the U.S. and Europe. Other product areas that are more sensitive to business conditions, however, were affected by a general restraint with respect to IT investments.

As in the preceding year, EMEA (Europe, Middle East and Africa) accounted for more than half of the company's sales. In EMEA, as in other regions, Axis is the market leader in Video, with a 59.8 percent share for network cameras and a 35.4 percent share for video servers.

The Americas accounted for 28 percent of sales in 2003, compared with 27 percent in the preceding year. During 2003, the U.S. economy stabilized and showed increasingly strong signs of recovery toward the end of the year. Although the IT market remained weak, the security market continued to grow. This contributed to a strong growth in Video, which during the year accounted for the major share of Axis' sales in the U.S.

During the year, the U.S. sales organization focused on educating the market regarding the advantages of network video and recruited more than 600 resellers and systems integrators with good geographic dispersion throughout the country. The customer segment that showed the strongest growth during 2003 was Education, with installations in hundreds of schools



30 courts in New York City build joint network

New York with its 7.4 million inhabitants devotes substantial resources to security. An important step towards increased security in the city's court system was taken with a surveillance solution purchased by the New York State Unified Court System. All courts can be monitored in real time from a central location. In addition, those responsible for the courts can connect to the system via their office computers. They can thus see what is happening on their own screens.

The joint network, which is called CourtNet, was built using network cameras, video servers and audio modules from Axis. Audio modules are used to transfer speech over the network.

and universities. Asia accounted for 23 percent of total sales. Development in the region was strongly affected during the spring by the outbreak of SARS and the war in Iraq. The significant exception for Axis was the ASEAN region (Singapore, Malaysia, Indonesia and Thailand), where sales increased, compared with the preceding year.

Asia is more severely affected than other markets by price competition from companies that have introduced network cameras. The newly launched AXIS 205, however, is a very competitive alternative to these products. At the same time, Axis has strengthened its position as the leading supplier in the professional segment, which places high demands on quality.

A significant share of Axis' sales in Asia derives from Japan, where the economy has been characterized by recession for more than a decade. Some stabilization was noted in 2003, and the number of tender requests for video systems increased. During the year, Japan continued the almost explosive deployment of broadband following a late start. The development of this infrastructure and the fact that Japan is the world's

second largest exporter mean that the country receives a high priority in Axis' global strategy. Axis has OEM contracts with several of the largest electronics companies.

OUTLOOK

Growth in the U.S. economy and a more stable global economy are naturally positive for a continued strong growth in Axis' Video product area.

An equally important trend is the continued transition from analog to digital video systems. In this context, Axis' sales organization plays an important role in educating partners so that they understand the significant advantages of network video solutions.

In keeping with increasing demand, greater competition on a global basis can be expected, above all, from Japanese companies.

The print server market is significantly more sensitive to business cycles. Axis is working to offset these effects with aggressive marketing through existing channels and customers.





Human resources

Axis is an innovative company whose success builds on the knowledge, experience and commitment of its employees. To maintain its leading position in the market, the company therefore invests continuously in developing the skills of its employees.

Over a long period of time, Axis has systematically built a strong company culture. Together with employees, management works with a number of values and guidelines that in combination with the overall business objectives lay the foundation for an appealing working environment and create requisites for profitable growth. The common guidelines encourage creative and innovative thinking among all employees. At the same time, the values should create respect for individual differences and contribute to a positive development in which everyone is encouraged to ask questions, take initiatives and responsibility, to strive to stay ahead and to always deliver results on time.

Diversity is a part of Axis' business culture and fosters both creativity and understanding of global customers' challenges and opportunities. People with a background in some 20 nationalities work at the head office in Lund.

In February, Axis was awarded a prize as Sweden's best workplace in the category, exemplary work for diversity. Sponsors of the award were the Swedish business weekly *Veckans Affärer*, Oxford Research

and Great Place to Work Institute. The award was part of an EU initiative to recognize the 100 best workplaces in Europe.

HOW COMPETENCE LEVELS ARE ENSURED

Axis strives to be an attractive employer and offers its employees continuous training. In order to retain key employees, Axis invests in such programs as leadership development and special career ladders for engineers.

To also ensure a high level of competence in future recruitment and to be an attractive choice for new graduates, Axis has worked in collaboration with Lund Technical University for many years. Axis provides advisors for about 10 undergraduate theses each year. Axis employees teach certain university courses, and the company each year presents the coveted Axis Award for the best undergraduate engineering thesis.

As part of its efforts to offer an attractive workplace, Axis works actively to promote gender equality and has clear guidelines for improving the working environment.

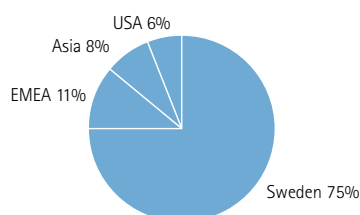
LOW ABSENTEEISM

Axis places great emphasis on keeping fit, in part by providing access to training facilities and subsidizing fitness activities. During the year, absence due to illness amounted to 1.08 percent, with 1.23 percent for women and 1.04 percent for men. The figure was 0.61 percent for the age group 0-29 years, 1.19 percent for ages 30-49 and 1.42 percent for ages 50-65.

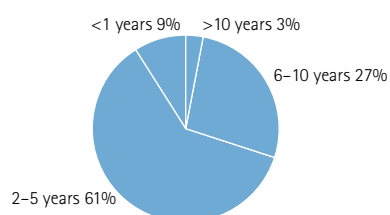
Personnel turnover as of December 31, 2003 amounted to 6.4 percent (6.6).

The average age of employees was 35.5 years.

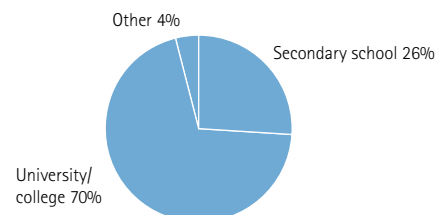
Employees by regions



Length of employment



Education level





Environmental policy

Axis' environmental goal is to provide products and solutions that are sensible throughout their life cycles in an environmentally responsible manner.

All operations shall be conducted in such a manner as to be energy efficient, enable recycling and cause the least possible environmental impact while complying with legal, regulatory and other requirements.

INVOLVEMENT AND COMMUNICATION

Axis will create an environmental responsibility among its employees and ensure that they are trained and motivated to apply Axis' environmental policy in their daily work. Environmental aspects should be an integrated element in each new project.

Axis will provide clear environmental information about products, services and operations to customers, suppliers, shareholders, employees, government departments and the public.

Axis will promote and support customers' and partners' choice of environmental friendly products.

SUPPLIERS

Axis shall maintain a continuous and constructive dialogue with suppliers and subcontractors in order to reduce or eliminate negative impact on the environment during the manufacturing process and the choice of materials. Axis will require that suppliers and subcontractors are knowledgeable of environmental legislation and applicable regulations, and provide evidence of compliance with such regulation. Axis will also require that suppliers identify raw material content of products supplied to Axis and recommended end-of-life treatment for such products.

ENVIRONMENTAL WORK IN 2003

During the year, Axis worked with the following Environmental measures:

- Axis was approved as a Sony OEM Green Partner. This means that the company works to reduce and eliminate substances that impact the environment. Sony only purchases components and materials from suppliers who are Green Partners.
- Axis is a member of the industry association El-kretsen, which was established in Sweden to resolve the issue of producer responsibility for electrical waste. As of July 2001, there is a law requiring producers to take responsibility for electrical and electronic products.
- Projects were conducted to eliminate such environmentally hazardous substances as cadmium and lead from products.
- All packaging is gradually being replaced by more environmentally compatible alternatives.
- Transports are the part of the logistics chain with the greatest environmental impact. Axis strives to use environmentally certified transporters to the greatest extent possible.



Opportunities and risks

OPPORTUNITIES

Axis' growth potential is in large part linked to the shift from analog surveillance systems to IP-based video solutions. To this are added the opportunities relating to new application areas and new customer segments in Video, such as the education, retail and manufacturing sectors.

As an established leader in network video solutions, Axis is well positioned to take advantage of the growth opportunities that are created both by the shift in technology and in new application areas.

RISKS

In addition to the operational risks associated with macroeconomic trends, Axis is exposed to risks linked to the technology shift and Axis' position in a relatively early-stage market. The expected growth, primarily in networked video, will result in increased competition from financially strong companies in CCTV that are becoming more determined to establish themselves in this area. Among these are major electronic companies, such as Bosch, JVC, Panasonic, Sony and Sanyo.

STRENGTHS

Axis' primary strength is the company's technology and market leadership in network solutions and products within Video. The combination of long experiences with proprietary network technology and a global network of distributors and strategic partners gives Axis a strong foundation on which to continue growing.

To retain and strengthen its leading position, Axis works constantly to develop technology, cultivate new customer segments and expand into new markets.

RISK MANAGEMENT

Operational risks

The commercial risks to which operations are exposed consist of credit risks for sales, political risks, delivery risks and property and damage risks. Credit risks for operative flows are managed at the local level. The Group's credit policy provides a framework for how these risks should be managed. Political risks are primarily associated with local regulations for camera surveillance. Today there are no known changes regarding legal restrictions in this area. Risks in the legal area are handled by Axis' specialists in cooperation with external lawyers and legal advisors.

Intellectual property risks

Exposure to intellectual property risks in the areas of patents, IT and human resources are handled by Axis' specialists in cooperation with external lawyers and legal advisors. To date, a small number of disputes regarding patent infringement have been discussed, but none have resulted in any sanctions against Axis.

FINANCIAL RISKS

Axis' financial policy specifies how responsibility for financing operations should be delegated within the Group, which financial risks the Group is prepared to take and guidelines for how these should be limited.

CURRENCY RISK

Axis' strong international character means that both sales and profits are dependent on the relation between the Swedish kronor and other currencies.

Exchange-rate changes affect the company's results in a number of ways, including when sales and purchasing take place in different currencies, when financial results in the regions are translated to SEK and when assets and liabilities are valued in different currencies.

The flow of foreign currencies is hedged on business prerequisites and may not be speculative in nature. Some 70 percent of expected sales after deduction of costs are hedged. It is the Axis Group's



total currency exposure, and not that of individual companies or regions, that is hedged.

If at least a 5-percent change of an exchange rate in relation to SEK risks affecting earnings by more than SEK 0.5 M, a currency hedge must be used. The most important currencies for the Group are USD, EUR and JPY.

Exchange-rate trends during 2003 were characterized by a stronger SEK against the USD. This was reflected in the sales trend, since direct currency effects had a negative impact of SEK 71 M on sales. A strengthening of the SEK against the USD also characterized 2002. The total negative effect on consolidated sales during that year was SEK 26 M.

LIQUIDITY AND BORROWING

As of December 31, 2003, Axis has SEK 103 M in liquid funds and unutilized credit facilities of SEK 80 M. Available credit guarantees relate primarily to financing of operations. Axis' financial capacity is measured as the liquidity reserve and unutilized credit guarantees. The goal is that the two should not be less than 10 percent of average annual sales.

Axis' financial policy allows the Group to invest liquid funds in financial instruments with a term of at most two years.

The company employs derivative instruments to limit financial risks. These instruments are not used for speculative purposes.

SENSITIVITY ANALYSIS

The table below provides an indication of the effect of the most important factors on Axis' earnings for the 2003 fiscal year. Apart from currency risks, the factors considered to have the greatest effect on earnings are purchase prices and salaries.

	Change, %	Effect on earnings, SEK M
Exchange rate, SEK/EUR	+/-5	+/-5
Exchange rate, SEK/USD	+/-5	+/-6
Purchase prices	+/-5	+/-10
Salaries	+/-5	+/-10



The Axis share

Axis was listed on the O list of Stockholmsbörsen (Stockholm Exchange) on June 27, 2000 and was included on the Exchange's O list last year. A round lot consists of 500 shares. During 2003, 13,896,368 Axis shares were traded, corresponding to an average trading of 55,809 shares per market day. Trading in the share took place on all market days. The turnover rate was 21 percent, compared with 125 percent for the exchange average.

The last paid price on December 30, 2003 was SEK 17.00. The highest price was SEK 19.80 on January 10, 2003. The year's lowest price, SEK 11.00, was noted on May 30, 2003. During the year, the share fell from SEK 19.00 to SEK 17.00, corresponding to a decline of 10.5 percent. During the same period, the SAX-ALL Share Index rose by 29.8 percent. The Affärsvärlden IT index rose by 73.8 percent.

