

## Interim Report January–September 2004

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### Continued rise in profits and Video growth

- Net sales during the period amounted to SEK 492 M (460).
- Operating profit amounted to SEK 20 M (loss: 3).
- Profit before tax was SEK 26 M (2).
- Profit after tax amounted to SEK 21 M (3).
- Earnings per share were SEK 0.30 (0.04).

***About Axis.** Axis increases the value of network solutions. The company is an innovative market leader in network video and print servers. Axis' products and solutions are focused on applications such as security surveillance, remote monitoring and document management. The products are based on in-house developed chip technology, which is also sold to third parties. Axis was founded in 1984 and is listed on the Stockholm Stock Exchange (XSSE:AXIS). Axis operates globally with offices in 14 countries and in cooperation with distributors, system integrators and OEM partners in 70 countries. Markets outside Sweden account for more than 95 percent of sales. Information about Axis can be found at [www.axis.com](http://www.axis.com).*

## **Sales**

During January–September 2004, Axis' net sales rose by 7 percent to SEK 492 M (460). Exchange rates had a negative impact of SEK 28 M on sales during the period.

Sales for the third quarter amounted to SEK 172 M (155), up 11 percent compared with the corresponding quarter in the preceding year.

The Video product area continues to show favorable sales growth in all regions. During the nine-month period, the product area accounted for SEK 330 M of total sales, rising by 31 percent compared with the year-earlier period. Video growth in the third quarter was 34 percent compared with the year-earlier period. The introduction of Axis' new video products and cooperation with local and international partners, made a strong contribution to the positive sales trend.

Demand within the Print product area was restrained throughout the period. Sales during the third quarter fell by 28 percent compared with the year-earlier period.

Demand for Axis' OEM products is characterized by continuing restraint. During the nine-month period, OEM sales accounted for 15 percent (18) of Axis' total sales.

## **Operating profit**

The Group's operating profit for January–September 2004 improved by SEK 23 M, corresponding to an operating margin of 4.0 percent (negative: 0.6). Profit after financial items amounted to SEK 26 M (2) and profit after tax to SEK 21 M (3). Currency exchange rates had no significant impact on operating profit.

The gross margin during the nine-month period was 51.6 percent (52.5). During 2004, the gross margin has improved from 49.3 percent in the first quarter to 53.5 percent in the third quarter.

Operating earnings during the third quarter rose by SEK 17 M, compared with the year-earlier period, to SEK 18 M, corresponding to an operating margin of 10.2 percent (0.5).

## **Cash flow and financial position**

Cash flow from operating activities amounted to SEK 20 M (negative: 25). Net investments totaled

SEK 11 M (15). In accordance with the Swedish Financial Accounting Standards Council's recommendation RR15 applied by Axis, development costs amounting to SEK 9 M were capitalized during the period. The increased inventories during the period were attributable to the ongoing renewal of the product portfolio.

Axis had SEK 114 M in liquid funds and unutilized credit facilities totaling SEK 80 M, resulting in total available disposable funds of SEK 194 M at September 30, 2004.

## **Shareholders' equity**

The Group's shareholders' equity amounted to SEK 321 M. The change during the period was attributable entirely to profit for the period. The total number of shares on the closing date was 68,900,000. After full exercise of all warrants outstanding, the number of shares totals 71,421,300. The Group's equity/assets ratio at September 30, 2004 was 68 percent (72).

## **Business development**

During the period, Axis delivered as planned video products based on ARTPEC-2, the company's in-house developed video chip. The products enjoyed a favorable reception from the security and surveillance sector. The broader product portfolio is increasing Axis' ability to satisfy requirements for intelligent network video solutions, even for applications other than traditional security purposes. Areas within which video solutions can add considerable value include the retail trade, healthcare and education sectors.

Significantly increased interest in intelligent network video solutions was noted during the ASIS security tradeshow in the U.S. At the same time, a number of new business partnerships focusing on larger, integrated security solutions were announced.

The global cooperation with Securitas in the field of IP-surveillance, which was entered into in June, is continuing as planned. The focus has recently been on training programs within Securitas' international organization. Axis has also received a significant order from Comision Federal de Electricidad, Mexico's largest electricity suppli-

er, which selected Axis' network video products for security surveillance of five facilities. In parallel with the activities within the Video sector, Axis continued the development of its offering for small and midsize companies in the Print area. During the period, Axis in cooperation with Canon developed the new AXIS 1650 Network Print Server. In September, an initial major order was received from Canon for this print server.

#### **Development during the remainder of 2004**

Axis' positive view of the long-term trend and the assessment of strong growth potential remains unchanged. However, the sales trend in the Print product area is expected to remain restrained. The goal to achieve profitable growth during the full-year 2004 remains unchanged after the first three quarters of the year.

