



## Axis Aktiebolag (publ)

(A public company incorporated with limited liability in the Kingdom of Sweden)

### Global Offering

**of up to 12,500,000 Shares of nominal value SEK 0.01 each**  
**Offering price range: SEK 32.00 to SEK 41.00 per Share**

A total of up to 12,500,000 new Shares will be offered for subscription (the "New Shares") by Axis Aktiebolag (publ) (the "Company") through Enskilda Securities AB and its affiliates ("Enskilda Securities") pursuant to the institutional offering (the "Institutional Offering") and the public offering (the "Public Offering," and together with the Institutional Offering, the "Offering") described in this document. The Institutional Offering will be directed at Swedish and international institutional investors. The Public Offering will be directed at members of the general public in Sweden, including employees of the Company.

Certain shareholders of the Company (the "Selling Shareholders") have granted to Enskilda Securities an option (the "Over-Allotment Option"), exercisable on or before July 21, 2000, to procure purchasers for up to 1,875,000 Shares (the "Additional Shares," and together with the New Shares, the "Sale Shares") solely to cover over-allotments, if any.

Prior to the Offering, there has been no public market for any Shares. The Shares have been admitted to the O-list of the OM Stockholm Exchange, and trading in the Shares on the O-list will commence on or about June 27, 2000.

In connection with the Offering, Enskilda Securities as stabilizing manager may over-allot or effect transactions which stabilize or maintain the market price of the Shares at a level which might not otherwise prevail in the open market. Such stabilization, if commenced, may be effected on the OM Stockholm Exchange prior to and including July 21, 2000, and may be discontinued at any time.

#### **Manager**

Enskilda Securities AB

The date of this Confidential Offering Circular is May 30, 2000

# IMPORTANT NOTICE

The Board of Directors of the Company accepts responsibility for the information contained in this document. So far as the Directors are aware, the information contained in this document is in accordance with the facts and no material information has been omitted from this document which could affect the presentation of the Company or of the Company and its subsidiaries (together, the “Group”) in this document.

No representation or warranty, express or implied, is made by Enskilda Securities or any of its respective affiliates as to the accuracy or completeness of the information set out herein, and nothing contained in this document is, or shall be relied upon as, a promise or representation by Enskilda Securities or its affiliates or any of them as to the past or the future.

This Offering Circular is confidential and is being furnished by the Company and the Selling Shareholders in connection with an offering exempt from, or not subject to, the registration requirements of the U.S. Securities Act of 1933, as amended (the “Securities Act”), solely for the purpose of enabling a prospective investor to consider the purchase of the Sale Shares. The information contained in this Offering Circular has been provided by the Company, the Selling Shareholders and other sources identified herein. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Sale Shares offered hereby is prohibited. Each offeree of the Sale Shares, by accepting delivery of this Offering Circular, agrees to the foregoing.

No person has been authorized to give any information or to make any representation in connection with the Offering other than as contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorized by the Company, the Selling Shareholders or Enskilda Securities. Neither the delivery of this Offering Circular nor any sale made in connection with the Offering shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof. This document does not constitute an offer of, or an invitation by or on behalf of, the Company, the Selling Shareholders or Enskilda Securities to purchase any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful. No representation or warranty, express or implied, is made by Enskilda Securities or any of its affiliates as to the accuracy or completeness of the information set out herein, and nothing contained in this document is, or shall be relied upon as, a promise or representation by Enskilda Securities or its affiliates as to the past or the future.

Other than in Sweden, neither the Company, the Selling Shareholders nor Enskilda Securities will take any action that would permit a public offering of the Sale Shares or the circulation or distribution of

this Offering Circular or any other offering materials in relation to the Company or its subsidiaries or the Sale Shares in any country or jurisdiction where action for such purpose would be required. This Offering Circular may not be used for or in connection with any offer to, or solicitation by, any person in any jurisdiction or in any circumstances in which such use, offer or solicitation by, any person in any jurisdiction or in any circumstances in which such use, offer or solicitation is unauthorized or unlawful or would require any offering document, registration or other measures to be taken in addition to those required under Swedish law or otherwise contemplated hereby, and no such offer or solicitation is being made to or by any person whose participation would require any such measures to be taken. The distribution of this Offering Circular and the offering or sale of the Sale Shares in certain jurisdictions are restricted by law. Persons into whose possession this Offering Circular may come are required by the Company, the Selling Shareholders and Enskilda Securities to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers and sales of the Sale Shares and the distribution of this Offering Circular is set forth under “Selling Arrangements.”

The Sale Shares may not be offered or sold in the United States except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act. Certain of the Sale Shares may be offered and sold in the United States exclusively to persons that Enskilda Securities reasonably believe to be qualified institutional buyers as defined in Rule 144A under the Securities Act (“QIBs”). Other Shares are being offered outside the United States in accordance with Regulation S under the Securities Act. Any purchaser of the Sale Shares in the United States is hereby notified that the offer and sale of such securities to it may be made in reliance upon the exemption from the registration requirements provided by Rule 144A under the Securities Act.

Disputes in connection with the Offering shall be decided exclusively pursuant to Swedish law and exclusively by Swedish courts. In the event of any differences between the text contained in this document and the text contained in the Swedish Prospectus, the latter shall prevail.

The Sale Shares have not been qualified for sale under the securities laws of Canada or any province or territory thereof and may not be offered or sold, directly or indirectly, in any province or territory of Canada or to residents thereof except in compliance with the applicable securities rules of such province or territory. In the ordinary course of their respective businesses, Enskilda Securities and certain of its affiliates may have engaged, and may in the future engage, in investment banking and commercial banking transactions with the Company and its affiliates.

Enskilda Securities is acting as placing agent to the Company and the Selling Shareholders for the purposes of arranging the Offering. Enskilda Securities is regulated by the Swedish Financial

Supervisory Authority (Finansinspektionen). Neither Enskilda Securities nor any of its subsidiaries is advising any person, and neither Enskilda Securities nor any of its affiliates will be responsible for providing to any person (whether or not a recipient of this document or any other information) in relation to the Offering the protections afforded to its customers.

No document issued in connection with the Offering may be passed on to any person in the United Kingdom unless that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996, as amended, or is a person to whom the document may otherwise lawfully be issued or passed on.

**IN MAKING ANY INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COMPANY AND THE TERMS OF THE OFFERING INCLUDING THE MERITS AND RISKS INVOLVED. ANY DECISION TO BUY SALE SHARES SHOULD BE BASED SOLELY ON THE FINAL OFFERING CIRCULAR. THE SALE SHARES HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.**

NOTICE TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT ANY EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The discussion in this Offering Circular contains various forward-looking statements which reflect management's current views with respect to certain future events, objectives and financial performance. The words "believe," "expect," "anticipate," "intend," "plan" and similar expressions identify forward-looking statements. However, a number of factors could cause actual results to differ materially from those projected or implied in such forward-looking statements. These factors include, but are not limited to: the lack of market acceptance of current and future products, if any, of the Company;

the Company's inability to manage growth; the competitive environment in the Company's business in general and in the Company's specific market segments; failure to comply with current and future government regulations governing the Company, its production and the marketing of its products; economic downturns in general and in the Company's specific market segments; changes in operating strategy or development plans; the Company's inability to attract and retain qualified personnel; the unenforceability or lack of protection of the Company's patents and proprietary rights; the

indebtedness of the Company; the ability to negotiate agreements with suppliers on favorable terms; changes in the Company's capital expenditure plans; and other factors referenced herein, including under the heading "Risk Factors." Further, certain forward-looking statements are based upon assumptions of future events, which may not prove to be accurate. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements.

## AVAILABLE INFORMATION

The Company will furnish to holders of Shares annual reports which include the Company's audited consolidated financial statements prepared in conformity with generally accepted accounting principles in Sweden ("Swedish GAAP") and expressing all amounts in Swedish kronor. The financial statements included in the annual reports will be examined and reported upon, with an opinion expressed, by the Company's independent auditors. The Company will also furnish to holders of Shares quarterly reports for the first three

quarters of each year, which will include unaudited consolidated financial information prepared in conformity with Swedish GAAP.

For so long as any of the Sale Shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from such reporting

requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company will furnish to each holder or beneficial owner of Sale Shares or any prospective purchaser designated by such holder or beneficial owner such information as will permit compliance with Rule 144A thereunder in connection with resales of Sale Shares.

## ENFORCEMENT OF LIABILITIES AND SERVICE OF PROCESS

The Company is a public limited liability company (publikt aktiebolag) organized under the laws of the Kingdom of Sweden ("Sweden"). Substantially all of its directors, all of its executive officers, the Selling Shareholders and certain experts named herein reside in Sweden or other jurisdictions outside the United States. A substantial portion of the assets of the Company, the Selling Shareholders and such other persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Company, the Selling Shareholders or such other persons or to enforce, in

U.S. courts, judgements against them obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States. The Company has been advised by its Swedish counsel that the United States and Sweden do not currently have a treaty providing for reciprocal recognition and enforcement of judgements rendered in connection with civil and commercial disputes. As a result, a final judgement for the payment of damages rendered by a U.S. court based on civil liability, whether or not predicated solely upon the civil liability provisions of the federal securities laws of the United States,

would not be enforceable in Sweden. If the party in whose favor such final judgement is rendered brings a new suit in a competent court in Sweden, however, such party may submit to such Swedish court the final judgement, which has been rendered in the United States. A judgement by a U.S. court will be regarded by the Swedish court only as evidence of the outcome of the dispute to which such judgement relates, and a Swedish court may chose to rehear the dispute ab initio.

## SELLING ARRANGEMENTS

Enskilda Securities has entered into a placement agreement (the "Placement Agreement") with the Company and the Selling Shareholders in which Enskilda Securities has agreed, subject to certain conditions, to use all reasonable endeavors to procure subscribers or purchasers for the Shares. In the event, however, that Enskilda Securities does not procure sufficient subscribers or purchasers, Enskilda Securities, in their sole discretion, will have no obligation to complete the Offering or themselves to subscribe for or purchase Sale Shares. In addition, the Selling Shareholders have granted to Enskilda Securities an over-allotment option, exercisable on or prior to July 21, 2000, to procure

purchasers for the Additional Shares, solely to cover over-allotments, if any. The Placement Agreement provides for Enskilda Securities to receive from the Selling Shareholders and the Company a commission of 4 per cent of the aggregate price of the Sale Shares issued or sold under the Offering, including any Additional Shares sold pursuant to the Over-Allotment Option. In addition, the Company has agreed to reimburse Enskilda Securities in respect of certain of its expenses in connection with the Offering. The Placement Agreement is subject to the satisfaction of certain conditions precedent and entitles Enskilda Securities to be released and discharged from their respective obligations

thereunder in certain circumstances (including force majeure and non-satisfaction of certain conditions) prior to closing of the Offering. The Company and the Selling Shareholders have given certain representations and warranties to Enskilda Securities in the Placement Agreement and agreed to indemnify Enskilda Securities against certain liabilities, including civil liabilities under the Securities Act, in connection with the Offering.

The Sale Shares have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers, as defined in Rule 144A under

the Securities Act, and to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. Enskilda Securities has agreed that, except as permitted under the Placement Agreement, it will not offer, sell or deliver the Shares within the United States or to, or for the account or benefit of, U.S. persons, and will have sent to each dealer to which it sells Sale Shares in reliance on Regulation S during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Sale Shares within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the Sale Shares are restricted as described under "Transfer Restrictions."

The Company and the Selling Shareholders have agreed not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any Shares (other than Shares offered in connection with the Offering) or any securities convertible into, or exchangeable or exercisable for, any Shares, or sell or grant options, rights or warrants with respect to any Shares or enter into any swap or similar agreement that transfers, in whole or in part, economic risk of the ownership of any Shares, whether any of the foregoing transactions is to be settled by delivery of any securities, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge disposal or filing, for a period beginning on the first day of trading in the Shares

on the OM Stockholm Exchange and ending on the day of publication by Axis of its preliminary full year results for fiscal year 2000/2001, without the prior written consent of Enskilda Securities.