MARKET CAPITALIZATION

On December 30, 2003, Axis' market value was SEK 1,171 M, which corresponded to a decline of 7.6 percent during the year.

SHARE CAPITAL

The share capital amounted to SEK 689,000, divided among 68,900,000 shares, each with a par value of SEK 0.01.

Development of share capital

Year	No. of shares	Par value (SEK)	Share capital (SEK)
1984	500	100.00	50,000
1985	5,040	100.00	504,000
1987	5,640	100.00	564,000
1997	564,000	1.00	564,000
1999	56,400,000	0.01	564,000
2000	68,900,000	0.01	689,000
2001	68,900,000	0.01	689,000
2002	68,900,000	0.01	689,000
2003	68,900,000	0.01	689,000

OWNERSHIP

At year end, the number of shareholders was 9,803 (9,245). The proportion of foreign shareholders was 2.7 percent.

The table below shows Axis' ownership structure as of December 30, 2003.

Owner	No. of shares	Share of capital and votes, %
Mikael Karlsson, privately and through company (LMK Industri AB)	18,445,764	26.7
G. Kallstrom Et Co AB (part of Skanditek Group)	13,539,765	19.7
Martin Gren, through company (Grenspecialisten AB)	7,557,471	11.0
Fourth AP Pension Fund	3,320,700	4.8
Livförsäkringsaktiebolaget Skandia	3,125,000	4.5
Other	22,911,300	33.3
Total	68,900,000	100.0

Ownership structure 2003-12-30

Size classes	Number of owners	Number of shares	Percentage of shares	Percentage of votes	Market value SEK 000s
1-500	6,182	1,465,180	2.13	2.13	24,908
501-1,000	1,790	1,622,447	2.35	2.35	27,582
1,001-10,000	1,691	5,273,260	7.65	7.65	89,645
10,001-50,000	97	2,037,593	2.96	2.96	34,639
50,001-100,000	14	1,050,566	1.52	1.52	17,860
100,001-	29	57,450,954	83.38	83.38	976,666
Total	9,803	68,900,000	100	100	1,171,300

Per-share data

	2003	2002
Profit after financial items, SEK per share	0.12	0.75
Cash-flow, SEK per share	-0.39	-0.74
Equity, SEK per share	4.36	4.53
Share price on closing date, SEK	17.00	18.40
Share price/equity, % per share	390	406
Dividend	0.15	-
P/E ratio	neg.	35
P/S ratio	1.9	1.9
Number of outstanding shares, (000s)	68,900	68,900
Average number of shares, (000s)	68,900	68,900

DIVIDEND AND DIVIDEND POLICY

Axis' dividend policy is to pay a dividend amounting to about one-third of the profit for the year after-tax, with consideration to the company's equity/assets goal. Given this policy and the results for the year, the Board of Directors and the President propose that no dividend be paid for 2003.

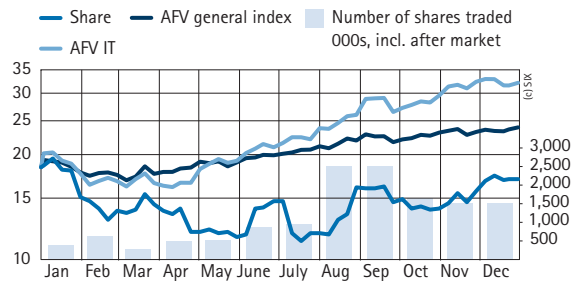


WARRANTS

Since 1999, Axis has had an outstanding warrants program open to all employees. It is intended to encourage a long-term commitment to ensure a profitable business. The terms, number of warrants and the dilution that would result from full exercise of the warrants are shown in the table below. See also Note 23 on page 36 for further information.

Recipient	Maturity date	Exercise price	No. of warrants	No. of shares	Dilution
Personnel in Europe and Asia	04-10-01	19.50	430,000	430,000	0.60
Personnel in Europe and Asia	05-09-30	54.00	1,128,000	1,128,000	1.60
Personnel in Europe and Asia	05-09-30	63.00	172,250	172,250	0.30
Personnel in Europe and Asia	06-10-02	18.00	221,600	221,600	0.30
Personnel in Europe and Asia	07-10-02	26.00	104,200	104,200	0.15
Personnel in U.S.	04-10-01	19.50	140,000	140,000	0.20
Personnel in U.S.	10-09-30	48.00	172,250	172,250	0.30
Personnel in U.S.	06-10-02	18.00	89,000	89,000	0.10
Personnel in U.S.	07-10-02	26.00	64,000	64,000	0.09
Total			2,521,300	2,521,300	3.64

Share price trend



Analysts who regularly follow Axis

Company	Name
Danske Equities	Lars Horslund
Enskilda Securities	Lars Sveder
Handelsbanken Capital Markets	Jonas Eixmann
Kaupthing Bank	Mikael Laséen
Nordea Securities	Greger Johansson
REDEYE	Urban Ekelund
E. Öhman J:or Fondkommission	

Board of Directors' report

Axis AB (publ.), Corporate Reg. No. 556241-1065

OPERATIONS

Axis develops products that increase 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 for 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 O list of Stockholmsbörsen (Stockholm Exchange). The company has more than 350 employees and operates globally through offices in 14 countries and in cooperation with distributors, systems integrators and OEM partners in 70 countries. Markets outside Sweden account for more than 95 percent of sales.

SIGNIFICANT EVENTS

To offset the continued weak investment climate in the IT market and secure a long-term stable and positive development for Axis, a number of cost-saving measures were implemented during the year, including personnel cutbacks in the Swedish organization. The measures are expected to result in a saving of approximately SEK 15 M, taking full effect from January 2004.

There were a number of positive signs during the year. The Group can present a continued highly favorable trend for network video solutions, with sales growth of over 18 percent for 2003 despite the weak market climate and negative currency effects. In local currencies, growth was more than 30 percent. This development further strengthens our conviction that growth in the Video product area will remain substantial.

Several factors confirm a clear breakthrough for the technology shift from analog to network-based surveillance solutions. In parallel with a steadily growing interest in security and surveillance, the company noted increased activity in all customer segments, resulting in several substantial orders. At the same time, several global IT players including IBM, Cisco and Ingram Micro announced plans to intensify their investments in IP-based video solutions. Further evidence of the technology shift was reflected in the increased compe-

tion that emerged during the year. Most of the large traditional analog CCTV¹ players have one or several network-based products in their portfolios today.

During 2003, the Group actively pursued its aggressive investments in technology and product development, resulting in several successful product launches and the completion of the ARTPEC-2 technology platform for the new generation of network video products that will be introduced gradually during 2004.

In December, Axis strengthened its focus on software applications through the acquisition of Attento of Denmark. The acquisition is strategically important to ensure that the company's products remain competitive components in total solutions. It also creates improved potential to provide ADP partners with components that simplify integration with Axis products.

The development of Axis sales channels has progressed according to plan, resulting in a large number of new reseller and systems integration partners in both the IT and security sectors. New strategic distribution contracts were also signed, including an agreement with Anixter.

RESEARCH & DEVELOPMENT

During 2003, 18 percent of consolidated sales was invested in research and development hardware, software and customer-specific development. Costs for research and development were reduced by 5 percent compared with the preceding year and amounted to SEK 112 M (118).

As of the 2002 fiscal year, the Swedish Financial Accounting Standards Council's Recommendation 15 has been applied with regard to capitalization of development expenses. The principles for capitalization are described in Note 1 to the financial accounts. Capitalized expenses for the year amounted to SEK 15 M (6).

The core component of Axis' products is ETRAX, an application-specific chip for connection to fixed and wireless networks. The chip is found in all products and, together with Axis' software platforms, forms a highly flexible technological base for rapid and cost-efficient development of world-class products.

¹ CCTV – Closed Circuit Television, a designation for an analog surveillance system.

In 2003, an advanced version was launched, with a memory module containing sufficient memory to store the entire Linux operating system. This makes ETRAX a Linux computer in a single chip, paving the way for several new applications. The second generation ARTPEC chip, Axis' image compression chip used in network cameras and video servers, was launched during 2003. Advantages include considerably faster image compression, support for the MPEG standard and substantially improved image quality.

An active patent strategy is being implemented to protect Axis' investments in core technology and intellectual capital. During the year, 14 new patents were granted, mostly within Video. At the end of 2003 Axis has a total of 33 patents. Exposure to intellectual risk related to patents is handled by Axis' specialists in consultation with external lawyers and advisers. To date a small number of disputes regarding patent infringements have been discussed, but none have resulted in any sanctions against Axis.

An important research partner in the areas of chip architecture and image processing is Lund University. Through collaboration with universities and research centers, as well as participation in technology forums such as Universal Plug and Play Forum, Bluetooth Special Interest Group, MPEG and Internet Engineering Task Force, Axis shapes future technology and gains important ideas for future product development, while remaining at the forefront in the development and application of tomorrow's technologies.

FINANCING AND CASH-FLOW

At December 31, 2003, Axis had at its disposal funds totaling SEK 183 M, including liquid funds of SEK 103 M and unutilized credit facilities of SEK 80 M. The Company is thus financially strong going into 2004. Cash-flow from current operations was negative in the amount of SEK 2 M (positive: 7). Net investments for the year amounted to SEK 28 M (15), while total cash-flow was negative in the amount of SEK 27 M (negative: 51).

INVESTMENTS

Investments in tangible assets amounted to SEK 4 M (10) and investments in intangible assets totaled SEK 24 M (6). According to the consolidated cashflow statement, net investments for the year amounted to SEK 28 M (15).

OWNERSHIP STRUCTURE

At the end of the fiscal year, share capital in Axis AB was SEK 689,000, divided among 68,900,000 shares with a par value of SEK 0.01. All shares are of the

same share class. After full exercise of outstanding warrants, the dilution effect is 3.64 percent.

Axis AB had 9,803 shareholders at the end of the fiscal year. The five largest shareholders accounted for 66 percent of votes and capital at the end of the fiscal year.

	No. of shares	Proportion of capital and votes, %
M. Karlsson, privately and through company (LMK Industri AB)	18,445,764	26.7
G Kallstrom & Co AB (part of the Skanditek Group)	13,539,765	19.7
M Gren, through company (Grenspecialisten AB)	7,557,471	11.0
The Fourth AP Pension Fund	3,320,700	4.8
Livförsäkringsaktiebolaget Skandia	3,125,000	4.5
Other	22,911,300	33.3
	68,900,000	100.0

FINANCIAL PERFORMANCE AND POSITION

The drastic fall in the USD had a much greater impact on sales performance than anticipated at the beginning of the year. Sales during the year amounted to SEK 623 M (670), a decline of 7 percent compared with 2002. The sales trend reflects the continued cautious attitude in the market and the strengthening of the SEK. Currency effects had a negative impact of SEK 71 M on earnings. The gross margin deteriorated by 5.7 percentage points from 57.3 percent to 51.6 percent due to the stronger SEK combined with changes in the product mix and fewer customer-specific development projects. The year's earnings were charged with a higher tax expense partly as a result of new tax legislation (negative SEK 2 M) and partly due to an effect of translating foreign subsidiaries in accordance with the MNM method. The actual tax amounted to SEK 1 M.

The Group's operating profit amounted to SEK 1 M (40), a decline of SEK 39 M compared with 2002. The operating margin fell from 5.9 percent in 2002 to 0.2 percent in 2003. Currency effects had a negative effect of SEK 1 M on operating profit.

Profit after financial items totaled SEK 8 M (51), representing a decline of SEK 43 M compared with the preceding year.