#### **Accounting principles**

The interim report was prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 20, Interim Reports. The accounting principles and methods of calculation are the same as those applied in the most recent Annual Report. With regard to the Swedish Financial Accounting Standards Council's recommendation RR 29, Employee Benefits, the Axis Group has pension undertakings that are partly defined benefit, but due to, among other factors, equalization in the insurance companies, these pension plans, which include several employers, are so-called multi-employer plans. Adequate information from the insurance companies is currently not available to be able to report the undertaking as a defined-benefit undertaking. Consequently, these plans are reported as if they were defined contributions.

The company's segment comprises one operating sector.

#### **Nomination Committee**

Axis' Nomination Committee consists of representatives of the three largest owners: Mikael Karlsson (LMK Industri AB), Patrik Tigerschiöld (Skanditek Industriförvaltning) and Martin Gren (AB Grenspecialisten). Mikael Karlsson, who is also

Chairman of the Board and the largest owner, is the convener.

Proposals and opinions from other shareholders regarding the composition of the Board can be submitted either in writing to:

Mikael Karlsson, Axis AB, Emdalavägen 14,  
SE-223 69 LUND,  
or by calling +46-8-272 18 01.

#### **Parent Company**

The Parent Company's activities focus primarily on Group-wide administration. The Parent Company has no employees. The Parent Company reported an operating loss of SEK 1 M (loss: 2). Liquid funds amounted to SEK 67 M (SEK 0 at January 1, 2004) and total borrowing amounted to SEK 0 (SEK 0 at January 1, 2004). Investments during the first nine months of the year amounted to 0 (0).

#### **Forthcoming financial reports**

Preliminary year-end report for 2004 will be published on February 9, 2005.

Lund, October 15, 2004

Ray Mauritsson  
*President and CEO*

#### **Audit review**

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

Lund, October 15, 2004

Öhrlings PricewaterhouseCoopers AB  
Anders Lundin,  
*Authorized Public Accountant*  
Senior Auditor

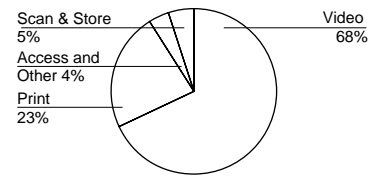
Dan Andersson,  
*Authorized Public Accountant*

Invoiced sales by product group (SEK 000s)	Q1 2004	Q2 2004	Q3 2004	Q3 2003	Q1-Q3 2004	Q1-Q3 2003
Video	96,744	115,193	117,576	88,040	329,513	251,411
Print	43,053	45,832	39,010	54,063	127,895	172,654
Scan	1,871	935	5,824	2,232	8,630	7,321
Store	3,025	1,936	2,243	5,154	7,204	14,081
Access	3,428	265	163	850	3,856	1,761
Other	3,948	3,413	7,682	4,424	15,043	12,974
<b>TOTAL</b>	<b>152,069</b>	<b>167,574</b>	<b>172,498</b>	<b>154,763</b>	<b>492,141</b>	<b>460,202</b>

Invoiced sales by region (SEK 000s)	Q1 2004	Q2 2004	Q3 2004	Q3 2003	Q1-Q3 2004	Q1-Q3 2003
EMEA	78,058	81,019	83,022	74,378	242,099	222,814
Americas	39,713	55,127	56,530	45,592	151,370	128,927
Asia	34,298	31,428	32,946	34,793	98,672	108,461
<b>TOTAL</b>	<b>152,069</b>	<b>167,574</b>	<b>172,498</b>	<b>154,763</b>	<b>492,141</b>	<b>460,202</b>

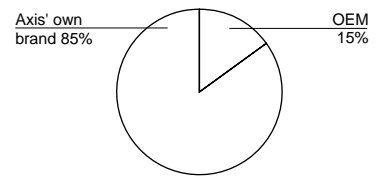
Income statement in brief (SEK 000s)	Q1 2004	Q2 2004	Q3 2004	Q3 2003	Q1-Q3 2004	Q1-Q3 2003
Net sales	152,069	167,574	172,498	154,763	492,141	460,202
Gross profit	74,915	86,585	92,368	79,068	253,868	241,800
Gross margin	49.3%	51.7%	53.5%	51.1%	51.6%	52.5%
Operating profit/loss	-5,942	7,885	17,637	813	19,580	-2,922
Operating margin	-3.9%	4.7%	10.2%	0.5%	4.0%	-0.6%
Profit/loss after financial items	-1,644	9,001	18,597	458	25,954	2,458

INVOICED SALES BY PRODUCT GROUP  
Q3, 2004



Video, Axis' largest product area, continued to show favorable growth in all regions.