In connection with the Offering, Enskilda Securities may itself or through its affiliates, over-allot or effect transactions which stabilize or maintain the market price of the Shares at levels which might not otherwise prevail in the open market. Such transactions may be effected on the OM Stockholm Exchange. Such stabilization, if commenced, may be discontinued at any time.

Enskilda Securities represents and agrees that: (i) it has not offered or sold, and prior to the date six months after the date of issue of the Shares will not offer or sell, any Shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulation 1995; (ii) it has complied and will comply with all applicable provisions of the financial Services Act 1986 with respect to anything done by it in relation to the Shares in, from or otherwise involving the United Kingdom; and (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Shares to a person who is of a kind described in Article 11(3) of the Financial

Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

Purchasers of Sale Shares sold outside the United States may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the price to investors set forth on the cover page of this Offering Circular.

No action has been taken or will be taken in any jurisdiction, other than Sweden with respect to the Public Offering, by the Company, the Selling Shareholders or Enskilda Securities that would permit a public offering of the Sale Shares in any jurisdiction where action for such purpose is required. Persons into whose possession this Offering Circular comes are required by the Company, the Selling Shareholders and Enskilda Securities to inform themselves about and observe any restrictions (other than in Sweden) as to the Offering and the distribution of this Offering Circular.

#### **Expenses of the Offering**

The Company is expected to incur total expenses relating to the Offering, including commissions payable to Enskilda Securities, of approximately SEK 25 million (assuming an initial offering price at the mid-point of the offering price range), which will be entered in the consolidation accounts as an item deductible directly from the share premium reserve.

## **SWEDISH TAXATION FOR NON-RESIDENTS**

Certain Swedish tax considerations for residents of Canada and the United States

*The following is a summary of certain Swedish income and wealth tax considerations relevant to non-Swedish portfolio investors who are resident for tax purposes in Canada or in the United States. This summary is of a general nature only, is not exhaustive of all potentially relevant Swedish tax considerations and is not intended to be, nor should it be regarded as, tax advice to any particular investor. Therefore, potential investors should consult their own tax advisors with respect to their particular circumstances of participating in the Offering.*

#### **Swedish dividend taxation**

Generally, non-residents of Sweden are subject to withholding tax on dividends paid by a Swedish corporation, such as Axis. The same applies to payments by Axis due to, among other reasons, a redemption of shares or a repurchase of Axis shares by means of an offer directed to the shareholders. The Swedish withholding tax is

normally withheld by the Swedish Securities Register Centre (VPC AB) or, if shares are registered in the name of a nominee, by such nominee. In the absence of any applicable tax treaty, the rate of the withholding tax is 30 percent. However, according to the tax treaties between Sweden and Canada and between Sweden and the United States, respectively, the withholding tax rate is reduced for the purposes of portfolio investments to 15 percent. Canadian and United States shareholders should consult with their own advisors for further information regarding the procedure for receiving the benefit of such reduced rates in light of their own circumstances.

#### **Swedish capital gains taxation**

Generally, non-residents of Sweden are not liable to capital gains taxation in Sweden with respect to the sale of Swedish shares, unless the shares pertain to a permanent establishment or a fixed base in Sweden. However, under Swedish tax law, capital gains from the sale of certain Swedish securities, such as the shares of Axis, by individuals may be taxed in Sweden if the individual has maintained his or her habitual abode or been resident or lived permanently in Sweden at

any time during the 10 calendar years immediately preceding the year of the sale. Such tax liability would, however, only arise if an applicable tax treaty permits Sweden to levy tax or if no tax treaty is applicable.

The tax treaty between Sweden and Canada permits Sweden to levy tax on a disposal of shares in Axis made by an individual who is a resident of Canada and who has been a resident of Sweden at any time during the six years immediately preceding the disposal.

The tax treaty between Sweden and the United States permits Sweden to tax a disposal of shares in Axis made by an individual who is resident of the United States and who has been a resident of Sweden if the disposal takes place during the ten years following the date on which the individual has ceased to be a resident of Sweden.

#### **Swedish transfer and wealth taxation**

Currently there is no transfer tax on trading in securities in Sweden. Non-residents of Sweden are not liable to Swedish wealth taxation on the value of their shares in Axis.

# U.S. TAXATION

The following is a summary of certain U.S. federal income tax consequences of the ownership of Sale Shares by an investor that purchases such Sale Shares in connection with the Offering and holds the Sale Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of Sale Shares, and does not take into account the specific circumstances of any particular investors (such as partnerships, tax-exempt entities, certain insurance companies, broker-dealers, investors liable for alternative minimum tax, investors that actually or constructively own 10% or more of the voting stock of the Company, investors that hold Sale Shares as part of a straddle or a hedging or conversion transaction or investors whose functional currency is not the U.S. dollar), some of which may be subject to special rules. This summary is based on the tax laws of the United States (including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions) as in effect on the date hereof, as well as on the Convention between United States of America and Sweden with respect to Taxes on Income (the "Income Tax Treaty"), all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

For purposes of this discussion, a "U.S. Holder" is any beneficial owner of Sale Shares that is (i) a citizen or resident of the United States, (ii) a corporation organized under the laws of the United States or any State or (iii) otherwise subject to U.S. federal income taxation on a net income basis in respect of a Sale Share. An "Eligible U.S. Holder" is a U.S. Holder that (i) is a resident of the United States for purposes of the Income Tax Treaty, (ii) does not maintain a permanent establishment or fixed base in Sweden to which Sale Shares are attributable and through which the beneficial owner carries on or has carried on business (or, in the case of an individual, performs or has performed independent personal services) and (iii) who is not otherwise ineligible for benefits under the Income Tax Treaty with respect to income and gain derived in connection with the Sale Shares. A "Non-U.S. Holder" is any beneficial owner of Sale Shares that is not a United States person for United States federal income tax purposes.

The discussion does not address any aspects of U.S. taxation other than federal income taxation. Prospective investors are urged to consult their tax advisors regarding the United States federal, state and local and other tax consequences of owning and disposing of Sale Shares. In particular, prospective investors are urged to confirm their status as Eligible U.S. Holders with their advisors and to discuss with their advisors any possible consequences of their failure to qualify as Eligible U.S. Holders.

## United States Federal Income Taxation of Dividends

**U.S. Holder.** Under the United States federal income tax laws, U.S. Holders must include in gross income the gross amount of any dividend paid (before reduction for Swedish withholding taxes) by the Company out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) as ordinary income when the dividend is actually or constructively received by the U.S. Holder, in the case of Sale Shares. The dividend will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporation. The amount of the dividend distribution includible in income of a U.S. Holder will be the U.S. dollar value of the krona payments made, determined at the spot krona/U.S. dollar rate on the date such dividend distribution is includible in the income of the U.S. Holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in income to the date such payment is converted into U.S. dollars will be treated as ordinary income or loss.

Subject to certain limitations, the Swedish tax withheld in accordance with the Income Tax Treaty and paid over to Sweden will be creditable against the U.S. Holder's U.S. federal income tax liability. To the extent a refund of the tax withheld is available to a U.S. Holder under the laws of Sweden or under the Income Tax Treaty, the amount of tax withheld that is refundable will not be eligible for credit against the U.S. Holder's U.S. federal income tax liability.

For foreign tax credit limitation purposes, the dividend will be income from sources without the United States, and generally will be treated separately, together with other items of "passive income" (or, in the case of certain holders, "financial services income").

**Non-U.S. Holders.** Dividends paid to a Non-U.S. Holder in respect of Sale Shares will not be subject to U.S. federal income tax unless such dividends are effectively connected with the conduct of a trade or business within the United States by such Non-U.S. Holder (and are attributable to a permanent establishment maintained in the United States by such Non-U.S. Holder, if an applicable income tax treaty so requires as a condition of such Non-U.S. Holder to be subject to United States taxation on a net income basis in respect of income from Sale Shares), in which case the Non-U.S. Holder generally will be subject to tax in respect of such dividends in the same manner as a U.S. Holder. Any such effectively connected dividends received by a non-United States corporation may also, under certain circumstance, be subject to an

additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

## U.S. Federal Income Taxation of Capital Gains

**U.S. Holders.** A U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and the U.S. Holder's tax basis (determined in U.S. dollars) in such Sale Shares. Generally, such gain or loss will be capital gain or loss, qualifying for reduced tax rates depending on the U.S. Holder's holding period for such Sale Shares, and any such gain or loss will be income or loss from sources within the United States for foreign tax credit limitation purposes.

**Non-U.S. Holders.** A Non-U.S. Holder will not be subject to U.S. federal income tax in respect of gain recognized on a disposition of Sale Shares unless (i) the gain is effectively connected with a trade or business of the Non-U.S. Holder in the United States (and is attributable to a permanent establishment maintained in the United States by such Non-U.S. Holder, if an applicable income tax treaty so requires as a condition for such Non-U.S. Holder to be subject to United States taxation on a net income basis in respect of gain from the sale or other disposition of the Sale Shares) or (ii) in the case of a Non-U.S. Holder who is an individual, such holder is present in the United States for 183 or more days in the taxable year of the sale and certain other conditions apply. Effectively, connected gains realized by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

## Additional U.S. Federal Income Tax Consideration

### PFIC Rules

The Company believes that it is not a passive foreign investment company (a "PFIC") for U.S. tax purposes. Based on its expectations regarding its assets and income in future years, the Company does not expect to become a PFIC in the future.

## Backup Withholding and Information Reporting

In general, information reporting requirements will apply to dividend payments (or other taxable distributions) in respect of Sale Shares made within the United States to a non-corporate U.S. person, and "backup withholding" at the rate of 31% will apply to such payments if the holder or beneficial owner fails to provide an accurate taxpayer identification number in the manner required by U.S. law and applicable regulations, if

there has been notification from the Internal Revenue Service of a failure by the holder or beneficial owner to report all interest or dividends required to be shown on its federal income tax returns or, in certain circumstances, if the holder or beneficial owner fails to comply with applicable certification requirements. Certain non-corporate U.S. persons and persons that are not U.S. persons may be required to establish their exemption from information reporting and back-up withholding by certifying their status on Internal Revenue Services Forms W-8 or W-9.

In general, payment of the proceeds from the sale of Sale Shares to or through a U.S. office of a broker is subject to both U.S. backup withholding and

information reporting unless the holder or beneficial owner certifies its non-U.S. status under penalties or perjury or otherwise establishes an exemption. U.S. information reporting and backup withholding generally will not apply to a payment made outside the United States of the proceeds of a sale of Sale Shares through an office outside the United States of a non-U.S. broker. However, U.S. information reporting requirements (but not backup withholding) will apply to a payment made outside the United States of the proceeds of a sale of Sale Shares through an office outside the U.S. of a broker that is a U.S. person, that derives 50% or more of its gross income for a specified three-year period from the conduct of a

trade or business in the United States, or that is a "controlled foreign corporation" as to the United States, unless the broker has documentary evidence in its files that the holder of beneficial owner is a non-United States person or the holder or beneficial owner otherwise establishes an exemption. Expanded and revised reporting requirements will apply to payments made after December 31, 2000.

Amount withheld under the backup withholding rules may be credited against a holder's tax liability, and a holder may obtain refund or other excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the U.S. Internal Revenue Service.

## TRANSFER RESTRICTIONS

Each purchaser of the Sale Shares offered hereby in the United States will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- (i) The purchaser (a) is a qualified institutional buyer, (b) is aware that the sale of the Sale Shares to it is being made in reliance on Section 4(2) of the Securities Act or Rule 144A thereunder and (c) is acquiring such Sale Shares for its own account or for the account of another qualified institutional buyer, as the case may be.
- (ii) The purchaser understands that the Sale Shares have not been and will not be registered under the Securities Act and are being offered in the United States only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and may not be reoffered, resold, pledged or otherwise transferred except (a) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a qualified institutional buyer as defined in Rule 144A under the Securities Act in a transaction meeting the requirements of Rule 144A, (b) in an offshore transaction outside the United States in accordance with Rule 903 or 904 under Regulation S to non-U.S. persons as defined in Regulation S or (c) pursuant to an exemption

from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. No representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for resale of the Sale Shares.

- (iii) Any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognized by the Company.