CONDENSED INCOME STATEMENT, SEK 000s

2003	Q1, 03	Q2, 03	Q3, 03	Q4, 03	Total
Net sales	152,551	152,888	154,763	163,435	623,637
Gross profit	81,949	80,783	79,068	79,930	321,731
Gross margin, %	53.7	52.8	51.1	48.9	51.6
Operating profit/loss	555	-4,290	813	4,064	1,142
Operating margin, %	0.4	-2.8	0.5	2.5	0.2
Profit/loss after financial items	2,656	-657	458	5,867	8,324
Profit margin, %	1.7	-0.4	0.3	3.6	1.3

KEY RATIOS FOR THE GROUP

	2003	2002	2001	2000 8 months	1999/ 2000
Net sales, SEK M	624	670	696	494	695
Profit/loss after financial items, SEK M	8	51	-150	-171	-62
Total assets, SEK M	434	430	489	616	328
Equity/assets, %	69	73	56	64	11
Return on total capital, %	2	12	-19	-34	-18
Return on equity, %	2	13	-46	-84	-111
Earnings per share before dilution, SEK*	-0.04	0.52	-1.31	-2.60	-1.10
Earnings per share after dilution, SEK*	-0.04	0.52	-1.31	-2.60	-1.10
No. of shares before dilution, average	68,900	68,900	68,900	65,775	56,400
No. of shares after dilution, average	68,900	68,985	68,900	65,775	56,400
No. of employees at year end	362	344	324	581	506

*No dilution effect when earnings are negative. See Note 30 for definitions.

FORMAL WORK PLAN FOR THE BOARD OF DIRECTORS

The Board of Directors consists of five members elected at the Annual General Meeting. During the fiscal year, the board held ten meetings. The Board of Directors works with an annual plan for agenda items and is in other respects subject to the special working procedure that the Board of Directors has established regarding the division of responsibilities between the Board of Directors and the President.

The Board of Directors has appointed a Compensation Committee whose primary assignment is to prepare decisions and guidelines relating to salaries and other terms of employment for personnel, the President and those members of the Board of Directors who receive remuneration other than that approved at the Annual General Meeting. The Compensation Committee has consisted of Patrik Tigerschiöld and Lars-Erik Nilsson.

Contact between the Board of Directors and the auditors was through audit meetings between the Chairman of the Board and the auditors, and the auditors participated in two of the company's Board meetings during the year.

TRANSITION TO INTERNATIONAL REPORTING STANDARDS

As of the beginning of the 2005 fiscal year, the Axis Group will adopt the International Financial Reporting Standards (IFRS) – formerly IAS. The 2004 Annual Report will therefore be the last annual report to be prepared in accordance with the recommendations of the Swedish Financial Accounting Standards Council. The interim report for the first quarter of 2005 and the annual report for 2005 will contain a reconciliation of the consolidated financial statements for 2004 according to IFRS and according to the accounting principles currently applied by the Group.

The Swedish Financial Accounting Standards Council has gradually adapted to IFRS. However, a number of differences remain between the Swedish Financial Accounting Standards Council's recommendations and IFRS.

The number of differences is growing as a result of changes currently being implemented in IFRS. Not all IFRS standards that are to be applied in 2005 are yet available in their definitive form. Developments are being constantly monitored and adjustments to the new regulations are gradually being made. Based on what is known at present, the main difference between the Group's current accounting principles and IFRS will relate to the reporting of financial instruments. More instruments will be reported at net realizable value and requirements regarding hedge accounting will be tightened.

OUTLOOK FOR 2004

Axis' overall goal is to strengthen its position as the market leader in network video solutions. The company also plans to defend its position as the second largest player in the market for print servers. Print, which is a considerably more mature product area than Video, lacks, however, the corresponding growth potential, and may be further impacted should the restrained investment climate in the IT market continue. Axis continues to have a positive view of the long-term development even if the economic conditions remain difficult to forecast. The strategic direction remains unchanged, with a continued priority on the fast-growing Video area. A renewal of the Video product portfolio will be initiated during the first quarter of 2004. Together with a strong market position, this creates good conditions for reaching profitable growth during 2004.

PARENT COMPANY

The Parent Company's operations are primarily focused on Group administration. The Parent Company has no employees. Sales to Group companies were insignificant. There were no purchases from Group companies. The Parent Company reported a profit after financial items of SEK 6 M (51).

PROPOSED DISTRIBUTION OF EARNINGS IN PARENT COMPANY

The following funds are at the disposal of the Annual General Meeting:

Profit brought forward	SEK 33,467,396
Profit for the year	SEK 12,812,762
Total	SEK 46,280,158

The Board of Directors and the President propose that the funds at the disposal of the Annual General Meeting be treated as follows:

Profit carried forward	SEK 46,280,158
Total	SEK 46,280,158

Consolidated non-restricted equity amounted to SEK 34 M. No transfers from consolidated non-restricted equity to restricted equity are proposed.

INCOME STATEMENTS

SEK 000s	Note	GROUP			PARENT COMPANY	
		Jan.1, 03– Dec. 31, 03	Jan.1, 02– Dec. 31, 02	Jan.1, 01– Dec. 31, 01	Jan.1, 03– Dec. 31, 03	Jan.1, 02– Dec. 31, 02
Net sales	2	623,637	670,277	696,333	3,488	3,131
Cost of goods and services sold		-301,906	-286,270	-340,754	-	-
Gross profit		321,731	384,007	355,579	3,488	3,131
Selling expenses		-165,062	-177,522	-212,011	-	-
Administrative expenses		-44,766	-56,334	-66,262	-6,894	-6,164
Research and development expenses		-111,982	-117,847	-151,052	-	-
Items affecting comparability		-	-	-33,296	-	-
Other operating income	5	1,221	7,354	-	-	-
Other operating expenses	5	-	-	-6,922	-	-
Shares in pretax profit/loss in associated companies		-	-	158	-	-
Net operating profit/loss	3,4	1,142	39,658	-113,806	-3,406	-3,033
Result from financial investments						
Result from shares in group companies	6	-	-	-	-19,413	8,449
Interest income and similar income items	7	7,832	14,018	8,419	45,735	47,363
Interest expense and similar expense items	8	-649	-2,240	-44,106	-15,755	-1,662
Profit/loss after financial items		8,324	51,436	-149,493	7,161	51,117
Change in tax equalization reserve		-	-	-	14,403	9,112
Tax	11	-10,900	-15,581	48,445	-8,751	-16,427
Minority share in profit/loss for the period		-	-	10,941	-	-
Net profit/loss for the year		-2,576	35,855	-90,107	12,813	43,802
Earnings per share before dilution, SEK		-0.04	0.52	-1.31		
Earnings per share after dilution, SEK		-0.04	0.52	-1.31		
Number of shares before dilution, average		68,900	68,900	68,900		
Number of shares after dilution, average		68,900	68,985	68,900		
Dividend, SEK		0.15	-	-		

BALANCE SHEETS

ASSETS, SEK 000s	Note	GROUP			PARENT COMPANY	
		Dec. 31, 03	Dec. 31, 02	Dec. 31, 01	Dec. 31, 03	Dec. 31, 02
Fixed assets						
Intangible fixed assets						
Capitalized expenses for development work	13	20,324	5,658	-	-	-
Rights	14	9,131	782	1,407	157	782
Other intangible fixed assets	15	102	460	1,730	-	-
Total intangible fixed assets		29,557	6,900	3,137	157	782
Tangible fixed assets						
Buildings and land	16	-	-	-	-	-
Machinery and equipment	17	11,159	14,999	18,241	-	-
Total tangible fixed assets		11,159	14,999	18,241	-	-
Financial fixed assets						
Shares in subsidiaries	18	-	-	-	742	742
Other securities held as fixed assets	19	-	-	-	-	-
Condominiums	20	676	676	676	-	-
Deferred tax receivables	21	87,423	97,480	111,744	83,807	92,558
Long-term receivables		2,970	2,379	2,813	-	-
Total financial assets		91,069	100,535	115,233	84,549	93,300
Total fixed assets		131,785	122,434	136,611	84,706	94,082
Current assets						
Inventories						
Goods for resale		67,074	57,994	46,628	-	-
Total inventories		67,074	57,994	46,628	-	-
Receivables						
Accounts receivable		94,078	88,385	106,339	-	-
Tax receivables		4,966	2,307	187	-	-
Receivable from Group companies		-	-	-	302,739	212,743
Other receivables		10,539	8,836	7,767	10	-
Prepaid expenses and accrued income	24	22,151	20,571	10,874	4,503	6,973
Total receivables		131,734	120,099	125,167	307,252	219,716
Cash and bank deposits						
Cash and bank deposits		102,978	129,956	180,773	-	52,320
Total cash and bank deposits		102,978	129,956	180,773	-	52,320
Total current assets		301,786	308,049	352,568	307,252	272,036
TOTAL ASSETS		433,571	430,483	489,179	391,958	366,118

EQUITY AND LIABILITIES, SEK 000s	Note	GROUP			PARENT COMPANY	
		Dec. 31, 03	Dec. 31, 02	Dec. 31, 01	Dec. 31, 03	Dec. 31, 02
Equity	22, 23					
Restricted equity						
Share capital		689	689	689	689	689
Legal reserve		-	-	-	1,024	1,024
Premium fund		-	-	-	291,552	291,552
Restricted reserves		265,408	284,039	333,937	-	-
Total restricted equity		266,097	284,728	334,626	293,265	293,265
Accumulated loss/Non-restricted equity						
Retained earnings		-	-	-	33,467	-
Non-restricted reserves		36,803	-8,051	28,495	-	-
Profit/loss for the year		-2,576	35,855	-90,107	12,813	43,802
Total accumulated loss/non-restricted equity		34,227	27,804	-61,612	46,280	43,802
Total equity		300,324	312,532	273,014	339,546	337,067
Untaxed reserves						
Tax allocation reserve	26	-	-	-	5,036	19,439
Total untaxed reserves		-	-	-	5,036	19,439
Provisions						
Provisions	25	7,081	3,826	16,125	-	-
Total provisions		7,081	3,826	16,125	-	-
Liabilities						
Long-term liabilities	27					
Liabilities to credit institutions		10,200	-	50,000	-	-
Total long-term liabilities		10,200	-	50,000	-	-
Current liabilities						
Group account		-	-	-	37,933	-
Accounts payable		60,442	50,342	82,945	-	-
Liabilities to Group companies		-	-	-	8,306	8,306
Other liabilities		5,083	5,280	4,076	-	82
Accrued expenses and deferred income	28	50,441	58,503	63,019	1,137	1,224
Total current liabilities		115,966	114,125	150,040	47,376	9,612
Total liabilities		126,166	114,125	200,040	47,376	9,612
TOTAL EQUITY AND LIABILITIES		433,571	430,483	489,179	391,958	366,118
MEMORANDUM ITEMS						
Pledged assets		NONE	NONE	NONE	NONE	NONE
Contingent liabilities	29	NONE	NONE	NONE	3,585	4,344

CHANGE IN CONSOLIDATED EQUITY

	Share capital	Restricted reserves	Non-restricted reserves	Total equity
Equity, December 31, 2000	689	559,322	-180,272	379,739
Transfers between restricted and non-restricted equity	-	-114,017	114,017	-
Profit/loss for the year	-	-	-90,107	-90,107
Share premium upon issuance of debt instruments with attached warrants	-	989	-	989
Exchange-rate change on warrants held by the Company ¹	-	-367	-	-367
Change in Group structure	-	-1,652	-15,588	-17,240
Reduction of premium fund	-	-110,338	110,338	-
Equity, December 31, 2001	689	333,937	-61,612	273,014
Transfers between restricted and non-restricted equity	-	5,412	-5,412	-
Profit/loss for the year	-	-	35,855	35,855
Share premium upon issuance of debt instruments with attached warrants	-	925	-	925
Exchange-rate change on warrants held by the Company ¹	-	-196	-	-196
Vesting of stock options in Axis Inc. in the U.S. ²	-	2,934	-	2,934
Reduction of premium fund	-	-58,973	58,973	-
Equity, December 31, 2002	689	284,039	27,804	312,532
Transfers between restricted and non-restricted equity	-	-19,335	19,335	-
Profit/loss for the year	-	-	-2,576	-2,576
Dividend	-	-	-10,335	-10,335
Exchange-rate change on warrants held by the Company ¹	-	43	-	43
Vesting of stock options in Axis Inc. in the U.S. ²	-	661	-	661
Equity, December 31, 2003	689	265,408	34,227	300,324

¹ Pertains to warrants acquired for further sale to employees in the U.S. subsidiary, Axis Inc. The item is booked locally in USD and eliminated against equity at the closing rate.

² Pertains to stock options acquired for further sale to employees in the U.S. subsidiary, Axis Inc. Stock options are expensed continually as they are being earned by personnel.