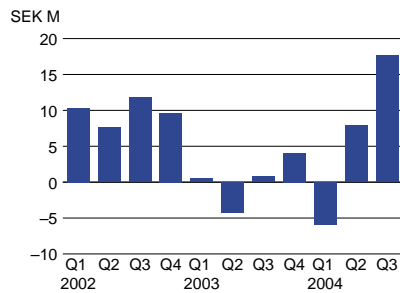
SALES BRANDED PRODUCTS/OEM  
Q3, 2004



Demand for OEM products continues to be restrained.

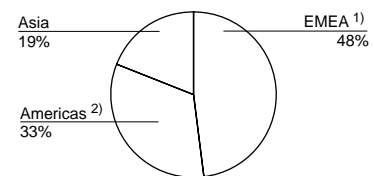
Quarterly data for 2002-2004 is presented on the last page of this report.

OPERATING PROFIT/LOSS (EBIT)



Axis continues to report a positive earnings trend. Operating profit for the third quarter was more than double the amount reported in the preceding quarter.

INVOICED SALES BY REGION  
Q3, 2004



<sup>1)</sup> Europe, Middle East, Africa  
<sup>2)</sup> North, South and Central America

Compared with the immediately preceding quarter, a positive sales trend was noted in all regions.

## Income statement

(SEK 000s)	12 mos.					
	Q3 2004	Q3 2003	Q1-Q3 2004	Q1-Q3 2003	Full year 2003	Oct. 03- Sep. 04
Net sales	172,498	154,763	492,141	460,202	623,637	655,576
Cost of goods and services sold	-80,130	-75,694	-238,273	-218,401	-301,906	-321,778
<b>Gross profit</b>	<b>92,368</b>	<b>79,068</b>	<b>253,868</b>	<b>241,801</b>	<b>321,731</b>	<b>333,798</b>
Sales costs	-36,246	-40,158	-114,078	-124,629	-165,062	-154,511
Administrative costs	-10,356	-13,189	-31,796	-35,459	-44,766	-41,103
Research and development costs	-28,542	-25,680	-85,737	-86,745	-111,982	-110,974
Other operating income and expenses	413	773	-2,677	2,111	1,221	-3,567
<b>Operating profit/loss</b>	<b>17,637</b>	<b>813</b>	<b>19,580</b>	<b>-2,922</b>	<b>1,142</b>	<b>23,644</b>
Net financial items	960	-355	6,374	5,380	7,183	8,177
<b>Profit after financial items</b>	<b>18,597</b>	<b>458</b>	<b>25,954</b>	<b>2,458</b>	<b>8,324</b>	<b>31,820</b>
Tax	-5,091	-681	-5,184	472	-10,900	-16,556
<b>Profit/loss for the period</b>	<b>13,506</b>	<b>-223</b>	<b>20,770</b>	<b>2,930</b>	<b>-2,576</b>	<b>15,264</b>
Earnings per share before dilution (SEK)	0.20	0.00	0.30	0.04	-0.04	0.22
Earnings per share after dilution (SEK)	0.20	0.00	0.30	0.04	-0.04	0.22
Number of shares before dilution, average (000s)	68,900	68,900	68,900	68,900	68,900	68,900
Number of shares after dilution, average (000s)	68,900	68,900	68,900	68,906	68,900	68,900

## Cash-flow statement

(SEK 000s)	12 mos.					
	Q3 2004	Q3 2003	Q1-Q3 2004	Q1-Q3 2003	Full year 2003	Oct. 03- Sep. 04
Cash flow from ongoing operations before change in operating capita	18,000	550	22,486	330	15,279	37,435
Change in operating capital	14,728	-17,825	-2,859	-25,056	-17,119	5,078
Cash flow from ongoing operations	32,728	-17,275	19,627	-24,726	-1,840	42,513
Cash flow from investment operations	-3,016	-5,860	-11,037	-14,557	-28,462	-24,942
Cash flow from financing operations	-1,019	5,865	2,569	-1,439	3,324	7,332
<b>Cash flow for the period</b>	<b>28,693</b>	<b>-17,270</b>	<b>11,159</b>	<b>-40,722</b>	<b>-26,978</b>	<b>24,903</b>
Liquid funds on the opening date	85,444	106,504	102,978	129,956	129,956	89,234
Liquid funds on the closing date	114,137	89,234	114,137	89,234	102,978	114,137

## Balance sheet

(SEK 000s)	Sep. 30, 2004	Sep. 30, 2003	Dec. 31, 2003
Fixed assets	130,249	130,929	131,785
Inventories	89,191	73,051	67,074
Receivables from customers	105,226	90,334	94,078
Other receivables	30,902	38,780	37,656
Liquid funds	114,137	89,234	102,978
<b>Total</b>	<b>469,705</b>	<b>422,328</b>	<b>433,571</b>
Shareholders' equity	321,057	305,387	300,324
Provisions	6,648	1,464	7,081
Long-term liabilities	7,762	6,930	10,200
Current liabilities	134,238	108,547	115,966
<b>Total</b>	<b>469,705</b>	<b>422,328</b>	<b>433,571</b>