Each purchaser of Sale Shares outside the United States pursuant to Regulation S will be deemed to have represented and agreed as follows (terms used in this section that are defined in Rule 144A or Regulation S are used herein as therein defined):

- (i) The purchase (a) is, and the person, if any, for whose account the purchaser is acquiring the Sale Shares is outside the United States and is not a U.S. person, (b) is not an affiliate of the Company or a person acting on behalf of an affiliate of the Company and (c) is not in the business of buying or selling securities or, if it is in such business, did not acquire the Sale Shares from the Company or an affiliate thereof in the initial distribution of the Sale Shares.
- (ii) The purchaser is aware that the Sale Shares have not been and will not be registered under the Securities Act and are being offered

outside the United States in reliance on Regulation S.

- (iii) If in the future the purchaser decides to offer, resell, pledge or otherwise transfer its Sale Shares, until 40 days after the later of the date of the commencement of the Offering and the closing date, such Sale Shares may only be offered, sold or delivered (a) in the United States to qualified institutional buyers as defined in, and in reliance on, Rule 144A under the Securities Act and (b) in offshore transactions outside the United States, in compliance with, and in reliance on, Regulation S, and in each case in accordance with any other applicable law.
- (iv) Each purchaser of Sale Shares pursuant to Regulation S will be required, or will be deemed by its purchaser thereof, to confirm that such purchaser is aware of the restrictions on the offer and sale of the Sale Shares pursuant to Regulation S described in this Offering Circular.
- (v) Any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognized by the Company.

# Invitation to **acquire shares in** **Axis Aktiebolag (publ)**



**Enskilda Securities**  
PART OF THE SEB GROUP



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## Offering in brief

Price interval (excluding commission, see "Terms and conditions") SEK 32 – 41 per share

## Application period

Retail tranche	June 5 – 15, 2000
Institutions	June 5 – 15, 2000
Payment date	June 21, 2000
Anticipated date for listing on the O-List of the OM Stockholm Exchange	June 27, 1999

## Financial information

Annual General Meeting for financial year May 1, 1999 – April 30, 2000 August 30, 2000	
Interim Report for the three months May 1 – July 31, 2000	August 30, 2000
Interim Report for the six months May 1 – October 31, 2000	November 29, 2000
Interim Report for the nine months May 1 – January 31, 2001	March 6, 2001
Year-end Report for the financial year May 1, 2000 – April 30, 2001	June 7, 2001

## Definitions

References to "Axis" and "the Company" in this prospectus pertain to the Parent Company Axis Aktiebolag (publ) as well as the group in which Axis Aktiebolag (publ) is the Parent Company unless otherwise stated.

The designation "Axis Group" is used to designate the group in which Axis Aktiebolag (publ) is the Parent Company.

The statements regarding future prospects in this prospectus have been made by the Board of Directors of Axis on the basis of current market conditions. Although the statements in question are well prepared, readers should be aware that, as is the case with all forecasts, these are associated with uncertainty.

The Offer set forth in this prospectus is not intended for the general public in Norway, Denmark, Finland, Germany, the UK, France, the USA, Canada, Australia or Japan. Neither is the Offer otherwise directed at such persons whose participation requires prospectuses, registration or other measures in addition to those that result from Swedish law. The prospectus may not be distributed in any country where distribution or the Offer requires any measures in accordance with the above or violates regulations in that country. Applications to acquire shares in contravention of the above may be considered invalid.

Shares covered by the Offer in accordance with this prospectus have not been registered and shall not be registered under the 1933 United States Securities Act or other provincial legislation in Canada and may not be offered for sale or sold, either directly or indirectly, within the USA or in Canada or to persons residing in these countries, unless special exemption from the stated registration requirements or approval from Axis has been obtained.

This document is issued by Axis Aktiebolag and its distribution within the United Kingdom has been approved by Enskilda Securities AB, which is regulated by the Securities and Futures Authority for the conduct of investment business within the United Kingdom.

In connection with the Offer in this prospectus, Enskilda Securities AB may perform transactions to stabilise or maintain the price of the shares at levels which would otherwise not prevail in the market. Such stabilisation measures may be taken up until July 21, 2000 and may be suspended at any time.

Swedish courts shall exclusively resolve disputes in connection with the offer pursuant to Swedish law.

The information that appears in this document is a translation of, and accordingly corresponds in all material respects with, the text of the Swedish prospectus. In the event of any contradiction between the text contained in this document and the Swedish prospectus, the latter shall prevail.



# Invitation to acquire shares in Axis Aktiebolag

In order to facilitate Axis' continued development and expansion, the Board of Directors of Axis has resolved to broaden the shareholder base of the Company by means of a directed new issue of shares. In addition, the Board of Directors of Axis has applied for a listing of Axis' shares on the O-list of the OM Stockholm Exchange AB (the "Stockholm Exchange").

The Board of Directors of Axis has, with the authorisation of the Extraordinary General Meeting of the Company held on May 3, 2000, resolved to increase the share capital by a maximum of SEK 125,000 from SEK 564,000 to a maximum of SEK 689,000 by means of a new issue of a maximum of 12,500,000 shares, each with a nominal value of SEK 0.01. The total issue amount will be between SEK 400 and 513 million before issue costs. By disapplying the pre-emptive rights of the existing shareholders, the general public in Sweden and in institutional investors in Sweden and abroad have the right to subscribe for the newly issued shares.

Furthermore, certain of Axis' shareholders ("the Principal Shareholders") have undertaken, if so requested by Enskilda Securities AB ("Enskilda Securities"), to sell a maximum of 1,875,000 shares to cover possible over-allotment in connection with the offer according to this prospectus ("the Over-allotment Option").

The Principal Shareholders and certain key executives ("Key Executives") (see section "Share Capital and Ownership Structure - Commitment (Lock-up)") in Axis have undertaken not to, whether directly or indirectly, transfer shares or warrants in Axis during a period from and including the first listing day of the Axis share on the Stockholm Exchange up to and including the day when Axis will make public the preliminary full-year results relating to financial year 2000/2001, without Enskilda Securities prior written consent.

The offering price will be determined through a bookbuilding process and is estimated to be set within the interval SEK 32-41.<sup>2)</sup> The price in the Offering to the General Public will not exceed SEK 41, plus a commission fee. The determined offering price will be announced publicly on or about June 16, 2000.

An offering is hereby made to acquire a maximum of 12,500,000 shares in Axis in accordance with the terms and conditions stated in this prospectus (the "Offering"), corresponding to a maximum of 18.1 percent of the shares and votes after full acceptance of the Offering. If the Over-allotment Option is fully exercised, the Offering may comprise a maximum of 14,375,000 shares, corresponding to a maximum of 20.9 percent of the shares and votes in Axis.

Subject to the Offering being fully described and the Over-allotment Option being exercised in full the total value of the Offering amounts to between SEK 460 and 589 million.

The Offering is conditional upon that not less than 9,375,000 newly issued shares are acquired, that the new issue is registered with the Swedish Patent and Registration Office, that shares being acquired with a sufficient wide ownership to enable a listing of Axis' shares of the O-list of the Stockholm Exchange, that Axis, the Principal Shareholders and Enskilda Securities will reach an agreement of the sale of shares pertaining to the Offering (see section entitled "Terms and conditions - Conditions to the completion of the Offering" and "Supplementary information - Agreement on the sale of shares") on and about June 15, 2000, that certain terms in the agreement are fulfilled and that the agreement has not been terminated.

For additional information, reference is made to the report in this prospectus, which has been prepared by the Board of Directors of Axis in connection with the Offering and the application for a listing of the Company's shares on the O-list on the Stockholm Exchange.

Lund, May 30, 2000

Axis Aktiebolag (publ)  
*Board of Directors*

The Principal Shareholders<sup>1)</sup>

<sup>1)</sup> The Principal Shareholders offering shares under the Over-allotment Option are Mikael Karlsson (via a company), G. Kallström & Co AB and Martin Green (via a company).

<sup>2)</sup> The Board of Directors has in its resolution on the new issue of shares resolved that the definitive issue price shall be determined after the conclusion of the book-building process.

# Axis in Brief

The information in this section is a summary and should be read in conjunction with the more detailed text in this prospectus.

## Vision and business concept

Axis' vision is to increase the value of the network for all its users by providing network "access to everything, from anywhere, anytime" on the network. Axis' business mission is to make it simple and cost-effective for users to connect all types of electronic equipment in networks to provide efficient, improved access to various services, resources and units.

To make this possible, Axis will further strengthen the Company's global market position and establish Axis as a leading company in the development of local wireless networks. Axis will be a market leader in solutions for connecting peripheral units such as printers, scanners, cameras and storage devices to networks, as well as offering new opportunities for wireless network connectivity.

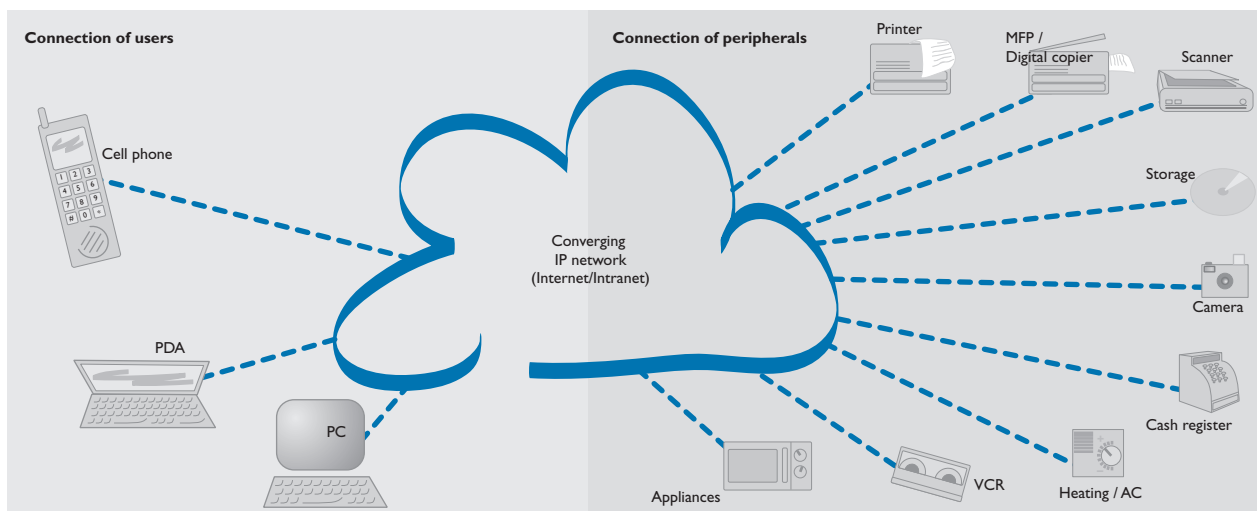
The Axis view of the future will involve users requesting communications services independent of the network medium. These services will use data, images, and voice, for both wireless and fixed networks, where the user will perceive the two networks as one and the same Internet network. This will require suppliers of technology that can handle different protocol and network environments, utilising the Internet Protocol (IP) as a foundation. This multi-protocol support is a core competence of Axis.

## Outline of operations

Peripheral units (for example, printers or scanners) and other hardware units from various manufacturers are often used in different network environments and operational systems environments, such as Windows, UNIX and Macintosh. This creates problems for the users in connecting, using and sharing such equipment in networks. Axis therefore develops hardware and software solutions that support communications among a large number of different operational systems and protocols – this is known as multi-protocol support – and making it simple and possible to connect peripheral units to networks. These solutions are based on Axis' ThinServer technology, which is primarily based on the Company's internally developed integrated circuits design, combined with thin versions of popular operating systems, such as Linux.

**The Document Division** develops and sells products for connecting peripheral units to networks. The division's print and scan servers are examples of solutions that make it possible to connect one or more printer or scanner directly to networks so that they can be used by anyone on the network. The division is continually developing new applications, for instance, a new confidential printing solution and a range of new mobile printing solution for network environments.

**The Camera Division's** products are also based on Axis technology for direct connection of peripheral units to



Axis vision includes simple network connectivity for users and devices, i.e. both Man-to-Machine and Machine-to-Machine communication over both fixed and wireless networks.