CASH-FLOW STATEMENTS

SEK 000s	Note	GROUP			PARENT COMPANY	
		Jan.1, 03– Dec. 31, 03	Jan.1, 02– Dec. 31, 02	Jan.1, 01– Dec. 31, 01	Jan.1, 03– Dec. 31, 03	Jan.1, 02– Dec. 31, 02
Current operations						
Operating profit/loss before financial items		1,142	39,658	-113,807	-3,406	-3,033
Depreciation and amortization	12	9,054	13,712	19,382	626	625
Other items not affecting liquidity		4,525	-7,204	12,438	-	-
		14,721	46,166	-81,987	-2,780	-2,408
Financial income received						
Financial income received	9	5,317	6,600	5,846	7,098	11,895
Group contribution received		-	-	-	-	8,535
Group contribution paid		-	-	-	-19,413	-86
Financial expense paid	10	-688	-2,758	-2,050	-559	-2,130
Tax paid		-4,071	-4,189	-2,311	-	-
		558	-347	1,485	-12,874	18,214
Change in working capital						
Change in inventories		-9,080	-11,366	13,491	-	-
Change in accounts receivable		-5,693	17,954	16,581	-	-
Change in other current receivables		-4,228	-10,197	44,861	-115,485	89,589
Change in accounts payable		10,101	-32,603	-17,029	-	-
Change in other current operating liabilities		-8,219	-2,794	-2,982	-44	-164
		-17,119	-39,006	54,922	-115,529	89,425
Cash-flow from current activities		-1,840	6,813	-25,580	-131,183	105,231
Investment activities						
Investments in intangible fixed assets		-23,640	-5,692	-	-	-
Investments in tangible fixed assets		-4,204	-9,572	-4,736	-	-
Sale of tangible fixed assets		-26	-575	13,568	-	-
Investments in subsidiaries		-	-	-7,792	-	-
Investments in other financial fixed assets		-592	435	-9,471	-	-
Profit/loss upon sale of equity in subsidiaries		-	-	-4,029	-	-
Cash-flow from investment activities		-28,462	-15,404	-12,460	-	-
Financing activities						
Share premium upon issue of debt instruments		-	925	989	-	925
Dividends paid		-10,335	-	-	-	-
Change in long-term liabilities		10,200	-50,000	-1,363	-	-
Payment from minority interest		-	-	21,000	-	-
Dividends		-	-	-	-10,335	-
Amortization of loans		-	-	-	-	-50,000
Exchange-rate differences		3,459	6,849	2,194	23,403	35,468
Group contribution received/paid		-	-	-	27,862	-75,936
Cash-flow from financing activities		3,324	-42,226	22,820	40,930	-89,543
CASH-FLOW FOR THE YEAR		-26,978	-50,817	-15,220	-90,253	15,688
Liquid funds at the beginning of the year		129,956	180,773	195,993	52,320	36,632
Change in liquid funds		-26,978	-50,817	-15,220	-90,253	15,688
Liquid funds at the end of the year		102,978	129,956	180,773	-37,933	52,320

Notes

NOTE 1 Accounting principles

The annual report and consolidated financial statements were prepared in accordance with the Swedish Annual Accounts Act and the recommendations and opinions of the Swedish Financial Accounting Standards Council. The accounting principles are unchanged from the preceding year. Recommendations issued by the Swedish Financial Accounting Standards Council and which came into effect as of 2003 have not entailed any changes in accounting principles.

Consolidated financial statements

The consolidated financial statements include the Parent Company and the companies in which the Parent Company, directly or indirectly, controls more than 50 percent of votes as of the end of the fiscal year. Companies acquired during the year are included in the consolidated income statement with values commencing on the date of acquisition.

The consolidated accounts were prepared using the acquisition method, by which the acquisition value of shares in subsidiaries are eliminated against each subsidiary's equity as of the date of acquisition. Equity is determined on a market appraisal of assets, provisions and liabilities as of the date of acquisition. To the extent there are untaxed reserves in acquired companies, a provision is made for deferred tax on such reserves, based on the tax rate in effect in the company's country of domicile. This tax is reported among provisions for taxes.

If the acquisition value of the shares in subsidiaries exceeds the value of acquired equity computed as described above, the difference is attributed to goodwill, which is amortized over its estimated useful life.

Companies acquired during the year are included in the consolidated financial statements as of the date they are acquired. Companies sold during the year are included in the consolidated financial statements until the date of sale. All companies included in the consolidated accounts apply the same accounting principles.

Translation of foreign subsidiaries

All foreign subsidiaries within the Axis Group have been classified as integrated foreign business entities. Accordingly, the monetary/non-monetary method is applied for the translation of the financial statements of foreign subsidiaries. This means that the monetary assets and liabilities of foreign subsidiaries are translated at the closing day rate, while non-monetary assets are translated at the historical rate. All income statement items are translated at the average rate for the year. Translation differences are reported in the net profit or loss from financial investments.

When the Parent Company or another Group company in the Axis Group employs hedging in order to capitalize and shield against exchange rate differences on net investments in a subsidiary, the exchange difference on the hedging instrument is recorded directly against income from financial investments to the extent that it relates to a corresponding translation difference recorded during the year for the subsidiary.

Tax effects are taken into account upon unequal valuation of assets and liabilities at the Group or company level, which are reported as long-term or deferred tax liability. However, in accordance with Recommendation 9 issued by the Swedish Financial Accounting Standards Council, deferred tax on consolidated positive or negative goodwill is not taken into account.

Minority interest

The minority interest in net profit/loss for the year and equity is based on the financial statements for the subsidiary.

Receivables and liabilities in foreign currency

Current receivables and liabilities in foreign currency are translated at the year end rate. Exchange rate differences are included in other operating revenues or operating expenses. Transactions in foreign currency are translated using the exchange rate on the transaction date.

Accounting for hedging is applied to hedging of future currency flows. The net profit or loss from hedging transactions is reported in the income statement for the same period as the underlying flows, that is, when the hedging instrument expires.

Inventories

Goods for resale are valued at either cost or market value as of closing day, whichever is the lowest, with the FIFO principle applied. Internal gains upon transactions between Group companies are eliminated.

Receivables

Receivables are reported in the amounts at which they are expected to be paid.

Research and development expenditures

Axis' technology is based on in-house developed ASIC (Application Specific Integrated Circuit) platforms, which constitute the core of Axis products. As of fiscal year 2002, the development of new platforms is capitalized during the development period and depreciated over the expected economic lifetime. Network applications based on these platforms, such as network cameras and print servers, are considered as adaptations of the core product. Adaptations of the platforms for various network applications are not capitalized. Expenses for research are charged against income as they occur. Up until the fiscal year 2001, all expenditures relating to research and development were charged against income as they occurred.

Income recognition

Net sales are reported at delivery of the goods and acceptance by the customer. Sales are reported after deductions for sales taxes and discounts, and after elimination of intra-group sales.

Tangible and intangible fixed assets

Tangible and intangible fixed assets are reported at the acquisition cost less depreciation and amortization according to plan. There are no pledges or commitments on future investments. In cases in which the reported value of an asset exceeds its estimated recovery value, the asset is immediately written down to its recovery value.

Planned depreciation and amortization are normally based on the original acquisition value and the estimated useful life of the asset, in accordance with the following:

Machinery and equipment	3–10 years
Land improvements	5 years
Capitalized development projects	3 years
Software	3 years
Rights	5 years

Income taxes

The reported tax expense includes tax that is to be paid or received for the particular year, adjustments of tax for previous years and changes in deferred tax. The valuation of all tax liabilities and receivables is at nominal amounts and is conducted in accordance with the tax regulations and rates that have been decided or which have been announced and are most likely to be set. Thus, related tax effects are reported in the income statement for income-statement items. The tax effects of items reported directly against shareholders' equity are reported against equity. Deferred tax is calculated in accordance with the balance sheet method on all temporary differences that arise between the reported fiscal values for assets and liabilities for tax purposes. The temporary differences have primarily arisen as a result of accumulated loss carry-forwards.

Deferred tax receivables and deferred tax liabilities with the same tax authorities are reported as a net amount in the balance sheet. Deferred tax claims relating to accumulated loss carry-forwards are capitalized to the extent that it is deemed probable that the loss carry-forward can be utilized against future taxable surpluses. Deferred tax liabilities for temporary differences that are attributable to investments in subsidiaries are not reported when the Parent Company in all cases can control the date for the reversing of the temporary differences and it is not deemed likely that a reversal will be conducted in the foreseeable future.

The early application of Recommendation 9, Income Tax, as of December 31, 2000 only affected the consolidated accounts. As of December 31, 2001, the Parent Company's accounts are also affected. Untaxed reserves are reported in the Parent Company due to their link to taxes.

Cash-flow statement

The cash-flow statement was prepared in accordance with the Swedish Financial Accounting Standards Council's Recommendation 7 in accordance with the indirect method. The change in liquid funds for the year is divided into operations, investment operations and financing operations. The starting point for the indirect method is the operating profit or loss adjusted for those transactions that do not entail cash payments. Liquid funds refer to cash and bank balances, as well as current investments. All items included in liquid funds can be converted to cash relatively quickly.

Leasing

Leasing fees for rented equipment are normally expensed during the rental period. The Group does not currently have any significant financial leasing agreements, meaning that all of the Group's leasing agreements are considered as operational

for accounting purposes. The Group's operational leasing agreements amount to insignificant amounts and pertain primarily to a minor number of office machines.

Provisions

Provisions are reported when the Group remains under legal or informal obligation as a result of previous events and where an outlay of resources to regulate the commitment is probable and where it is possible to calculate the amount in a reliable manner. Provision is made in the amount expected to be paid.

Segment reporting

Operations should include products that are subject to risk and a return that differs from other areas of operations. This is not the case in the Axis Group. The Group's joint technology platform is the basis for all products. The development and sales organization and customer groups are virtually identical. In view of this, the Axis group reports only a primary segment, which is the joint technology platform. Thus, segment information encompasses by the Group as a whole.

Geographical segment is a component of an enterprise that provides products and services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Loan costs

All loan costs are expensed as they arise.

Financial instruments

The Group's international operations give rise to a number of financial market risks that are handled in line with the policies established by the Board. The overall objective is that the Group's finance function continually provides financing to Group companies and handles financial risks so that the effects on the Group's earnings is minimized. The group is primarily exposed to financing, currency, and liquidity and credit risks. Liquidity risk refers to the risk that arises when outstanding loans or credits are to be renegotiated. Total credit granted amounted at year-end 2003 to SEK 90 M distributed among three contracts. Interest risk is regarded as insignificant. With interest risk the risk refers to the changes in interest rates affecting the Group's net financial item. Finance risk arises when, at any given time, there are difficulties in obtaining financing. To minimize the costs of the Group's borrowing and financing, the finance function should provide credit flows that cover Group requirements for working credits. The average maturity of outstanding loans and credits must be on average six months with a maximum maturity for individual credits of up to one year. The Group's credit facilities must never expire during the same quarter. All borrowing is done in consultation with the Parent Company's finance function.

The Group's currency risk consists, in part, of transaction risk that arises in conjunction with purchases and sales in foreign currencies and, in part, of translation risk, which is attributable to short-term net assets in foreign subsidiaries in accordance with the MNM method. The Group's policy is to hedge at least 80 percent of market value, as defined below. As regards the hedging of the Group's cash-flow, see definition below, at least 40 percent and no more than 60 percent is hedged for the coming 10 months on the basis of market value. The value of hedging of translation risk is 100 to 140 percent, in order to include any tax effects. Currency futures are used primarily. Currency swaps and currency options are used to a limited extent.

The Group's credit policy has clear guidelines governing the provision of credit granting to customers and when collateral is required. The Group management is of the opinion that there is no major concentration of credit risk in relation to any particular customer, counter-party or geographic region. For investments of liquid assets, only financial instruments with a Moody's rating of P1 or K1, alternatively Standard & Poor's A1, are used. Financial derivatives are reported initially on the basis of Axis' policy regarding time periods for hedging, at their acquisition value in the balance sheet. Subsequently, the instrument is calculated at the prevailing market value on subsequent closing dates. The method for reporting results arising depends on the character of the expected

net flow. When a derivative instrument is taken up, it has the character either of a reported working asset or working liability (market value hedging) or hedging of a planned transaction or a definitive undertaking (cash-flow hedging).