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

	Q3 2004	Q3 2003	Q1-Q3 2004	Q1-Q3 2003	Full year 2003
Net sales growth (%)	11.5	-7.6	6.9	-8.4	-7.0
Gross margin (%)	53.5	51.1	51.6	52.5	51.6
Operating margin (%)	10.2	0.5	4.0	-0.6	0.2
Profit margin (%)	10.8	0.3	5.3	0.5	1.3
Depreciation (SEK M)	11	9	11	9	9
Shareholders' equity (SEK M)	321	305	321	305	300
Capital employed (SEK M)	334	308	334	308	315
Interest-bearing liabilities (SEK M)	8	7	8	7	10
Net interest-bearing liabilities (SEK M)	-106	-82	-106	-82	-93
Total assets (SEK M)	470	422	470	422	434
Return on capital employed (%)	23.2	0.9	8.3	1.3	2.9
Return on total capital (%)	16.7	0.6	6.0	0.9	2.1
Return on shareholders' equity (%)	17.2	0.4	8.0	0.8	2.0
Interest coverage ratio (multiple)	82.2	3.0	38.2	6.0	13.8
Net debt/equity ratio (multiple)	-0.3	-0.3	-0.3	-0.3	-0.3
Equity/assets ratio (%)	68.4	72.3	68.4	72.3	69.3
Proportion of risk-bearing capital (%)	68.7	73.6	68.7	73.6	69.9
Capital turnover rate (multiple)	2.1	2.0	2.0	2.0	2.0
Number of employees (average for the period)	344	354	342	358	356
Sales per employee (SEK M)	2.0	1.7	1.9	1.7	1.8
Operating result per employee (SEK M)	0.2	0.0	0.1	0.0	0.0

## Per-share data<sup>1</sup>

	Sep. 30, 2004	Sep. 30, 2003	Dec. 31, 2003
Share price on closing date (SEK)	14.95	14.30	17.00
Dividend (SEK)	-	0.15 <sup>2</sup>	0.15 <sup>2</sup>
P/E ratio	37	268	neg
Number of shares outstanding (000s)	68,900	68,900	68,900

<sup>1</sup> Where necessary, key ratios, as in earlier reports, have been adjusted to 12 months.

<sup>2</sup> Dividends of SEK 0.15 per share for the year 2002 was paid in 2003.

## Quarterly data

Invoiced sales by product group (SEK 000s)	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004
Video	66,844	74,756	74,146	85,730	78,849	84,522	88,040	104,817	96,744	115,193	117,576
Print	71,184	74,044	72,554	60,152	60,796	57,795	54,063	46,932	43,053	45,832	39,010
Scan	3,574	3,425	2,704	3,379	3,042	2,047	2,232	3,033	1,871	935	5,824
Store	8,321	6,129	9,825	7,829	5,512	3,415	5,154	4,285	3,025	1,936	2,243
Access	848	3,087	801	1,059	338	573	850	292	3,428	265	163
Other	13,266	9,209	7,522	9,889	4,014	4,536	4,424	4,076	3,948	3,413	7,682
<b>TOTAL</b>	<b>164,037</b>	<b>170,650</b>	<b>167,552</b>	<b>168,038</b>	<b>152,551</b>	<b>152,888</b>	<b>154,763</b>	<b>163,435</b>	<b>152,069</b>	<b>167,574</b>	<b>172,498</b>

Invoiced sales by region (SEK 000s)	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004
EMEA	76,790	78,033	70,155	90,925	72,859	75,577	74,378	85,525	78,058	81,019	83,022
Americas	44,926	46,971	49,054	39,229	42,137	41,198	45,592	43,478	39,713	55,127	56,530
Asia	42,321	45,646	48,343	37,884	37,555	36,113	34,793	34,432	34,298	31,428	32,946
<b>TOTAL</b>	<b>164,037</b>	<b>170,650</b>	<b>167,552</b>	<b>168,038</b>	<b>152,551</b>	<b>152,888</b>	<b>154,763</b>	<b>163,435</b>	<b>152,069</b>	<b>167,574</b>	<b>172,498</b>

The Annual Report for 2003 is available on Axis' Web site,  
[www.axis.com/corporate/investor/financial\\_reports.htm](http://www.axis.com/corporate/investor/financial_reports.htm)

Further information is available from the President, Ray Mauritsson, tel: +46-46 272 18 00.



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