<b>Organisation</b>	Axis is organised in product based divisions and geographical regions. The number of employees amounted to 506 by April 30 2000. Group sales for 1999/2000 amounted to SEK 695 million, whereof exports accounted for 86 percent.		
<b>Divisions</b>	Document, Camera, Storage, Mobile Internet, Technology		
<b>Regions</b>	Americas	Europe/EMEA	Asia
<b>Offices</b>	Boston, USA Miami, USA Mountain View, USA	Lund, Sweden Stockholm, Sweden Paris, France London, UK Munich, Germany Madrid, Spain Rotterdam, Netherlands Turin, Italy	Tokyo, Japan Peking, China Shanghai, China Hong Kong, China Taipei, Taiwan Seoul, Korea Sydney, Australia Singapore Kuala Lumpur, Malaysia

networks. The products comprise video servers for network connection of video cameras, as well as digital network cameras that can be connected directly to a network. Axis estimates that it is the largest in the world in the field of cameras directly connected to networks, a product area that is expected to have good potential and where the Company has shown strong growth in sales during the last financial year.

**The Storage Division's** products and solutions are also based on Axis technology for direct network connection. The products, CD/DVD servers and harddisk servers, are developed for the connection of various types of equipment for data storage, such as CD-ROM stations and harddisks.

**The Mobile Internet Division** was formed this year, but is based on Axis long-term development activity started three years ago on Bluetooth<sup>1)</sup> wireless technology.

Axis has extended its vision of network access to include various types of wireless devices, such as mobile telephones, PDAs and laptops. Emerging technologies for wireless communication, such as Bluetooth wireless technology, 802.11B and HiperLAN/2, will make it possible to create new applications for mobile Internet. During the last financial year, Axis has developed a first generation of products for wireless LAN access, Bluetooth<sup>TM</sup> Access Point, that were introduced in May 2000 at the Network + Interop conference in the USA.

<sup>1)</sup> BLUETOOTH<sup>TM</sup> is a trademark owned by Telefonaktiebolaget L M Ericsson, Sweden, and is licensed to Axis.

**The Technology Division** is responsible for internal sales of services and systems components to the other product divisions. To some extent, components are also sold to external customers within the framework of existing product areas. Axis estimates that there is a large potential for development of the Company's embedded Linux Thin-Server platform and is therefore preparing a new business operation based on external sales of this technology.

**Part-owned companies**

In two phases, of which the latest was carried out in the beginning of 2000, Axis has invested in the company Netch Technologies AB ("Netch"), a leading player in the Scandinavian market for business-critical transaction-intensive and individually customised e-commerce solutions. Netch is experiencing a significant growth phase with both geographical expansion and the development of mobile Internet technology. Axis' participating interest in Netch amounts to 50.0 percent, and Netch has been consolidated in the Axis accounts from the financial year 1999/2000.

During 1999/00, Axis invested in the American company nBand Communications, Inc ("nBand"). nBand develops advanced circuit technology with the goal of becoming a leading supplier of what is known as DSP circuits for wireless broadband. Axis is the largest individual owner of nBand with a share of 17.1 percent.

**Axis' strengths**

The Board of Directors and management at Axis consider that the Company's most important strengths are:

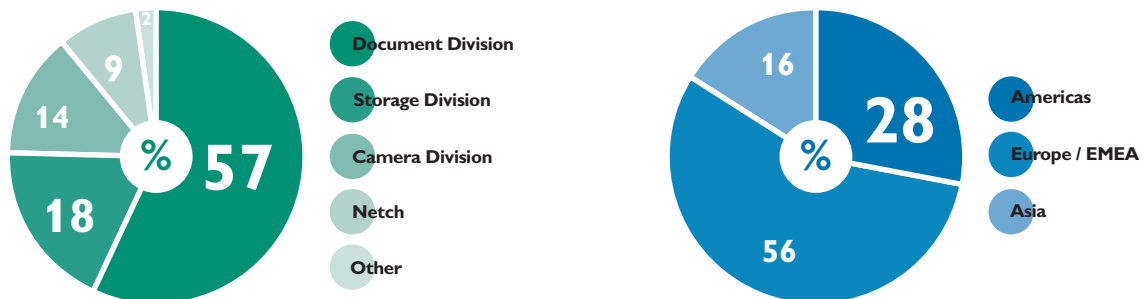
**History/track-record**

Axis was started in 1984 by the Company's main shareholders Martin Gren and Mikael Karlsson. The Company has since experienced continual organic growth and undergone three large development phases, involving expansion of operations with further applications of the Company's core technology and skills in network connectivity and communications. Axis has been one of the first companies on the market with the product types now being sold by the Company. For instance, Axis launched the world's first printer server with multi-protocol support in 1993 and the world's first network camera, NetEye, in 1996. The Company believes it is currently the leader in the global market for network cameras. Axis launched the world's first 32-bit RISC processor with integrated Ethernet interface in 1993.

**Competence in multi-protocol and multi-operating systems**

Axis has more than 15 years of experience in developing network products for complex networks that use several network protocols or operational systems. The Company has thus built a high level of competence in developing

Sales per division and region, 1999/00



stable, reliable and user-friendly products for complex network environments. Axis has several patent applications pending, which cover the connection of units in networks, network protocols and circuit solutions.

### **Own System-On-A-Chip technology**

Over the years Axis has invested heavily in its own integrated circuits design (ASICs) capability, which has provided competitive advantages. Its system-on-a-chip architecture means fewer circuits per product and thus greater reliability, lower production costs and performance advantages over devices built with discrete components.

### **Market position**

Axis is one of the world leaders in most of its product areas. For instance, Axis is one of the world's three largest manufacturers of printer servers and the world's largest manufacturer of CD-storage servers. Axis estimates that it is one of only a few manufacturers of directly-connected network cameras in the world, as well as one of the largest, and that the Company will be one of the first in the world to supply working products based on Bluetooth wireless technology. Axis estimates that the Company has very good prospects for being able to consolidate and strengthen its position in these market spaces.

### **Capacity and ability to act internationally**

Axis' network of subsidiaries and distributors all over the world provides the Company with an advantage over competitors who do not have the same geographical coverage. This global coverage allows for longer product life cycles (different markets are in different stages of maturity), a more rapid growth in volume and higher volumes in new and established product generations, as well as advantages over competitors who are often regionally oriented and have less international experience. The fact that the Company has its own direct representation also provides the advantage of being able to focus on the entire distribution chain, including dealers, end users, OEM-partners and market influencers, such as trade publications and industry analysts.

### **International presence**

Axis' international presence is advantageous to the Company in that Axis is active in the markets that are technologically advanced. Axis can make use of this in developing its own products and business.

### **Organisation and employees**

Axis has a decentralised management structure that is based on a strong culture with clearly expressed guidelines and goals, as well as an established closed-loop management

process. This dynamic organisation, which can respond quickly to market changes and react to actual outcome in operations, is the key to the success of Axis.

Axis is a knowledge company and its employees are a strategic resource. The percentage of employees with a university degree exceeds 70 percent in the research and development organisation. Axis believes that an attractive remuneration system and recruitment work are central to the Company's long-term success.

### **Strategic partnerships and investments**

Axis has well-developed business partnerships with a number of international companies, including Canon, Microsoft and SUN Microsystems. Axis actively participates in research projects together with Lund Institute of Technology and in the international collaboration bodies IETF, Universal Plug and Play Forum, Jini Community, Salutation Consortium, Bluetooth Special Interest Group and HiperLAN/2 Global Forum. In 1999, Axis invested in the American company nBand Communications Inc. and currently has a shareholding of 17 percent. This investment is primarily strategic, to provide Axis with leading-edge competence that can be used for applications such as wireless broadband.

### **Self-financed growth**

Axis has financed its own growth since it was founded in 1984, with the exception of a new issue of SEK 1.5 million in 1985. However, Axis now estimates that the Company needs external capital for investment in R&D and marketing and for acquisition of companies and technologies, in order to take advantage of the opportunities for growth in a rapidly developing market.

### **Growth potential**

Axis' Board of Directors feels that the Company's operations and product portfolio contain established and profitable business activities. Combined with new investments in research and development, as well as development of marketing, products and operations, the Company has a strong potential for growth and profitability. To pursue this opportunity, significant investments have traditionally been made that have sometimes impacted short-term financial performance negatively. The growth and expansion of the Internet and of IP-based networks are strong driving forces for Axis' growth. Axis' growth target for the next five years is to increase sales by an average of 30 percent per year and to achieve a margin before tax of 10-15 percent within three years.

For a discussion of possible risks in the Company, see separate section "Special Considerations".

## Key financial data

	1995/96	1996/97	1997/98	1998/99	1999/00
Net sales (SEKm)	327	394	522	560	695
<i>Of which Netch</i>	–	–	–	–	61
Operating income (SEKm)	54	29	15	7	–82
<i>Of which Netch</i>	–	–	–	–	–12
Net income (SEKm)	33	16	9	–2	–75
Shareholders' equity (SEKm)	73	79	87	85	11
Capital employed (SEKm)	94	133	155	165	184
Total assets (SEKm)	163	227	244	249	324
Sales growth (%)	–	20	33	7	24
Operating margin (%)	16	7	3	1	neg.
Profit margin (%)	15	7	2	0	neg.
Return on equity (%)	–	22	11	neg.	neg.
Return on capital employed (%)	–	30	18	5	neg.
Net debt/equity ratio (times)	0.06	0.17	0.66	0.94	13.49
Equity/assets ratio (%)	45	35	36	34	6
Number of employees (average)	119	165	243	313	445

### Financial effects of ongoing marketing and developing investments

Axis has been in a third capital-intensive development phase since 1996. Through this phase, the Company's ThinServer technology was broadened to cover products that facilitate simple and problem-free connection and use of new types of peripherals to networks. During this phase, Axis' operations and presence in the USA have grown in importance and a comprehensive expansion of the Company's global office network and accompanying distribution organisation has been realised. Axis extended the above investment in 1998 to a fourth investment phase, oriented towards products for wireless network connectivity for peripherals and personal communication equipment.

### Investments in product areas with a high future growth potential

Investments in the research and development concerning the Camera Division, the Storage Division and the Document Division, as well as in technology, have resulted in expenses totalling around SEK 390 million since the financial year 1995/96. All of the investments have been expensed to the income statement in accordance with Axis' accounting policy.

During the financial year 1999/00, the costs for research and development have increased by SEK 51 million. A large part of this increase is accounted for by investments within Research & Core Technology, the Technology Division and the Mobile Internet Division.

### The Document Division

On the basis of profitable operations involving print servers, this division has made considerable investments in technical platforms for future OEM-oriented sales, as well as investments in new products, such as scan servers and solutions for confidential and mobile printing. Axis estimates that all of these new investments are on the point of a breakthrough with a noted increase in sales or large interest from partners regarding future sales.

### The Camera Division

Axis estimates that it is currently the world leader in the field of network cameras, cameras that can connect directly to networks. The company was first in this market and has invested in its own circuit technology to strengthen its position even further. The division's investment in video servers will take a longer time to realise because of the relative slowness of this market regarding acceptance of new technology that substitutes existing solutions for such things as CCTV-based surveillance. The division has developed positively over the past three years and is now appears to be on the verge of a strong growth in sales.

### The Storage Division

On the basis of profitable operations regarding CD/DVD servers, where Axis is world leader, the Storage Division has made investments to develop the products further to also cover harddisk NAS application. Axis intends to address this market for directly connected harddisks, with its own products in focused segments and via OEM-oriented sales. This market is expected to show a large growth over the next few years.

### The Mobile Internet Division

Starting in 1998, Axis has invested a total of SEK 30 million in establishing and developing the Mobile Internet Division. Today Axis invests more than SEK 50 million on a yearly basis in this future growth area.

Traditionally, Axis' new investments have generated significant sales within 18 months after market introduction and significant profits 12-24 months later.