Changes in market value of derivatives whose market value is hedged are reported in the income statement along with any changes in market value of the assets and liabilities covered by risk hedging. The market value period is the period that the underlying net liability or net asset is expected to fall due for payment, and is currently up to two months.

Changes in market value of derivatives categorized as cash-flow hedging are not reported in the income statement or balance sheet. Deferred hedge accounting is applied, which means that the result is reported in the income statement when a derivative is within the period for market value hedging. The time period for cash-flow hedging is 10 months and refers to the net flow in the currencies that are qualified in accordance with the Group's finance policy.

The market value of currency forwards, currency swaps and currency options is calculated using the prevailing spot and forward prices on the closing date. The table below shows a compilation of cash-flow hedges as of December 31, 2003. Market value hedges are included in consolidated earnings.

Currency	Expected net flow	Total derivatives	Hedged portion	Result	Number of months
EUR	19,921	10,350	52%	1,191	10
JPY	190,687	80,000	42%	243	10
USD	-3,983	-1,600	65%	-918	10
				516	

NOTE 2 Information about product area and geographical market

Net sales are distributed by product area as follows:

Group	2003	2002	2001
Video	356,228	301,476	238,322
Print	219,586	277,934	308,537
Scan	10,354	13,082	25,176
Store	18,366	32,104	50,644
Access	2,053	5,795	5,158
Other	17,050	39,886	48,017
	623,637	670,277	675,854
Netch Technologies AB	-	-	20,479
Total	623,637	670,277	696,333

Net sales are distributed by geographical market as follows:

Group	2003	2002	2001
Europe (including Middle East and Africa)	308,339	315,903	330,885
Asia	142,893	174,194	155,672
North and South America	172,405	180,180	209,776
Total	623,637	670,277	696,333

The reported value of assets and investments are distributed by geographic area on the basis of where the assets are located when these amount to a minimum of 10 percent of the group's total assets.

Group	Assets			Investments		
	2003	2002	2001	2003	2002	2001
Europe (including Africa and Middle East)	124,644	160,431	174,510	27,435	14,911	9,795
Asia	61,587	77,058	82,033	736	174	2,570
North and South America	72,484	74,981	112,535	291	319	95
Total	258,715	312,470	369,078	28,462	15,404	12,460

NOTE 3 Personnel

The average number of employees and their distribution by gender during the year was:

	Women			Men			Total		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Parent Company	-	-	-	-	-	-	-	-	-
Denmark	-	-	-	0	-	-	0	-	-
France	4	4	5	7	7	6	11	11	11
Japan	10	9	9	10	11	10	20	20	19
Netherlands	1	1	1	3	3	2	4	4	3
Singapore and Asia Pacific	12	10	11	17	15	17	29	25	28
Spain and Italy	2	2	2	7	5	5	9	7	7
U.K.	1	1	1	4	3	5	5	4	6
Sweden	55	47	70	191	184	255	246	231	324
Germany	3	2	2	7	6	8	10	8	10
U.S.	7	7	10	15	17	21	22	24	31
Group total	95	83	111	261	251	329	356	334	439

Salaries and other remuneration amounted to:	Board & President			Others			Total		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Parent Company	-	-	-	-	-	-	-	-	-
Denmark	-	-	-	73	-	-	73	-	-
France	-	-	-	7,113	6,227	5,484	7,113	6,227	5,484
Japan	-	-	-	10,989	14,767	11,702	10,989	14,767	11,702
Netherlands	-	-	-	1,797	1,859	1,353	1,797	1,859	1,353
Singapore and Asia Pacific	-	-	-	7,416	8,291	9,974	7,416	8,291	9,974
Spain and Italy	-	-	-	2,977	2,424	1,776	2,977	2,424	1,776
U.K.	-	-	-	3,954	3,869	4,713	3,954	3,869	4,713
Sweden	3,859	3,652	3,227	91,810	96,332	139,198	95,669	99,984	142,425
Germany	-	-	-	6,232	4,504	4,619	6,232	4,504	4,619
U.S.	-	-	-	17,472	20,644	31,392	17,472	20,644	31,392
Group total	3,859	3,652	3,227	149,833	158,917	210,211	153,692	162,569	213,438

	Salaries and remuneration			Employer's contributions			(of which, pension costs)		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Parent Company	-	-	-	-	-	-	-	-	-
Subsidiaries	153,692	162,569	213,438	60,919	55,062	72,100	17,419	12,487	15,936
Group total	153,692	162,569	213,438	60,919	55,062	72,100	17,419	12,487	15,936

Remuneration to the Board of Directors

Group	2003	2002	2001
Board of Directors	600	500	325
Group total	600	500	325

Wages, salaries and other remuneration to the Board of Directors and the President were paid through the subsidiary Axis Communications AB.

Remuneration to senior executives

The Chairman of the Board of Directors and its members not employed by the company receive remuneration in accordance with the Annual General Meeting's decisions. No special remuneration is received for committee work.

Remuneration to the President consists of a basic salary, variable compensation and a pension. Other senior executives consist of the five persons who together with the President constitute Group management.

The division between basic salary and bonus should be in relation to the executive's responsibility and authority. For the President, the bonus is a maximum of SEK 5,000,000. For other senior executives, bonus is at most SEK 1,500,000 per person. The bonus to the President and senior executives is based among other factors on financial targets of the group. An operating margin of 25 percent and growth of 45 percent is required for maximum bonus. For the President, the bonus for 2003 was based in part on the Group's sales and in part on the number of financial parameters vis-à-vis the targets established by the Board. No bonus was paid to the President for 2003, since he abstained from a bonus. For other senior executives, the bonus for 2003 was based partly on sales and partly on a number of financial parameters based on the targets established by the Board and personnel targets. No bonus was paid to senior executives for 2003, since they abstained from a bonus. The quality-based portion of the bonus for senior executives may amount to a maximum of 10 percent of annual salary.

Remuneration and other benefits received by senior executives are reported in the table below.

	Basic salary/ Remuneration	Variable Compen- sation	Other Benefits	Pensions Costs	Other Remune- ration	Total
Chairman of the Board	962	-	7	-	-	969
President	2,143	154	-	624	-	2,921
Other senior executives ¹	5,857	615	-	1,319	-	7,791
Employed Board member	588	-	-	131	-	719
	9,550	769	7	2,074	-	12,400

¹ As in the preceding year, four of the five senior executives are men and one is a woman.

The President and senior executives have refrained from their rights to a bonus for 2003. The bonus reported in 2003 in the table above refers to the bonus for 2002. The heading President includes salary paid to the former President in the amount of SEK 836,000 and pension costs of SEK 222,000. Refer also below for how the bonus is calculated.

Other Benefits and Other Remuneration are received on the same grounds as

for other employees. With the exception of the President, Axis only provides defined-benefit pensions. Pension costs relate to the expenses charged against income for the year. See above for further information regarding pensions.

On February 12, 2003, the Chairman of the Board of Directors, who was employed by the company up until October 31, 2002, signed an agreement that gives Axis the right to buy on current account consulting services from LMK Industri AB, which is owned by him. Fees for fiscal 2003 amounted to SEK 594,000. SEK 282,000 remains to be paid and is reported among accrued costs. Pricing is done at agreed hourly rates corresponding to the prevailing consulting fees for similar services. In addition to consulting and Board fees for 2003, the table above also shows vacation pay up until the date of termination of employment. In addition to the remuneration shown in the table, the Chairman received Board fees of SEK 300,000.

Holdings of financial instruments

	From the period prior to 2003		Changes during 2002	
	No. of warrants	No. of warrants	Acquisition price	Value
Chairman of the Board of Directors	-	-	-	-
President	21,000	-	-	-
Other senior executives	88,800	-	-	-
	109,800	-	-	-

During 2003, neither the President nor other senior executives acquired warrants in Axis AB.

Pensions

The retirement age for the President is 65 years. The pension premium should amount to 35 percent of earnings with pension entitlement of up to 28.5 times the base amount. For the salary exceeding 28.5 base amounts, the premium is 25 percent. For other senior executives, the ITP agreement applies with a retirement age of 65.

Severance pay

A mutual period of notice of six months is required with respect to termination or resignation of the President's employment. If employment is terminated at the request of the company, the President is entitled to a severance pay corresponding to a year's salary. Severance pay is not reduced against other income. If employment is terminated at the request of the President, there is no severance pay.

Between the company and four of the other senior executives a mutual period of notice of three months applies. If employment is terminated at the request of the company, the senior executive is entitled to severance pay during the termination period. This amount is not reduced against other income. If the senior executive terminates employment, salary is paid during the termination period. For the fifth senior executive, salary is paid during the termination period, which is 12 months, if employment is terminated at the company's request. If employment is terminated at the senior executive's request, a three-month termination period applies with salary during the termination period.

Determination and decision process

The Compensation Committee provided the Board of Directors with recommendations during the year regarding the principles for remuneration to senior executives. The recommendations comprised the proportions between fixed and bonuses and the magnitude of possible salary increases. In addition, the Compensation Committee proposed criteria for the assessment of bonus results, etc. The Board of Directors discussed the Compensation Committee's proposals and took decisions based on the Committee's recommendations. Remuneration to the President for the 2002 fiscal year was approved by the Board of Directors based on the Compensation Committee's recommendations. Remuneration to other senior executives was determined by the President after consultations with the Compensation Committee.

NOTE 4 Audit fees

Group	2003	2002	2001
Audit fees paid to Öhrlings PricewaterhouseCoopers	535	525	435
Other fees paid to Öhrlings PricewaterhouseCoopers	419	453	847
Audit fees paid to other auditors	515	859	756
Total	1,469	1,837	2,038

Audit fees and other fees paid to the Parent Company's auditors were charged entirely to the subsidiary Axis Communications AB.

NOTE 5 Other operating revenues and other operating expenses

Group	2003	2002	2001
Exchange-rate differences	1,221	7,354	-6,922
Total	1,221	7,354	-6,922

Exchange-rate effects affected net profit/loss by a total of SEK 2,573,000 before tax.

NOTE 6 Result from shares in Group companies

Parent Company	2003	2002
Group contribution received	-	8,535
Write-down of shares in subsidiaries (pertains to Group and shareholder contributions granted)	-19,413	-86
Total	-19,413	8,449

NOTE 7 Interest income and similar income items

	2003	Group 2002	2001	Parent Company 2003	2002
Interest income	4,372	7,169	6,225	4,268	6,986
Capital gain upon sale of shares in subsidiaries	-	-	-	2,830	4,909
Exchange rate differences	3,460	6,849	2,194	38,637	35,468
Total	7,832	14,018	8,419	45,735	47,363

NOTE 8 Interest expense and similar profit/loss items

	2003	Group 2002	2001	Parent Company 2003	2002
Interest expense	-379	-1,234	-2,058	-240	-1,025
Interest expense to Group companies	-	-	-	-33	-417
Exchange rate differences	-	-	-	-15,234	-
Loss on divestment of shares in subsidiaries	-	-	-330	-	-
Write-downs of shares and financial instruments	-	-	-40,861	-	-
Other financial expenses	-270	-1,006	-857	-248	-220
Total	-649	-2,240	-44,106	-15,755	-1,662

NOTE 9 Financial income received

	2003	Group 2002	2001	Parent Company 2003	2002
Interest income	5,317	6,600	5,846	4,268	6,986
Other financial income	-	-	-	2,830	4,909
Total	5,317	6,600	5,846	7,098	11,985

NOTE 10 Financial expenses incurred

	2003	Group 2002	2001	Parent Company 2003	2002
Interest expenses	-418	-1,752	-2,050	-526	-1,713
Interest expenses paid to Group companies	-	-	-	-33	-417
Other financial expenses	-270	-1,006	-	-	-
Total	-688	-2,758	-2,050	-559	-2,130

NOTE 11 Tax

	2003	Group 2002	2001	Parent Company 2003	2002
Current tax	-1,412	-2,069	-3,882	-	-
Deferred tax	-9,488	-13,512	52,327	-8,751	-16,427
Total	-10,900	-15,581	48,445	-8,751	-16,427
Reported profit before tax	8,324	51,436	-149,493	21,564	60,229
Plus:					
Taxable temporary differences	14,704	11,375	51,558	-	-
Non-deductible expenses					
Less:					
Non-deductible expenses					
Expenses charged against equity	-	-	-	-210	-1,561
Taxable profit/loss	23,028	62,811	-97,935	21,354	58,668
Estimated tax	-6,448	-17,587	27,421	-5,979	-16,427
Estimated tax	-6,448	-17,587	27,421	-5,979	-16,427
Deferred tax income relating to temporary differences	-4,854	2,752	13,733	-	-
Deferred tax income relating to untaxed reserves	4,117	2,873	3,499	-	-
Deferred tax effect relating to intra-Group adjustments and changes in Group structure	-497	-1,311	2,949	-	-
Non-deductible costs	-319	-1,504	-815	-542	-
Non-deductible income	27	4	7	-	-
Tax effect relating to difference in tax legislation	-2,230	-	-	-2,230	-
Deferred tax effect relating to differences in tax rates	-696	-807	1,650	-	-
Total tax for the year	-10,900	-15,581	48,445	-8,751	-16,427

NOTE 12 Distribution of depreciation

	2003	Group 2002	2001	Parent Company 2003	2002
Cost of goods and services sold	1,102	856	673	-	-
Selling expenses	1,768	4,344	8,912	-	-
Administrative expenses	1,018	1,359	1,665	626	625
R&D costs	5,166	7,153	8,132	-	-
Total	9,054	13,712	19,382	626	625

NOTE 13 Capitalized expenses for development work

Group	2003	2002	2001
Acquisition value, beginning of year	5,658	-	-
Acquisitions for the year	14,666	5,658	-
Scheduled residual value, end of year	20,324	5,658	-

Of the total capitalized expenses for development work, internal development work accounted for SEK 17,945,000 of which SEK 12,288,000 during 2003.