### **Investments in the Japanese marketing organisation**

Following several years of declining sales and profitability as a result of the difficult macroeconomic conditions, the trend on the Japanese market, which has been one the most important for Axis in earlier years, has taken an upward turn during the financial year 1999/2000. Sales increased by more than 40 percent and a number of important business agreements were reached with leading Japanese IT companies. Approximately 15 percent of the increase in the Group's costs for sales and marketing during 1999/2000, totalling SEK 38 million, reflected the build-up of resources in Japan to take advantage of the increased business opportunities.

### **Financial effects of problems in the distribution channels**

Disruptions in the demand pattern for network products that arose at the end of 1999 and grew at the beginning of 2000, led to temporary difficulties for some of Axis' distribution channels in finding a market for the Company's products. These difficulties have had the strongest effect on storage product sales, falling by 8 percent compared with the previous financial year. As a result of these challenges, the operating profit for the financial year 1999/00 was negatively affected by just over SEK 20 million. Axis assesses that these problems are temporary in nature.

### **Financial targets**

Axis' Board of Directors holds the opinion that the Company should have a strong capital base in order to create opportunities for continuing strong growth, both in terms of organic expansion and acquisitions.

In the light of the above, Axis believes that the Company's equity ratio should not normally fall below 50 percent. It is estimated that, following the new issue to be made, the Company's equity ratio will amount to a maximum of 80 percent. Axis' growth target for the next five years is to increase sales by an average of 30 percent per year and to achieve a margin before tax of 10-15 percent within three years.

<sup>1)</sup> Axis has previously, as a privately-owned company, not had the same targets as mentioned above.



# Terms and Conditions

*For the purpose of facilitating the description of the Offering, no distinction is made in this section between newly issued shares and the existing shares being offered for sale.<sup>1)</sup>*

## The offering

The Offering comprises a maximum of 12,500,000 shares in Axis corresponding to 18.1 percent of the share capital and voting rights in Axis. If the Over-allotment Option is exercised fully, the Offering comprises 14,375,000 shares, corresponding to 20.9 percent of the shares and voting rights in Axis. The Offering is divided into an offering to the general public in Sweden and Axis employees ("Offering to General Public") and an offering to institutional investors in Sweden and abroad, including the US and Canada ("Offering to Institutional Investors").

## Pricing process

In order to achieve a fair market pricing of the shares being offered for sale, institutional investors will be invited to participate in a book-building process during the period June 5 through June 20, 2000. The offering price will be determined within the framework of this process. However, the book-building process may be terminated earlier, whereby notice of such a termination will be made through one or more news agencies.

## Offering price

The offering price is estimated to be set within the interval SEK 32–41 per share, plus a commission fee of 0.65 percent of the offering price, but not less than SEK 200. The price in the Offering to the General Public will not exceed SEK 41, plus a commission fee. The definitive offering price per share is expected to be determined on or about June 15, 2000 and announced publicly on or about June 16, 2000.

## Application period

### Offering to the General Public

Application to acquire shares must be submitted during the period beginning June 5 up to and including June 15, 2000.

### Offering to Institutional Investors

Application to acquire shares must be submitted during the period beginning June 5 up to and including June 15, 2000.

## Application

### Offering to the General Public

Applications from the general public to acquire shares must pertain to not less than 200 shares or more, in equal multiples of 200 shares. Applications must be made on a specific application form which can be obtained from any branch office of Skandinaviska Enskilda Banken ("SEB") and be ordered from Axis. The application form is also available at Enskilda Securities' web site ([www.enskilda.se](http://www.enskilda.se)). Applications can be submitted to any of SEB's offices in Sweden. Application forms can also be forwarded to:

**SEB**

**Emissioner R B7**

**SE-106 40 STOCKHOLM**

Applications must be received by SEB not later than 6 p.m. on June 15, 2000. Note that certain bank offices close prior to 6 p.m. Only one application per person may be submitted. No changes or additions may be made to the pre-printed text. Only correctly completed forms will be considered. **Note that applications are binding.**

Clients in SEB's Internet bank with Digipass also have the possibility to apply through SEB's Internet bank. Instructions about participation in the Offering via SEB's Internet bank can be obtained at [www.seb.se](http://www.seb.se).

The application form must show the account in SEB from which the bank is entitled to withdraw payment for the number of shares indicated in the application. The account must be a checking account, private account, savings account, capital account or a shareholder account in SEB or an account in Sesam Telefonbank. Only one account may be indicated for payment, of which the account holder must be the same person named in the application.

In order to be considered for an allotment of shares, the balance during the period from June 19, 2000 up to and including June 22, 2000 in the account specified on the application form must be at least the amount, including commission fee, for which the application pertains, based on the highest amount in the price interval. This means that the account-holder pledges to have this amount available in the account specified during the stated period and that the account-holder is aware of that no allotment of shares will be made if the amount is not available in the account during the time period. Note that the amount cannot be withdrawn during the specified period. As soon as possible after allotment is made, the funds will be freely available to those who do not receive an allotment. Funds not freely disposable during the specified period will accrue interest in accordance with the terms for the account stated on the application.

<sup>1)</sup>The shares being allotted under the Offering and being registered in the recipient's securities account (VP account) have been borrowed by Enskilda Securities. Immediately following registration of the new issue with the Swedish Patent and Registration Office, Enskilda Securities will return the borrowed shares.

## Employees within Axis

Employees within Axis who desire to acquire shares shall follow separate instructions from the Company.

### **Offering to institutional investors**

Applications from institutional investors to acquire shares must be received by Enskilda Securities (Nybrokajen 5, SE-103 36, Stockholm) not later than 5 p.m. on June 15, 2000. The Offering to institutional investors may be terminated earlier. Notice of any such termination will be made through one or more news agencies.

### **Allocation**

Decisions on allocation of shares are made by the Board of Directors of Axis in consultation with Enskilda Securities. About 85 percent of the number of shares offered are intended to be allocated to Swedish and foreign institutional investors and the remaining 15 percent to the general public in Sweden. Taking into account, among other factors, the demand within each category, deviation from the aforementioned distribution could occur. In making the allotment, the requirements for distribution of the ownership set by the Stockholm Exchange will be considered as well as achieving a broad ownership base and favourable share liquidity.

SEB customers, companies and private persons with which Axis has business relations and employees in the Company will be prioritised.

In order to be considered for allocation within the framework of the Offering to the general public, as stated above, a specified account must be held in SEB or Sesam Telefonbanken. The allocation of shares to the general public will be in lots of 200 shares. In the event of over-subscription, allocation may not be made or be made with fewer shares than specified on the application form. Furthermore, the allocation to the general public may wholly or partially be determined by random choice. The allocation is not dependent upon when the application was submitted during the application period.

Allocation to employees will be restricted to a maximum value of SEK 30,000 per employee.

Allocation can also be made to employees in the participating issue institution, but without these persons being prioritised. In such a case, allocation will be carried out in accordance with the regulations of the Swedish Securities Dealers Association and the Swedish Financial Supervisory Authority.

### **Settlement and notice of allocation**

#### **Offering to the General Public**

Allocation to the general public is expected to occur on or about June 21, 2000. As soon as possible after the allocation, cash payment will be withdrawn from the account specified in the application. This is expected to occur on or about June 22, 2000. As soon as the allocation of shares is determined, a settlement note, stating that cash payment for the allocated shares was debited from the account specified,

will be forwarded to those who received allocations in the Offering. Those not receiving any shares will not be notified.

### **Offering to Institutional Investors**

According to a separate procedure, institutional investors are expected to receive notification of allocation on or about June 16, 2000 after which a settlement note will be sent out. Full payment to the allocated shares must be made in cash not later than June 20, 2000.

Note that if payment is not made in full when due, allocated shares may be sold to another party. If the sale price in such a transaction falls below the offering price, the party being allocated shares in the Offering will be liable for the difference.

### **Registration**

When payment has been received for allocated shares the Swedish Securities Register Centre ("VPC") will issue a securities account note (VP-notice) indicating the number of shares in Axis that have been registered in the recipient's securities account (VP-account). This is expected to take place on or about June 27, 2000. Notification to shareholders whose shares are registered in the name of a nominee will be given in accordance with the practice of the nominee. Registration of the new share issue with the Swedish Patent and Registration Office ("PRV") is expected to take place on or about June 29, 2000.

### **Right to dividends**

The shares in the Offering entitle the holder to a participation in the Company's profits with effect from the 2000/2001 fiscal year. Distribution of any dividends is administered by VPC.

### **Stock exchange listing**

Axis has applied for a listing of the Company's shares on the O-List of the Stockholm Exchange. The proposed trading lot is 200 shares. Listing on the O-List of the Stockholm Exchange is expected to commence on or about June 27, 2000. Trading in the Axis share in the period from and including the first listing day up to and including the date when the new issue is registered with PRV is conditional upon such registration. The condition is expected to be fulfilled on or about June 29, 2000.

### **Conditions for the fulfilment of the Offering**

The Offering is conditional upon that not less than 9,375,000 newly issued shares are acquired, that the new issue is registered with PRV and that a sufficiently wide ownership is achieved to enable a listing on the O-List of the Stockholm Exchange. In addition, the Offering is also conditional upon Axis and the Principal Shareholders and Enskilda Securities reaching an agreement on the sale of the shares pertaining to the Offering (see section entitled "Supplementary information – Agreement on the sale of shares") on or about June 15, 2000, that certain terms in the agreement are fulfilled and that the agreement has not been terminated.

# Background and Rationale

*The following section aims to provide the reader with background information on the development of Axis and on the impending listing of the Company on the stock exchange.*

## **IBM protocol conversion and Europe**

The company was founded in 1984 by Martin Gren and Mikael Karlsson. The operations were oriented towards network connections right from the start, or what is known as “network connectivity”, but originally with a niche focus on protocol converters/printer interfaces for the connection of PC printers in IBM’s mainframe and minicomputer environments. By the end of the 1980s Axis had established a position in this market niche as one of the three leading companies in the world.

Axis then broadened the Company’s technical competence and experience with regard to protocol converters/printer interfaces and network connectivity, while building up a distribution and sales organisation in key European countries. In addition, Axis established a presence in the USA through a subsidiary.

## **Printer servers and Asia**

With its technology base and distribution channel in place, the Company was able to enter its second development phase in 1992 by broadening operations to cover printer servers and TCP/IP-protocol in local area network (LAN) environments. For this phase, Axis made use of the existing distribution network and new higher volume channels, such as Softbank, TechData and Ingram Micro, and subsidiaries started in Japan and Hong Kong. Today, Axis is one of the top three suppliers of print servers in the world, along with Hewlett Packard and Intel. The company estimates that its share in this market continues to grow. Axis has continued to develop its product range in the category of print servers and during the third quarter of 2000 will launch system-oriented solutions to enable both wireless and secure printing in a network environment.

## **ThinServers and the USA**

During 1996 Axis began a capital-intensive third development phase to realise its vision of “Network access to everything from anywhere, anytime”. This third phase enabled a broadening of the ThinServer technology platform of the printer server to include products that facilitate a simple, affordable connection and utilisation of other types of office equipment in networks, for example CD-ROM towers, hard disks, scanners and digital network cameras. During this phase, Axis’ operations and presence in the USA have increased in importance, both in terms of sales and with regard to the participation in industry technology forums with leading American IT companies, such as Microsoft and Sun Microsystems.

Since 1996, Axis has carried out a huge expansion of the Company’s global office network and associated distribution organisations and Axis currently has sales in over 60 countries, with support from 20 own offices in 15 countries.

## **IP connectivity in a global market**

Axis began its fourth development phase in 1998, an effort in line with the Company’s fundamental vision of IP-based network connectivity for all types of equipment and communications, regardless of the underlying network structure and protocol. Development activities in this new phase include embedded Linux, Bluetooth wireless technology and wireless multi-protocol technology. One area of emphasis is on Internet and LAN-connected access points and microbase station products for wireless network connection of both peripheral units and personal communication devices (e.g. laptops, mobile telephones and Personal Digital Assistants (PDAs)). See also the section “Mobile Internet”.

The new effort came in the light of the developments in wireless data and voice communication and the ensuing opportunities for mobile Internet, as well as the converg-

ence between fixed and wireless networks, between protocols and applications and between telecommunication and data communication. A further important condition for Axis' ongoing and future ventures is the extension of the broadband network, which is expected to increase the number of peripheral units added to networks.

### **The introduction onto the Stockholm Exchange and the future**

The core competence of managing multiple protocols in cost-effective and user-friendly product solutions established by Axis in 1984, together with Axis' solid corporate culture and established global sales and marketing organisation, will strengthen the Company's continued growth. To accomplish the vision established in 1995 and the investment programme Axis has been working with since then, the Company needs the opportunities provided by an introduction onto a stock exchange and the raising of capital. These opportunities will include:

- obtaining the necessary financial strength for further expansion geographically and in new product areas, through both rapid and flexible development of products and services and through acquisitions,
- creating a means of payment, through the listing of the Company share, that has a clear market value and can be used in acquisitions, and
- attracting competent personnel who will be given the opportunity to take part of the expected growth in value through incentive programmes.

The new share issue payment will also be used to reduce the Company's debts.

The introduction onto a stock exchange will also lead to increased attention from the capital market, customers, suppliers, mass media and the general public, which in turn will increase knowledge of and interest in Axis. This

will involve stimulating demands on the whole of the organisation and is thereby judged to have a positive effect on future developments.

Axis' Board of Directors and owners have decided to carry out the impending new share issue and ownership spread and to apply for listing of the share on the O-list at the Stockholm Exchange, to enable the company to successfully take advantage of the growth potential in existing and new business areas and markets. The new share issue is expected to provide Axis with approximately SEK 375-488 million, after deduction for issue expenses.<sup>1)</sup>

With the aim of creating the right conditions for a satisfactory liquidity in trading of Axis shares, the principal shareholders have undertaken to dispose of parts of their shareholdings and offer these for sale, in addition to the new share issue. It is their aim to remain principal shareholders in Axis and to continue to take an active part in the company's future development.

The principal shareholders and a number of top managers at Axis have agreed to not sell, directly or indirectly, their shares during a period from the first day of listing of the Axis share on the Stockholm Exchange until the day Axis publishes its interim accounts for the financial year 2000/2001 without written consent from Enskilda Securities.

For further information, reference is made to the report in this prospectus, which has been compiled by Axis' Board of Directors for the purpose of this Offer and the application for listing of the Company's shares on the Stockholm Exchange's O-list.

The Board of Directors for Axis is responsible for this prospectus. We herewith give assurance that, to the knowledge of the Board of Directors, the information in this prospectus conforms to actual conditions and nothing of material importance has been omitted that could affect the picture of Axis given.

Lund, May 30, 2000

Axis Aktiebolag (publ)  
*Board of Directors*

<sup>1)</sup> Issue costs are estimated to amount to approximately SEK 25 million, and are intended to be charged directly to the Company's equity.

# President's Statement



*Today's society is increasingly characterised by the importance of networks. Being connected is a matter of course and today's network users expect to be able to simply connect their personal equipment, and peripheral units, such as printers, to both fixed and mobile networks. After more than fifteen years of supplying products that provide our customers with user-friendly connectivity, based on technology we have developed in-house, Axis has achieved a world leading position in several of the Company's product areas.*

## **Conditions for growth**

When Axis was founded in 1984 by Mikael Karlsson and Martin Gren, there was a lot of creativity present, but rather limited resources. However, despite the lack of resources, there was an insight even during the start-up phase of the importance of establishing the fundamental conditions of a successful growth company.

- Core values and a strong corporate culture were created and established. These provide direction and performance standards, which are fundamental to being able to compete in changing markets where competition is fierce. By linking together our business concept and our common values, we have a strong platform for our endeavour to always live up to our customers' expectations.
- Combining business sense with innovation, makes it was possible to create the right conditions for growth from the start, developing the capacity to commercialise technological achievements.

In that all of these conditions were established essentially from the beginning of operations, Axis has been able to develop from a small, local company with advanced technology into a global player in its segments, competing with companies such as Hewlett-Packard and Intel.

## **Market conditions**

I am convinced that a growing number of people will realise the value of having access to a large range of network resources. Axis' view of our market's underlying foundation is based on what is often called Metcalfe's Law (Metcalfe is the person who invented the Ethernet, and his law is often used together with Moore's law as the explanation for the growth of the Internet). Metcalfe's Law says that "the total value of resources shared in a network increases exponentially with the number of users who gain access to the services".

With world leading know-how in software development for built-in systems, chip design and networks, Axis has achieved a strong position in an interesting market through our established ThinServer technology. The basic idea behind this technology is that a thin server, unlike a traditional server, is adapted to solve a specific problem, with optimised hardware and software, which saves time, simplifies usage and also improves the system's server performance for applications. At the same time as Axis launched its concept, came the start signal for the "post-PC" era in the form of "network devices". We have recently taken another important step in that we are now using Linux, which is an open source operating system, which enjoys a number of advantages for development speed, cost and partnerships. We have ascertained that we are one of the leading companies in embedded Linux.

Significant development investments in recent years have provided us with a strong product portfolio. Business opportunities within, for instance, mobile Internet and broader marketing of our ThinServer technology lead me to foresee further progress in the realisation of our vision of increasing the value of the network to all its users by facilitating network connection of anything, anywhere, anytime.

## **International player focused on customer value**

Axis has always been eager to build up and develop an international market position, and exports have since a long time accounted for more than 90 per cent of sales (excluding Netch). Within its areas of operation, the Company is probably better known in the USA and Japan than in Sweden. As Axis' initial focus was on solving customers' printer problems in the mainframe environment, the Company quickly realised the necessity of offering total solutions as well as developing new technology.



The other important development stage for the Company in the beginning was going global. As there was only a limited number of mainframe computer customers in Sweden in the mid-1980s, Axis set its sights on the international market right from the start. From the very first year, sales and representation had been established in most of the large markets and Axis quickly sailed past established competitors. In this initial focus on the mainframe computer market Axis combined OEM business (e.g. IBM and Memorex-Telex) with sales of products under its own name from the start. This type of flexibility has been a characteristic of Axis' business sense over the years.

Today, Axis is established in 15 countries with an own network of offices that stretches from Tokyo to Silicon Valley, and has sales in more than 60 countries. An increasing number of international companies, such as Canon, see Axis as a natural partner in issues related to network connectivity. On the technology side, Axis has gained a position on the international arena through participation in technology forums such as the Universal Plug and Play Forum, Jini Community, Internet Engineering Task Force (IETF) and HiperLAN/2 Global

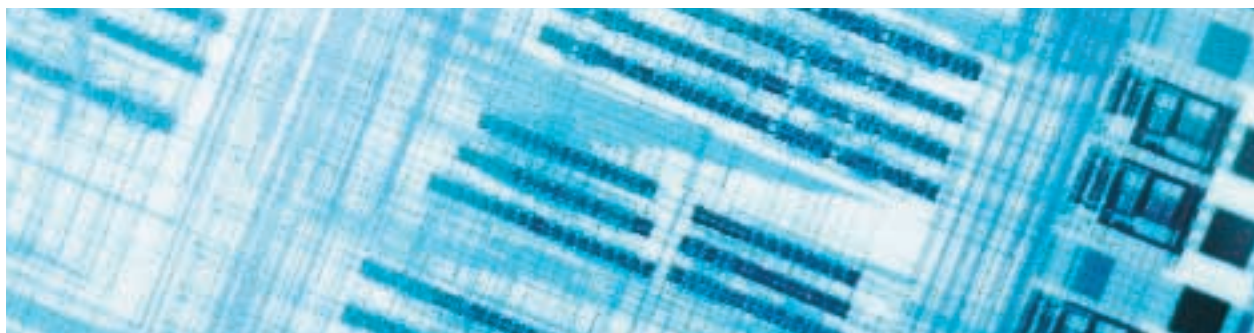
provide our customers with added value, which we predict will give Axis a higher position in the value chain.

Operationally, we will work on improving efficiency by developing our processes in the development of technology and solutions, production, sales, recruitment and in our support functions.

The extension of our organisation, initiated during the financial year 1999/00, will continue during the present year. The investments in marketing and development we make are continuously expensed to the income statement, in accordance with Axis' accounting principles. This means that this financial year we will probably show an operating loss.

### **The future**

I have illustrated, in various ways, the growing market for "connectivity" around the world. With our strong international position in this market, our sound technological know-how and our – for more than 15 years – proven capacity to innovate and develop existing and new markets, I feel very confident about the future. We have a clear growth potential in all of our present product areas, while several development projects indicate considerable potential for the future. We have good opportunities to



Forum, as well as through collaboration with Lund Institute of Technology and other national research institutes. This development work enables Axis to influence future technology and future product development, as well as keep ahead in the application and development of future technology.

### **The current financial year**

During the current financial year we will continue to develop our ThinServer technology, including the ETRAX platform and embedded Linux. In addition, we will add new areas of operations, through the Mobile Internet and Technology Divisions, at the same time as developing and strengthening our product range in the Document, Camera and Storage Divisions. We will also prioritise the development of new products and system solutions that will

successfully introduce our products for wireless communication into the market. By using Linux as the open source operating system, I also see great opportunities for creating further growth areas for Axis.

We will continue the strong development of our organisation and our range of products and thereby consolidate and further develop Axis' leading position in the growth markets where we are active. The financial strength achieved through the new share issue, combined with Axis' inherent strength and capacity to introduce user-friendly high tech onto the market, provides us with excellent opportunities to create a profitable and expansive company.

Peter Ragnarsson  
*Chief Executive Officer*

# Networks –A Brief Introduction

*“The power of the network increases exponentially by the number of computers connected to it. Therefore, every computer added to the network both uses it as a resource while adding resources in a spiral of increasing value and choice.”*

*Robert M. Metcalfe, inventor of Ethernet*

*The objective of this section is to provide the reader with an overview of the network market and to describe the position of Axis. This description is, to some extent, simplified and does not claim to be exhaustive.*

In its simplest form, a network can consist of two units that communicate with one another. These may be two personal computers (PCs) connected together via a shared medium such as a cable. If the units are located within one and the same building or in a smaller geographical area, this local network is known as a LAN (Local Area Network). The units use a network protocol common to both in order to communicate. A protocol consists of rules that define how the units identify one another, how data is sent and how it is to be processed. There are also rules for how to initiate a data transfer, known as access methods, and what should happen if the two units start to transmit data at the same time. Ethernet and Token Ring are examples of two kinds of networks that, among other things, use different types of access methods.

However, the LANs of today consist of more than two units. They include computers, file servers, web servers, application servers, databases, printers, CD towers, modems, firewalls, and so on. The figure below shows an example of two LANs connected together via a bridge. For reasons of loading, networks are often divided into a number of smaller parts by means of a bridge ensuring that only traffic between the networks is permitted to pass. A router is a more “intelligent” solution and can determine the route the traffic is to take.

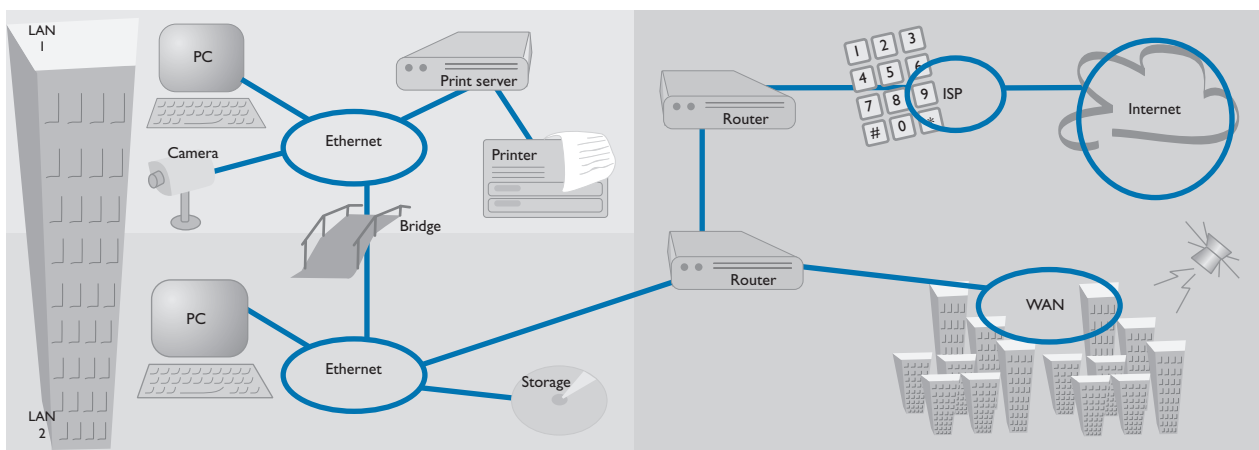
LANs are often scattered over various geographical locations. What are known as WANs (Wide Area Networks) are used to link together a number of LANs. WANs consist of fiber backbones, special data links (radio or satellite), telephone lines or Virtual Private Networks (VPNs), which are becoming more and more common. One example of a simple WAN is a modem that dials up a server (Remote Access Server).