NOTE 14 Rights

	2003	Group 2002	2001	Parent Company 2003	2002
Acquisition value, beginning of year	3,126	3,126	3,126	3,126	3,126
Acquisitions during the year	8,974	-	-	-	-
Acquisition value, end of year	12,100	3,126	3,126	3,126	3,126
Accumulated scheduled amortization, beginning of year	-2,344	-1,719	-1,094	-2,344	-1,719
Scheduled amortization for the year	-625	-625	-625	-625	-625
Accumulated scheduled amortization, end of year	-2,969	-2,344	-1,719	-2,969	-2,344
Scheduled residual value, end of year	9,131	782	1,407	157	782

The item refers to rights to names and software rights.

NOTE 15 Other intangible fixed assets

Group	2003	2002	2001
Acquisition value, beginning of year	7,686	7,652	8,340
Acquisitions during the year	-	34	5,257
Divestment of subsidiaries	-	-	-5,945
Acquisition value, end of year	7,686	7,686	7,652
Accumulated scheduled amortization, beginning of year	-7,226	-5,922	-3,375
Scheduled amortization for the year	-358	-1,304	-3,533
Company divestments	-	-	986
Accumulated scheduled amortization, end of year	-7,584	-7,226	-5,922
Planned residual value, end of the year	102	460	1,730

The item refers mainly to software.

NOTE 16 Buildings, land and land improvements

Group	2003	2002	2001
<i>Buildings, land and land improvements</i>			
Acquisition value, beginning of year	-	-	8,306
Divestments during the year	-	-	-7,039
Acquisition value, end of year	-	-	1,267
Accumulated scheduled depreciation, beginning of year	-	-	-282
Scheduled depreciation for the year	-	-	-985
Accumulated scheduled depreciation, end of year	-	-	-1,267
Planned residual value, end of the year	-	-	-
Assessed values, Sweden	-	-	-

NOTE 18 Shares in subsidiaries

Shares owned by Parent Company	Reg. Office	Corp. Reg. No.	% of voting rights and shares	No. of shares	Par value	Book value Dec. 31, 03	Dec. 31, 02
Axis Communications AB	Lund	556253-6143	100%	1,600	160	342	342
Gren & Karlsson Firmware AB	Lund	556304-6209	100%	500	100	50	50
Axis Technologies AB	Lund	556485-0765	100%	500	100	50	50
Axis Alfa AB	Lund	556599-4547	100%	500	100	100	100
Axis Beta AB	Lund	556599-4588	100%	500	100	100	100
Axis Gamma AB	Lund	556599-4562	100%	1,000	100	100	100
						742	742

Shares owned by subsidiaries	Reg. Office	% of capital	Shares owned by subsidiaries	Reg. Office	Corp. Reg. No.	% of capital
Axis Communications SA	France	100%	Axis Communications (S) Pte Ltd	Singapore		100%
Axis Communications (UK) Ltd	U.K.	100%	Axis Communications Korea Co. Ltd.	Korea		100%
Axis Communications GmbH	Germany	100%	Axis Communications Ltd	China, Hong Kong		100%
Axis Communications BV	Netherlands	100%	Axis Communications Ltd	China, Shanghai		100%
Axis Attento Aps	Denmark	100%	Axis Communications Pty Ltd	Australia		100%
AxerNet Communications SA	Spain	100%	Axis Communications Ltd	Taiwan		100%
Axis Communications Inc	U.S.	100%	Axis Network AB	Sweden	556505-3450	100%
Axis Communications Ltda	Brazil	100%	Axis Peripherals AB	Sweden	556505-1785	100%
Axis Communications KK	Japan	100%				

NOTE 19 Other securities held as fixed assets

	% of capital	No. of shares	Dec. 31, 03	Book value Parent Company Dec. 31, 02	Dec. 31, 01	Book value Group Dec. 31, 03	Dec. 31, 02
Aptilo Networks	3	723,200	-	-	-	-	-
Poobah Inc	2	6,300	-	-	-	-	-
Total			-	-	-	-	-

NOTE 20 Condominiums

Group	2003	2002	2001
Acquisition value at beginning and end of year	676	676	676

NOTE 17 Inventory and equipment

Group	2003	2002	2001
Acquisition value, at beginning of year	71,147	66,459	93,302
Acquisitions during the year	4,204	9,572	4,736
Sales and scrapping for the year	-73	-4,884	-17,927
Acquisitions/divestments of subsidiaries	-	-	-13,652
Acquisition value, end of year	75,278	71,147	66,459
Accumulated scheduled depreciation, beginning of year	-56,148	-48,218	-56,838
Scheduled depreciation for the year	-8,071	-11,783	-14,239
Sales and scrapping for the year	100	3,853	16,384
Acquisitions/divestments of subsidiaries	-	-	6,475
Accumulated scheduled depreciation, end of year	-64,119	-56,148	-48,218
Planned residual value, end of the year	11,159	14,999	18,241

NOTE 21 Deferred tax receivables

The temporary difference in the Group and Parent Company accounts have resulted in deferred tax receivables and liabilities, respectively, relating to the following items:

	Group			Parent Company	
	2003	2002	2001	2003	2002
Deferred tax receivables					
Tangible and intangible fixed assets	437	352	31	-	-
Financial fixed assets	9,211	11,441	11,441	9,211	11,441
Inventories	1,924	5,435	2,677	-	-
Other provisions	140	1,088	2,461	-	-
Accumulated loss carry-forwards ²	77,293	84,382	103,044	74,596	81,117
Other items	141	224	84	-	-
	89,146	102,922	119,738	83,807	92,558
Deferred tax liabilities¹					
Tax equalization reserve	1,410	5,442	7,994	-	-
Tangible and intangible fixed assets	313	-	-	-	-
	1,723	5,442	7,994	-	-
Net deferred tax receivables	87,423	97,480	111,744	83,807	92,558

¹ Deferred tax liabilities to the same tax authority are reported as a net amount in deferred tax claims as of 2001.

² Accumulated loss carry-forwards relate in all essential respects to the Group's total deficit for tax purposes. These loss carry-forwards do not expire within the foreseeable future.

NOTE 22 Change in equity

Parent Company	Share capital	Legal reserve	Premium fund	Retained earnings	Net profit for the year	Total equity
Balance, beginning of year	689	1,024	291,552	43,802	-	337,067
Dividends	-	-	-	-10,335	-	-10,335
Net profit for the year	-	-	-	-	12,813	12,813
Balance, end of year	689	1,024	291,552	33,467	12,813	339,546

As in the preceding year, the company's share capital consists of 68,900,000 shares of the same type and class with a par value of SEK 0.01.

The company's legal form is a public limited liability company [Aktiefbolaget (publ)]. The country of registration is Sweden, with the registered office in Lund. The main area of operation is Lund.

At the AGM on May 13, no dividend will be proposed for the 2003 fiscal year. For 2002, a dividend of SEK 0.15 per share was paid. No dividend was paid in 2001. Axis' dividend policy is to provide a dividend amounting to about one third of consolidated earnings after tax taking into account the Group's equity/asset ratio goal.

NOTE 23 Share-related remuneration

Axis AB presently has one outstanding warrants program that covers employees. The program was introduced in 1999 and was directed at all employees of the Axis Group. The objective of the program is to stimulate long-term commitment among employees to the development of the Group's operations and profits. Employees in the United States are offered stock options.

All permanent employees in EMEA and Asia are eligible to participate in the program. Permanent employees in the American subsidiary are eligible to participate in a separate stock options program. The latter is directed only towards employees in the United States. In addition to the number of warrants offered to all permanent employees, senior executives are invited to acquire a limited additional number of warrants.

The terms of the American program are such that an option may be exercised upon the new issue of shares occurring after the day the option was acquired by the employee. Options are allotted after three years for the program from 1999. Under the programs from 2000, 2001 and 2002, options are allotted on four occasions over a period of two years, with 25 percent on each occasion.

The subscription price per share corresponds to 130 percent of the average, on each trading day, of the volume-weighted average of the prices quoted during the day according to the Stockholm Exchange official price list for shares in the company computed over a period of five trading days. The warrants may be transferred and do not expire if employees terminate employment.

The table below shows the conditions and effects on equity of the warrants program on full exercise of all warrants. Allotment of shares through the exercise of warrants will be done using newly issued shares.

Recipients	Maturity date	Subscription rate	Acquisition price	Proceeds received	Number of warrants	Number of shares	Number exercised	Dilution
Personnel in Europe and Asia	04-10-01	19.50	2.50	1,025,000	430,000	430,000	-	0.60%
Personnel in Europe and Asia	05-09-30	54.00	6.68	5,812,936	1,128,000	1,128,000	-	1.60%
Personnel in Europe and Asia	05-09-30	63.00	9.00	374,400	172,250	172,250	-	0.30%
Personnel in Europe and Asia	06-10-02	18.00	4.33	959,528	221,600	221,600	-	0.30%
Personnel in Europe and Asia	07-10-02	26.00	5.50	573,100	104,200	104,200	-	0.15%
Personnel in the United States	04-10-01	19.50	2.50	350,000	140,000	140,000	-	0.20%
Personnel in the United States	10-09-30	48.00	15.50	2,669,875	172,250	172,250	-	0.30%
Personnel in the United States	06-10-02	18.00	4.30	382,700	89,000	89,000	-	0.10%
Personnel in the United States	07-10-02	26.00	5.50	352,000	64,000	64,000	-	0.09%
				12,499,539	2,521,300	2,521,300	-	3.64%

The proceeds paid to the parent Company total SEK 12,500,000. No warrants have been redeemed during the 2003 fiscal year or earlier.

Proceeds paid are eliminated against consolidated equity. Thus, the consolidated balance sheet and income statement are unaffected.

NOTE 24 Prepaid expenses and accrued income

	Group			Parent Company	
	2003	2002	2001	2003	2002
Prepaid operating expenses	17,229	16,671	8,202	-	-
Prepaid financial costs and accrued income	4,922	3,900	2,672	4,503	6,973
	22,151	20,571	10,874	4,503	6,973

NOTE 25 Provisions

Group	2003	2002	2001
Restructuring reserve ¹	500	3,664	15,907
Anticipated supplementary purchase payment for software rights ²	6,505	-	-
Other provisions	76	162	218
	7,081	3,826	16,125

¹ The item pertains to rental leases and will be settled during the 2004 fiscal year.

No new provisions were made during 2003.

² The item will be settled on a continual basis from 2004 through the 2006 fiscal year.

Group	2003	2002	2001
Balance, beginning of year	3,826	16,125	3,707
Provisions for the year	6,505	-	15,918
Provisions utilized during the year	-3,250	-12,299	-3,500
Balance, end of year	7,081	3,826	16,125

NOTE 26 Tax equalization reserves

Parent Company	2003	2002
Tax allocation reserve, 1998 tax year	-	14,403
Tax allocation reserve, 1999 tax year	2,767	2,767
Tax allocation reserve, 2000 tax year	2,268	2,268
	5,036	19,439

NOTE 27 Long-term liabilities

All the Group's and Parent Company's long-term liabilities are interest bearing and will mature within 1 to 5 years.