Most internal networks these days are linked to the Internet. From its origins as a WAN designed for military and academic purposes, the Internet has now become a communication highway and information database on a gigantic scale. Computers are linked to the Internet via what is known as an ISP (Internet Service Provider) which has a national or multinational network of connection points consisting of both telephone, xDSL (Digital Subscriber Line), cable and ISDN lines as permanent connection points.

Sometimes company networks are known as intranets, and by this is meant that an internal network uses Internet-based protocols and software (web browsers).

The interesting aspect is what the network can offer, irrespective of what kind of network it is. What people are trying to attain with a network is the great variety of knowledge and resources that can be utilised. The value of a network increases as more and more units are connected to it, see Metcalfe’s law above. Axis realised this at an early stage, and the Company’s products facilitate the sharing of resources among different users regardless of which protocol

## Example of a network





is used. Axis servers also enhance the value of the product connected, such as a printer, scanner, network camera or a CD tower since the function in question can be used by everyone. Usage increases and the organisation enjoys more efficient utilisation of resources. This has led to a very high level of growth in the market for local company networks. When LANs are installed, the focus shifts from the infrastructure to the functionality of the network.

### ThinServers

The networks of today are being developed with a view to containing a lot of intelligent devices, unlike older networks, which were constructed around a central mainframe. The advantage of having a lot of intelligent devices is greater flexibility. This does not necessarily mean that all the units have to be PC-based. PCs are unnecessarily complicated, expensive and difficult to use for many applications – especially if you only intend to use them to connect another network unit such as a printer or a camera.

By tailoring functionality, it is possible to make small, powerful products for connecting and managing units in a network. In line with this trend, Axis constructs products using a common platform, Axis ThinServer technology, which consists of the basic building blocks for connecting equipment to a network and making it accessible via a web interface. This enhances the overall intelligence of the network.

### Wireless local networks

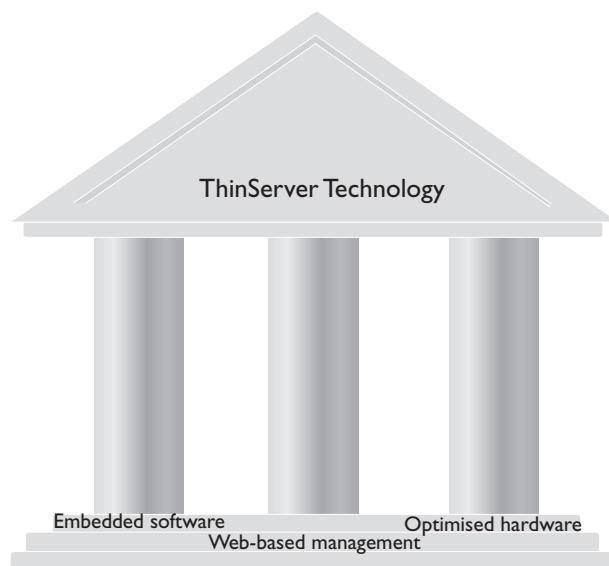
When people communicate with one another, the air is used as a “transmission medium”. In the case of networks, the original medium was electrical cable or fibre-optic cable.

The technical and economic advances in the field of mobile radio over the last few years have also paved the way for radio-based local networks, known as wireless LANs. This means that the units connected to the network do not communicate via a physical cable, but via radio waves passing through the air. Otherwise, the network, protocol and access methods are essentially the same.

There are various standards for wireless LANs, and they differ in respect of data transfer rates and the frequency band used. Some solutions, such as Bluetooth wireless technology, are intended to replace cables that link together mobile telephones, computers and accessories. These make fewer demands on data transfer rates than 802.11 and HiperLAN/2, for instance, which are being developed for wireless LANs.

For users, having a wireless network means that the resources of the network are available even if the user is not at his or her stationary computer. In the future, a stationary PC will be only one of the platforms used for communications and access to information via the Internet, both at work and at home.

### The foundations of the ThinServer Technology



Telecommunications has already undergone this phase, which, in addition to the strong growth in the market for mobile telephones, proves that there is a need for mobility. With the mobile telephone as a central tool for data-oriented applications as well, opportunities are created for providing users with new solutions, such as using Bluetooth wireless technology to allow mobile telephones to utilise the stationary resources of the permanent network, such as LAN-connected printers and digital network cameras.

The driving force behind this development is the human will to acquire information when we need it, regardless of where we are. And what drives this to the greatest extent is the need to communicate and the desire to have a lot of points of contact – “access to everything”.

This new way of using networks also creates a need for new types of network-based products and services, an area that Axis is addressing within its Mobile Internet Division. Axis is also exploring related opportunities through new ventures within its other divisions, such as mobile printing solutions being developed by the Document Division.

#### Wireless LAN:

Bluetooth wireless technology, HomeRF, 802.11, HiperLAN/2

#### Frequency:

2.4 and 5.5 GHz

#### Transmission speed:

0.7–54 Mbit/s

# Business Concept and Strategy

## Vision and business concept

Axis' vision is to increase the value of the network for all its users by providing network "access to everything, from anywhere, anytime" on the network. Axis' business mission is to make it simple and cost-effective for users to connect all types of electronic equipment in networks to provide efficient, improved access to various services, resources and units.

To make this possible, Axis will further strengthen the Company's global market position and establish Axis as a leading company in the development of local wireless networks. Axis will be a market leader in solutions for connecting peripheral units such as printers, scanners, cameras and storage devices to networks, as well as offering new opportunities for wireless network connectivity.

The Axis view of the future will involve users requesting communications services independent of the network medium. These services will use data, images, and voice, for both wireless and fixed networks, where the user will perceive the two networks as one and the same Internet network. This will require suppliers of technology that can handle different protocol and network environments, utilising the Internet Protocol (IP) as a foundation. This multi-protocol support is a core competence of Axis.

## Objective and strategy

The overall objective of Axis is to grow, with profitability, by consolidating and reinforcing the position of the Company in the market for the connection devices to fixed and wireless local networks and the Internet. The Axis strategy for this over the last few years has involved organic growth by increasing the Company's market shares and expanding the operations of the Group. This has been achieved by establishing a number of product areas, establishing subsidiaries in principal markets, preparing co-operation agreements with the more key companies in the industry, such as Canon, Sun Microsystems and Microsoft, and establishing and extending sales agreements with significant distributors, dealers and OEMs.

Axis will achieve its overall objectives by means of the following:

- Being one of the companies at the cutting edge of technology in the field of IP-based network connectivity.

- Being early on the market with new technology and new product categories.
- Establishing Axis as a leading brand for IP-based network connectivity.
- Growing more quickly than the market for established product areas.
- Continuously achieving added value for the customer.
- Having a high level of customer satisfaction by guaranteeing solutions that are simple and readily accessible.

## The Axis strategy

**Guarantee technical leadership through strategic partnerships, establishments and recruitments**

To guarantee the position at the cutting edge of technology, Axis will leverage strategic partnerships, recruit new personnel and keep the Company internally focused on establishing the Company in markets where Axis is able to maintain leadership within prioritised areas, primarily in the USA, but also in Japan and Europe. The presence of Axis in Silicon Valley and investment in the American company nBand are of strategic importance for achieving this target. The North American market is given particular priority when it comes to the building up of market resources. The task of increasing sales in this market, which is subject to tough competition, places great demands on technical leadership able to stimulate the Company's work on the development of products and solutions.

As part of this target to become a leading technological company, Axis has and will continue to invest in obtaining top skills in key areas. For instance, within the business area Mobile Internet, a number of new employees with key skills in wireless technology have been recruited over the last financial year.

**Decentralisation, focus and flexibility result in innovation and short development times**

Maintaining a decentralised, focused and flexible organisation with a strong trend towards innovation will allow Axis to meet new demands and adapt the Company to new opportunities in a market where technology changes quickly and where there are great demands for short development times. The Company's network skills and focus on development activities, in combination with a keen perception regarding market

changes, make it possible for Axis to be first to market with new ideas, products and solutions.

### **Selective marketing reinforces Axis' brand and market leadership**

The ability to be first to market is important, as this contributes towards greater end-user awareness of Axis products. This awareness, in turn creates a demand that reinforces the position of Axis within the distribution channels. Partnerships and a strong position in terms of distribution give Axis the prerequisites for establishing the Company's products and solutions as a standard in the industry.

Considerable resources are being invested in marketing targeted at both OEMs and independent distributors, dealers and end-users, with the objective of increasing awareness of Axis products and solutions, and in order to reinforce the Company's brand.

### **Large volumes and outsourced production for high quality and low costs**

Growth is optimised within established Axis product areas due to the considerable benefits of scale that can be achieved. Large volumes result in fixed costs – such as development costs for the software included with products and costs for marketing and sales – constituting only a small part of the overall production cost. Axis' own integrated circuit designs, which are developed in-house, are central to all the Company's network products, and help to ensure that the company enjoys cost benefits in the field of hardware as well.

Axis strives to be a market leader in terms of quality, while at the same time offering economical solutions. This

can be achieved by means of the Company's innovative abilities in development and production, which have resulted in good price-to-performance characteristics for Axis products. The outsourcing of circuit card manufacturing to a number of subcontractors allows Axis to concentrate its resources on the Company's core skills, the development of products and technical solutions for IP-based network connections, and marketing and sales.

### **Greater value by means of system-oriented solutions**

Axis is implementing new stages of development in product and business areas in which the Company's knowledge of networks and technical skills can be utilised in order to develop solutions of greater value for the end-user. Axis will also be able to offer system solutions with enhanced service options.