NOTE 28 Accrued expenses and prepaid income

	Group			Parent Company	
	2003	2002	2001	2003	2002
Accrued payroll expense	19,240	18,000	17,046	-	-
Accrued employer's contributions	12,649	11,666	13,472	-	-
Other accrued expenses	18,552	28,837	32,501	1,137	1,224
	50,441	58,503	63,019	1,137	1,224

NOTE 29 Contingent liabilities

Parent Company	2003	2002
Contingent liabilities on behalf of other Group companies	3,585	4,344
	3,585	4,344

NOTE 30 Definitions of key ratios

Equity ratio Equity, including minority interest, as a percentage of total assets.

Return on total assets Profit/loss after financial items plus financial expenses divided by average total assets.

Return on equity Profit/loss after financial items less full tax divided by average equity.

Earnings per share before dilution Profit/loss for the year divided by the average number of shares.

Earnings per share after dilution Profit/loss for the year divided by the average number of shares after full exercise of outstanding warrants.

Lund, February 12, 2004

Mikael Karlsson
Chairman

Ray Mauritsson
President

Patrik Tigerschiöld

Nils Rydbeck

Martin Gren

Lars-Erik Nilsson

Our audit report was submitted on February 12, 2004
Öhrlings PriceWaterhouseCoopers AB

Anders Lundin
Authorized Public Accountant
Senior Auditor

Dan Andersson
Authorized Public Accountant

Auditors' report

To the Annual General Meeting of the shareholders of Axis AB (publ)
Corporate registration number 556241-1065

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Axis AB (publ) for fiscal year 2003. These accounts and the administration of the company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Swedish Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the loss for the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Lund, February 12, 2004
Öhrlings PricewaterhouseCoopers AB

Anders Lundin
Authorized Public Accountant
(Senior auditor)

Dan Andersson
Authorized Public Accountant

EIGHT-YEAR REVIEW

Income statements, SEK 000s	1996/1997	1997/1998	1998/1999	1999/2000	2000, 8 months	2001	2002	2003
Net sales	393,659	521,715	559,789	695,183	493,651	696,333	670,277	623,637
of which Netch ¹	-	-	-	60,703	42,844	20,479	-	-
Costs of goods and services sold	-194,582	-245,825	-238,835	-323,429	-283,356	-340,754	-286,270	-301,906
Gross profit	199,077	275,890	320,954	371,754	210,295	355,579	384,007	321,731
of which Netch	-	-	-	23,108	-18,109	-5,903	-	-
Selling costs	-110,512	-174,305	-184,212	-239,229	-186,648	-212,011	-177,522	-165,062
Administrative expenses	-24,338	-29,446	-36,950	-62,812	-53,483	-66,262	-56,334	-44,766
Research and development expenses	-49,538	-76,709	-93,657	-144,585	-133,065	-151,052	-117,847	-111,982
Items affecting comparability	-	25,959	-	-	-	-33,296	-	-
Other interest income	14,111	-	-	-	-	-	7,354	1,221
Other interest expense	-	-3,233	-1,163	-7,358	-2,139	-6,922	-	-
Result from participations in associated companies	-	-2,865	2,115	-	15	158	-	-
Operating profit/loss	28,800	15,291	7,087	-82,230	-165,025	-113,806	39,658	1,142
of which, Netch	-	-	-	-11,534	-56,877	-30,521	-	-
Net financial items	-701	-4,117	-6,274	19,901	-5,710	-35,687	11,778	7,183
Profit/loss after financial items	28,099	11,174	813	-62,329	-170,735	-149,493	51,436	8,324
of which, Netch	-	-	-	-12,409	-58,638	-31,691	-	-
Tax for the period	-11,660	-1,700	-2,859	18,942	35,790	48,445	-15,581	-10,900
Minority share in profit/loss for the period	-	-	-	-8,281	27,091	10,941	-	-
Net profit/loss for the year	16,439	9,474	-2,046	-51,668	-107,854	-90,107	35,855	-2,576
Balance sheets, SEK 000s	30 April 1997	30 April 1998	30 April 1999	30 April 2000	31 Dec. 2000	31 Dec. 2001	31 Dec. 2002	31 Dec 2003
Fixed assets	36,109	32,636	37,218	79,420	148,651	136,611	122,434	132,532
Inventories	49,369	81,522	77,587	69,887	60,119	46,628	57,944	67,074
Accounts receivable – trade	87,075	102,390	102,277	131,996	137,960	106,339	88,385	94,078
Other receivables	13,813	17,506	31,427	34,522	73,247	18,828	31,714	36,909
Liquid funds	40,509	10,203	-	12,419	195,993	180,773	129,956	102,978
Total	226,875	244,257	248,509	328,244	615,970	489,179	430,483	433,571
Total equity	79,092	87,056	85,010	27,140	379,739	273,014	312,532	300,324
Minority interests	-	-	-	9,905	12,125	-	-	-
Provisions	14,376	12,646	11,342	549	3,707	16,125	3,826	7,081
Long-term liabilities	53,587	67,495	79,713	162,822	51,363	50,000	-	10,200
Current liabilities	79,820	77,060	72,444	127,828	169,036	150,040	114,125	115,966
Total	226,875	244,257	248,509	328,244	615,970	489,179	430,483	433,571
Cash-flow statements, SEK 000s²		1997/1998	1998/1999	1999/2000	2000, 8 month	2001	2002	2003
Cash-flow from current operating activities before change in working capital		2,664	5,932	-79,978	-107,706	-80,502	45,819	15,279
Change in working capital		-53,921	-14,493	30,270	-6,287	54,922	-39,006	-17,119
Cash-flow from current operating activities		-51,257	-8,561	-49,708	-113,993	-25,537	6,813	-1,840
Cash-flow from investing activities		14,351	-12,985	-15,232	-38,465	-12,460	-15,404	-28,462
Cash-flow from financing activities		6,870	10,875	77,827	336,032	22,820	-42,226	3,324
Cash-flow for the period		-30,306	-10,671	12,887	183,574	-15,220	-50,817	-26,978
Liquid funds at beginning of the period		40,509	10,203	-468	12,419	195,993	180,773	129,956
Liquid funds at end of period		10,203	-468	12,419	195,993	180,773	129,956	102,978
Operating cash-flow, SEK 000s	1996/1997	1997/1998	1998/1999	1999/2000	2000, 8 month	2001	2002	2003
Profit/loss after financial items	28,099	11,174	813	-62,329	-170,735	-149,493	51,436	8,324
Depreciation	5,267	7,233	8,110	13,030	13,344	19,382	13,712	9,054
Tax	-16,714	-5,658	-3,870	-1,726	-797	-4,662	-2,069	-2,158
Total	16,652	12,749	5,053	-51,025	-158,188	-134,773	63,079	15,220
Change in working capital	-9,722	-53,921	-14,493	30,270	-6,287	54,922	-39,006	-17,119
Net investments	-5,849	-17,814	-11,831	-29,634	-38,465	-12,460	-15,404	-28,462
Operating cash-flow	1,081	-58,986	-21,271	-50,389	-202,940	-92,311	8,669	-30,361

¹ During the second quarter of 2001, Axis implemented a restructuring, which included the divestment of its 59 percent holding in Netch Technologies.

² Figures for 1996/1997 not available.

Key ratios	1996/1997	1997/1998	1998/1999	1999/2000	2000, 8 months ¹	2001	2002	2003
Net sales growth (%)	20.2	32.5	7.3	24.2	2.6	-1.6 ²	-0.8	-7.0
Gross margin (%)	50.6	52.9	57.3	53.5	42.6	51.1	57.3	51.6
Operating margin (%)	7.3	2.9	1.3	-11.8	-33.4	-16.3	5.9	0.2
Profit margin (%)	7.1	2.1	0.1	-9.0	-34.6	-21.5	7.7	1.3
Depreciation (SEK M)	5.0	7.2	8.1	13.0	20.0	19.4	13.7	9.1
Equity (SEK M)	79	87	85	27	380	273	313	300
Capital employed (SEK M)	133	155	165	200	447	339	311	315
Interest-bearing liabilities (SEK M)	54	67	80	163	51	50	-	10
Net interest-bearing liabilities (SEK M)	13	57	80	150	-145	-131	-130	-93
Total assets (SEK M)	227	244	249	328	616	489	430	434
Return on capital employed (%)	30.3	18.3	5.3	-28.8	-74.0	-26.8	16.5	2.9
Return on total equity (%)	17.6	11.2	3.4	-18.2	-50.7	-19.1	11.7	2.1
Return on shareholders' equity (%)	21.7	11.4	0.9	-111.3	-125.8	-45.8	12.6	2.0
Interest coverage ratio (multiple)	5.5	1.7	1.1	-5.4	-14.3	-2.4	24.0	13.8
Net debt/equity ratio (multiple)	0.2	0.7	0.9	5.6	-0.4	-0.5	-0.4	-0.3
Equity/assets ratio (%)	34.9	35.6	34.2	11.3	63.7	55.8	72.8	69.3
Share of risk-bearing capital (%)	41.2	40.8	38.8	11.3	63.7	57.4	73.9	69.9
Capital turnover rate (multiple)	3.5	3.6	3.5	3.8	2.3	1.8	2.1	2.0
Number of employees (average for period)	165	243	313	445	540	439	334	356
Sales per employee (SEK M)	2.4	2.1	1.8	1.6	1.4	1.6	2.0	1.8
Operating profit per employee (SEK M)	0.2	0.1	0.0	-0.2	-0.5	-0.3	0.1	0.0
Per-share data	1996/1997	1997/1998	1998/1999	1999/2000	2000, 8 month¹	2001	2002	2003
Profit/loss after financial items, SEK	0.24	0.14	-0.03	-1.10	-3.89	-2.17	0.75	0.12
Cash-flow, SEK	-	-	-	-	4.19	-0.22	-0.74	-0.39
Equity, SEK	1.40	1.54	1.51	0.20	5.50	3.96	4.53	4.36
Share price at year end	-	-	-	-	17.50	25.00	18.40	17.00
Share price/shareholders' equity, %	-	-	-	-	318	631	406	390
Dividend	0.04	-	-	-	-	-	-	0.15
Price/earnings ratio (P/E)	-	-	-	-	-	-	35	-
Market value/sales (P/S)	-	-	-	-	1.6	2.5	1.9	1.9
Total number of shares outstanding (000s)	56,400	56,400	56,400	56,400	68,900	68,900	68,900	68,900
Average number of shares (000s)	56,400	56,400	56,400	56,400	65,775	68,900	68,900	68,900

¹ Where applicable, key ratios adjusted for 12 months.

² Compared with pro forma for 2000.

DEFINITIONS

Capital employed Total assets less non-interest bearing liabilities including deferred tax liability.

Capital turnover rate Net sales divided by average capital employed share (adjusted to 12 months for 2000).

Cash-flow per share cash-flow for the year divided by the average number of shares (adjusted to 12 months for 2000).

Equity/assets ratio Shareholders' equity including minority interests as a percentage of total assets.

Equity per share Shareholders' equity divided by the number of shares outstanding.

Gross margin Gross profit as a percentage of net sales.

Interest coverage ratio Profit after net financial items plus financial expenses divided by financial expenses.

Net debt/equity ratio Net interest-bearing liabilities divided by shareholders' equity.

Net interest-bearing liabilities Interest-bearing liabilities reduced by liquid funds.

Operating margin Operating profit as a percentage of sales.

Operating profit/loss Profit/loss after net financial items as a percentage of sales.

Operating profit after depreciation of tangible fixed assets Operating profit after depreciation of tangible fixed assets as a percentage of sales.

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	Full-year 2002	Full-year 2003
Video	66,844	74,756	74,146	85,730	78,849	84,522	88,040	104,817	301,476	356,228
Print	71,184	74,044	72,554	60,152	60,796	57,795	54,063	46,932	277,934	219,586
Scan	3,574	3,425	2,704	3,379	3,042	2,047	2,232	3,033	13,082	10,354
Store	8,321	6,129	9,825	7,829	5,512	3,415	5,154	4,285	32,104	18,366
Access	848	3,087	801	1,059	338	573	850	292	5,795	2,053
Other	13,266	9,209	7,522	9,889	4,014	4,536	4,424	4,076	39,886	17,050
Total	164,037	170,650	167,552	168,038	152,551	152,888	154,763	163,435	670,277	623,637

Invoiced sales by region (SEK 000s)	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Full-year 2002	Full-year 2003
EMEA	76,790	78,033	70,155	90,925	72,859	75,577	74,378	85,525	315,903	308,339
Americas	44,926	46,971	49,054	39,229	42,137	41,198	45,592	43,478	180,180	142,893
Asia	42,321	45,646	48,343	37,884	37,555	36,113	34,793	34,432	174,194	172,405
Total	164,037	170,650	167,552	168,038	152,551	152,888	154,763	163,435	670,277	623,637

Pro forma income statement (SEK 000s)	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Full-year 2002	Full-year 2003
Net sales	164,037	170,650	167,552	168,038	152,551	152,888	154,763	163,435	670,277	623,637
Cost of goods and services sold	-67,801	-74,049	-72,979	-71,441	-70,602	-72,105	-75,694	-83,505	-286,270	-301,906
Gross profit/loss	96,236	96,601	94,573	96,597	81,949	80,783	79,068	79,930	384,007	321,731
Selling costs	-41,605	-45,250	-43,881	-46,786	-42,119	-42,351	-40,158	-40,432	-177,522	-165,062
Administrative expenses	-14,937	-15,281	-12,749	-13,367	-11,412	-10,858	-13,189	-9,307	-56,334	-44,766
Research and development expenses	-31,421	-31,166	-27,054	-28,206	-29,927	-31,138	-25,680	-25,236	-117,847	-111,982
Items affecting comparability	-	-	-	-	-	-	-	-	-	-
Other operating income	2,379	2,686	886	1,403	2,064	-	773	-890	7,354	1,221
Other operating expenses	-	-	-	-	-	-726	-	-	-	-
Net operating profit/loss	10,652	7,590	11,775	9,641	555	-4,290	813	4,065	39,658	1,142
Net profit or loss from financial investments	3,007	1,675	4,398	2,698	2,101	3,633	-355	1,802	11,778	7,183
Net profit/loss after financial items	13,659	9,265	16,173	12,339	2,656	-657	458	5,867	51,436	8,324

P/E Market value divided by profit after full tax.

P/S Market value divided by net sales (adjusted to 12 months for 2000).

Profit/loss per employee Operating profit after depreciation divided by the average number of annual employees.

Profit/loss per share Profit for the period after full tax divided by the average number of shares (adjusted to 12 months for 2000).

Return on capital employed Profit after net financial items plus financial expenses divided by average shareholders' equity.

Return on equity Profit after net financial items less full tax divided by average shareholders' equity.

Return on total capital Profit after net financial items plus financial expenses divided by the average total assets.

Sales per employee Sales divided by the average number of annual employees.

Share of risk-bearing capital Shareholders' equity plus minority interests and deferred tax liabilities as a percentage of total assets.

Senior executives



Executive management

1 RAY MAURITSSON

Born 1962. President and Chief Executive Officer as of February 24, 2003. (Previously Executive Vice President, Platforms and Customized Products.) Employed at Axis since 1995. Shares in Axis: 14,000. Warrants in Axis: 21,000.

2 JÖRGEN LINDQUIST

Born 1965. Will leave his position as Vice President and CFO in May 2004. Shares in Axis: 5,000 Warrants in Axis: 0.

3 BODIL SONESSON

Born 1968. Vice President, Regional Operations. Employed at Axis since 1996. Shares in Axis: 750. Warrants in Axis: 26,000.

4 ANDERS LAURIN

Born 1960. Executive Vice President, Products and System Solutions. Employed at Axis since 1997. Shares in Axis: 9,850. Warrants in Axis: 51,000.

5 BENGT-ARNE MOLIN

Born 1958. Executive Vice President and Chief Technology Officer. Employed at Axis since 1999. Shares in Axis: 750. Warrants in Axis: 4,800.

6 JOHAN LEMBRE

Born 1966. Vice President, Platforms & Customized Products. Employed at Axis since 1999. Shares in Axis: 750. Warrants in Axis: 7,000.

INVESTOR RELATIONS

7 ANNE RHENMAN

Born 1957. Director, Investor Relations & Corporate Communications. Employed at Axis since 2000. Shares in Axis: 200. Warrants in Axis: 61,000.

Board of Directors



1 MIKAEL KARLSSON

Born 1962. Chairman of the Board of Directors. Chairman of LMK Industri AB and Öresund IT Academy. Vice Chairman of the Institute for Economic Research at Lund University. Board member of Beijer Electronics AB, Decuma AB, G&L Beijer AB, Ruben Rausing's Fond, SEB i Lund, Teknikrostiftelsen i Lund, Teligent AB and Visionalis AB. Member of the Royal Academy of Engineering Sciences and the advisory committee for the Lund School of Economics. Member of the Board since 1984. President 1984–1999. Chairman since 2000. Shares in Axis: 18,445,764¹. Warrants in Axis: 0.

2 PATRIK TIGERSCHIÖLD

Born 1964. Vice Chairman of the Board of Directors. President of Skanditek Industriförvaltning AB. Chairman of CMA Microdialysis AB, Vitrolife AB and others. Board member of H Lundén Kapitalförvaltning AB, Mydata Automation AB, PartnerTech AB, PBK Outsourcing AB and Skanditek Industriförvaltning AB. Member of the Board since 2001. Shares in Axis: 5,000. Warrants in Axis: 0.

3 MARTIN GREN

Born 1962. Chairman of Itact AB. Board member since 1984. Shares in Axis: 7,557 471². Warrants in Axis: 1,000.

4 NILS RYDBECK

Born 1946. Board member of Anoto AB and BTH Blekinge Technical College. Member of the Royal Academy of Engineering Sciences. Board member since 1997. Shares in Axis: 0. Warrants in Axis: 3,000.

5 LARS-ERIK NILSSON

Born: 1943. Chairman of Decuma AB and Informationsförlaget Heimdahls AB. Board member of Banqit AB, Consellar AB, Luvit AB, Nexus AB and Teligent AB. Board member since 2003. Shares in Axis: 0. Warrants in Axis: 0.

¹ Privately and through LMK Industri AB.

² Through AB Grenspecialisten.

AUDITORS

Öhrlings PricewaterhouseCoopers

Senior auditor

Anders Lundin, born 1956.

Authorized Public Accountant.

Assigned to Axis since 1996.

Dan Andersson, born 1956.

Authorized Public Accountant.

Assigned to Axis since 2001.

Board of Directors' working procedures

Axis' Board of Directors consists of five members elected at the Annual General Meeting. During the 2003 fiscal year, the Board held ten meetings of which six were regular meetings and one was statutory. The guidelines for the Board of Directors' work follow an annual agenda and a special working procedure prepared by the Board of Directors in which the division of responsibilities between the Board of Directors and the President is specified. The Chairman of the Board of Directors leads the Board's work and continuously monitors business development. During the year, the Chairman and an additional Board member have assisted in certain projects focused on strategy, business development and innovation processes.

The year began with an extra meeting in view of the appointment of a new President. The Chairman was given the assignment of preparing and implementing a recruitment plan.

In addition, the Board of Directors devoted a large portion of its work during the year to a review of Axis' strategy and business focus as well as focusing on market and sales trends with the associated issues regarding partners and acquisitions. To this end, regular reporting and discussion was also introduced relating to current major end-customer projects and developments in the reseller, distributor and OEM channels. The Board of Directors also carefully monitored the earnings trend and established new long-term financial goals, which are described in greater detail on page 8. In addition, decision items during the year included major investments in technology, organizational changes and regular quality reports to the Board of Directors.

As in the preceding year, the Board of Directors appointed a Compensation Committee charged with preparing proposals to the Board regarding guidelines for salaries and compensation programs. The Committee's assignments also included dealing with issues relating to employment terms for senior executives and the President, bonus and incentive programs for employees, and salary or other compensation to employees or Board members engaged in consulting assignments. Since the Annual General Meeting, the Compensation Committee has consisted of Patrik Tigerschiöld as convener and Lars-Erik Nilsson. Since

the Board of Directors only consists of five members, a decision was made not to appoint an Audit Committee. These control issues are instead addressed by the Board of Directors in its entirety, meaning that the Board of Directors continuously monitors the Company's financial position. To ensure that information requirements are satisfied, the Company's auditors report to the Board of Directors on two occasions each year at which time they provide their assessment of the accounts and observations from reports and accounting records. In addition, the Chairman has had two separate meetings and certain ongoing contacts with the Auditors.

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

Proposals and comments from shareholders regarding the composition of the Board of Directors may be submitted to the Chairman, either in writing under the address Mikael Karlsson, Axis AB, Emdalavägen 14, SE-223 69 Lund, Sweden, or by telephone to +46-46 272 1801.

Glossary

ASIC Application Specific Integrated Circuit A circuit that is designed for a specific application, rather than a circuit for more general functions, such as a microprocessor. The use of ASICs as components in electronic products can improve performance, reduce power consumption, increase reliability and reduce costs.

Bluetooth Bluetooth is an open standard for wireless transmission of voice and data between mobile devices (computers, handheld devices, telephones, printers).

CCTV Closed Circuit Television is a private video system within a building or facility that is used for visual surveillance of an area for security or industrial purposes.

CD-ROM Compact Disc – Read-Only Memory. An optic disc that is used to store text, graphics and sound for computer applications. The stored data cannot be modified or rewritten.

IP Internet Protocol. A communication and transport protocol used to transfer data via the Internet. See also TCP/IP.

Linux Linux is what is called an open source operating system within the UNIX family. Due to its stability and availability, Linux has won popularity within the open-source community and with respect to commercial applications.

MCM Multi-chip module. Several chips packaged in the same module.

MPEG Motion Picture Experts Group. Standards for digital video and audio compression. The most well-known is MPEG-2, which is used for DVD and digital television.

Network camera A digital video camera with a built-in Ethernet network connection and Web server. The digitally compressed video from the camera can be seen immediately from all computers connected to the network.

OEM Original Equipment Manufacturer. A designation for companies that manufacture equipment that is then marketed and sold by other companies under their own name.

Print server A thin server that connects a printer to a network and lets users share the printer. It may be a separate unit or a plug-in card in the printer.

Protocol A set of formal rules that describe how data shall be transferred over a network. Low-level protocols define electrical and physical standards, while high-level protocols define data formats. TCP and IP are examples of high-level protocols.

Server EA computer or software application that provides services to other computers that are connected to it by a network. The most common example is a file server that has a local disk and which handles requests from clients to read and write files on this disk.

TCP/IP Transmission Control Protocol over Internet Protocol. The TCP/IP protocol defines how data can be transferred in a secure manner between networks. TCP/IP is the most common communication standard and the basis for how the Internet works.

USB Universal Serial Bus. An external data bus for data transfer.

Video server A video server includes a built-in network connection and a Web server. Its task is to take analog video (PAL/NTSC) from traditional cameras, digitize and compress the video and make the digital video stream available over a data network.

Invitation to Annual General Meeting

The Annual General Meeting will be held at Edison Park, Emdalavägen 14, Lund, Sweden, on Thursday, May 13, 2004 at 5:00 p.m.

Shareholders who wish to participate in the Meeting must be listed in the share register maintained by VPC AB (Swedish Securities Register Center) not later than Monday, May 3, 2004. Those shareholders whose shares are registered in the name of a trustee, must in sufficient time ensure that the bank or broker managing the shares effects a temporary owner registration, so-called voting right registration, a few days before May 3, 2004.

Notice to participate must also be made to Axis AB not later than 4:00 p.m., Friday, May 7, 2004. At noti-

fication, the shareholder should provide name, personal identification or corporate registration number, address and telephone number. If participation is by proxy, this document must be forwarded prior to the Meeting. In connection with notification, the number of assistants that the shareholder wishes to bring should be noted. Notification can be made

- in writing to Axis AB, Attn: Adrienne Jacobsen Emdalavägen 14, SE-223 69 Lund, Sweden,
- by telephone, +46-46 272 18 00 to Axis's head office, or
- by e-mail at address bolagsstamma@axis.com

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AXIS 230
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