### **Personnel**

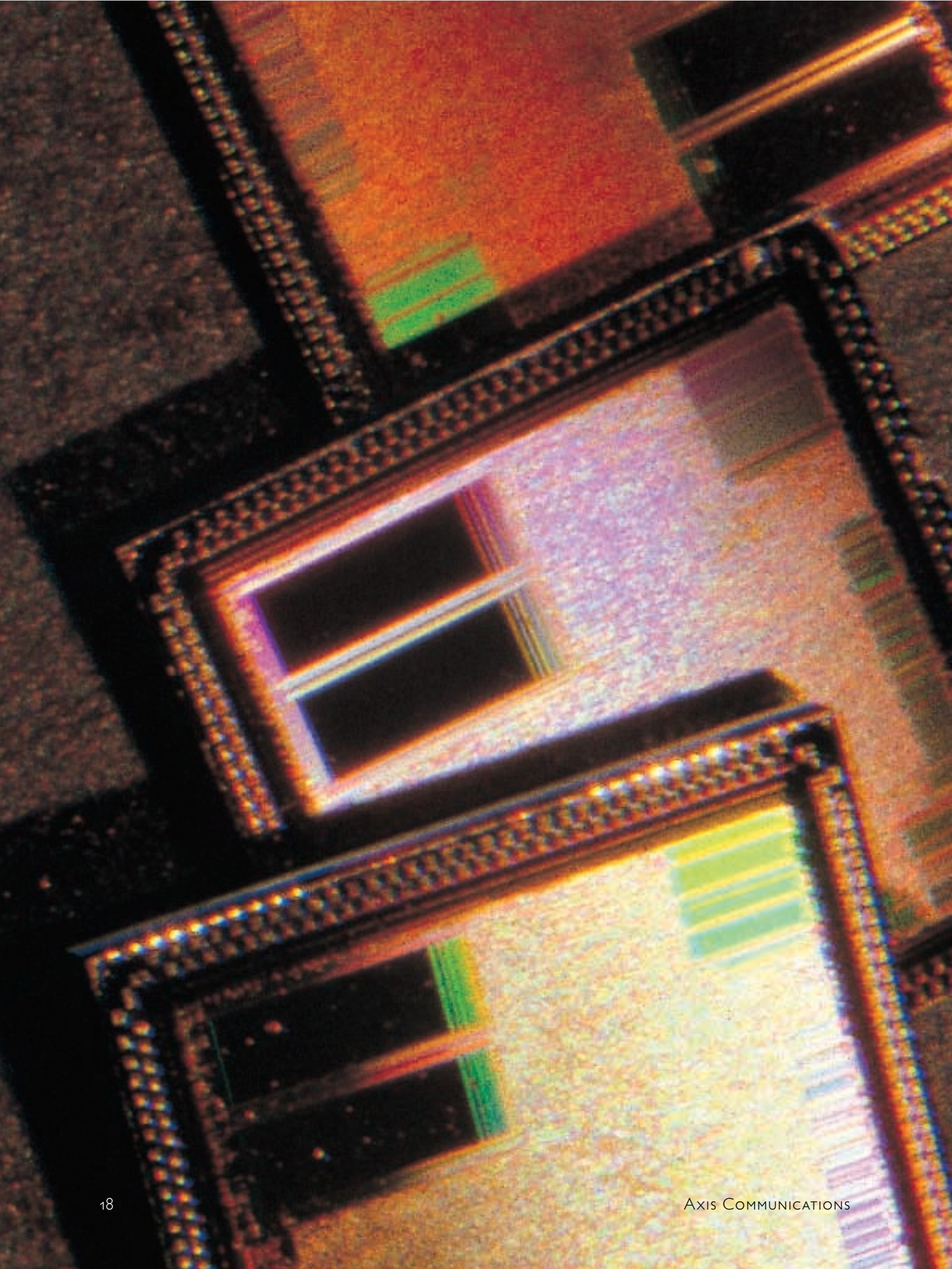
Axis is a knowledge company and sees its personnel as a strategic resource. Axis must have a great ability to attract and keep skilled personnel. As part of this, Axis maintains a distinct culture and allows its employees to be covered by an option programme: See also "Incentive Programme" under "Share Capital and Ownership Structure".

### **Participation in market development and structural development**

Axis strives to take an active part in the development of the markets and the market structures in which Axis operates. If Axis deems it beneficial for the development of the Company, it intends to acquire or sell operations, technical skills, patents or other intellectual property.







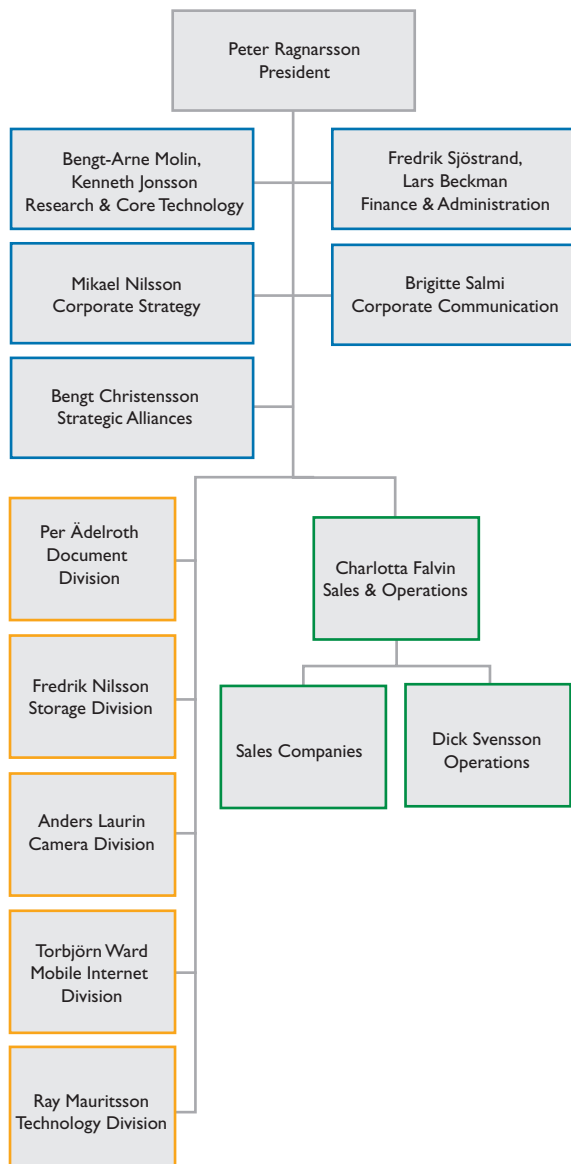
# Description of Operations

## Group overview

Axis is a world market leader in IP-based network connectivity. The Company is organised into five divisions that focus on product manufacturing and associated business development, a well-structured sales and logistics organisation, and support functions for research and core

technology. The Company's operations are based on the skills and knowledge it has built up relating to network connectivity and data communications in multi-protocol environments, as well as IP-based networks.

## Axis' organisation



Servers and computers from various manufacturers are often based on different operating systems and protocols and thus communicate with one another in different ways. Connecting different types of peripheral equipment to networks such as LANs is a complicated matter.

The Document, Camera and Storage Divisions develop and sell hardware and software solutions that support communications among a large number of different operating systems and protocols for various peripherals, such as printers, scanners, cameras and storage media, to IP-based networks.

The Mobile Internet Division bases its work on a combination of existing Axis technology and networking knowledge and new technologies for wireless data transfer, such as Bluetooth wireless technology. Here, Axis develops products and system solutions that facilitate wireless broadband access to both local networks and the Internet.

The Technology Division provides Axis with basic technology internally for other product areas, and has also begun work on external sales of the Company's embedded Linux-based technology platform.

The primary function of Research & Core Technology is to guarantee the position of Axis as a high-tech company. It has a research time horizon of 2–5 years, with the objective of supporting the long-term view in existing product development, identifying new product areas, as well as guaranteeing technical knowledge of future technologies and applications.

Manufacturing for Axis is undertaken exclusively by subcontractors.

Sales for Axis are primarily undertaken via international IT distributors and dealers, but also through OEM customers. The Company also has a well-structured organisation with which to support sales and offer local service, with its own offices in 15 countries. At present, Axis employs more than 500 people (including Netch).



## History

### IBM protocol conversion and Europe

The company was founded in 1984 by Martin Gren and Mikael Karlsson. The operations were oriented towards network connections right from the start, or what is known as “network connectivity”, but originally with a niche focus on protocol converters/printer interfaces for the connection of PC printers in IBM’s mainframe and minicomputer environments. By the end of the 1980s Axis had established a position in this market niche as one of the three leading companies in the world.

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### Printer servers and Asia

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Since 1996, Axis has carried out a huge expansion of the Company’s global office network and associated distribution organisations and Axis currently has sales in over 60 countries, with support from 20 own offices in 15 countries.

1984	Axis is formed; business activities focus on protocol converters.
1986	Axis’ first ASIC-based printer interface.
1988	The Company’s first office abroad, with a subsidiary being opened in Boston, Massachusetts.
1992	Axis’ first print server is launched on a global scale. Establishing the Company in Asia begins in connection with this.
1993	The Company establishes presence in Japan and Hong Kong, and launches the first products based on the ETRAX circuit, the world’s first 32-bit RISC processor with integrated network connection.
1995	Axis’ product range based on ThinServer technology is extended with the Company’s first CD server.
1996	The first camera servers are introduced. Continued geographical expansion in the markets in South-East Asia, Europe and the USA.
1998	Axis’ first scan server is launched; world premiere for sending hard copies via the Internet. Mobile Internet venture begins.
1999	The Company makes major investments in integrated circuit technology, embedded Linux and Bluetooth wireless technology.
2000	The Mobile Internet Division is formed – wireless network solutions. The Technology Division is formed.

### IP connectivity in a global market

Axis began its fourth development phase in 1998, an effort in line with the Company’s fundamental vision of IP-based network connectivity for all types of equipment and communications, regardless of the underlying network structure and protocol. Development activities in this new phase include embedded Linux, Bluetooth wireless technology and wireless multi-protocol technology. One area of emphasis is on Internet and LAN-connected access points and microbase station products for wireless network connection of both peripheral units and personal communication devices (e.g. laptops, mobile telephones and Personal Digital Assistants (PDAs)). See also the section “Mobile Internet”.

The new effort came in the light of the developments in wireless data and voice communication and the ensuing opportunities for mobile Internet, as well as the convergence between fixed and wireless networks, between protocols and applications and between telecommunication and data communication. A further important condition for Axis’ ongoing and future ventures is the extension of the broadband network, which is expected to increase the number of peripheral units added to networks.

## DOCUMENT DIVISION

The Document Division enhances the value of the network for its users in that it provides products and solutions that make it possible to comply with the mottoes "Print whenever you want, wherever you are" and "Hard copy over the Internet". The division sells a combination of established products, including different variants of print servers for traditional networks and special solutions for specific requirements for security and economic print control (AXIS ControlPrint). It also develops Mobile Printing Solutions, a completely new area that addresses wireless printing from mobile telephones, PDAs and portable computers. The Document Division does not manufacture or sell printers; rather, it works in close co-operation with a number of printer manufacturers on the development of products and concepts for the future.

Axis takes an active part in a number of standardisation groups in order to ensure that print solutions are simple, robust and quick. The Company is one of a select group which has been invited to become an Associate Member of the Bluetooth Special Interest Group. This gives the Company the opportunity to participate in the actual standardisation work for products based on Bluetooth wireless technology. Axis is part of the Ericsson Developer Alliance Program for developing the first generation products based on this technology in co-operation with Ericsson. Axis' strategy here is to implement development work in such a manner that users can produce printouts on the move using any combination of software from companies such as Axis, HP or Microsoft, mobile equipment from manufacturers such as Ericsson, Nokia, 3Com or Toshiba, and any type of printers.

Axis is, along with Hewlett Packard and Intel, one of the three largest companies on the print server market, and it holds a strong position with a number of OEM customers for integrated print servers.

During the 1999/2000 financial year, the Document Division accounted for 57 percent of Axis total sales. The divisional gross margin amounted to between approximately 55 and 60 percent during the last three years.

### Document Division – Historical development

	1996/97	1997/98	1998/99	1999/00
Revenues (SEK million)	327.1	362.1	357.3	395.9

The Document Division also provides solutions for sending hard-copy information over the Internet or intranet by a number of means, including e-mail. This is done using scan servers, which make it possible to share a MFP (Multi-Function Peripheral, such as a combined fax, printer and scanner) or a scanner on a network. Hard-copy documents can be sent directly over a network – the Internet, for instance – once the document has been scanned in.

The figure on page 22 summarises the Document Division's product range in a lifecycle diagram. Its product areas include both established products with well-developed, more mature markets and new or evolving products and solutions which represent sectors with great potential for growth and higher margins.

The Document Division's products are described below in the product areas Print servers, Mobile Print and Scan servers.

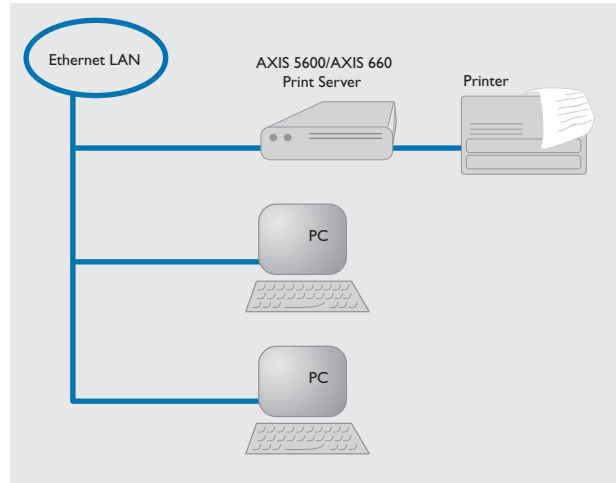
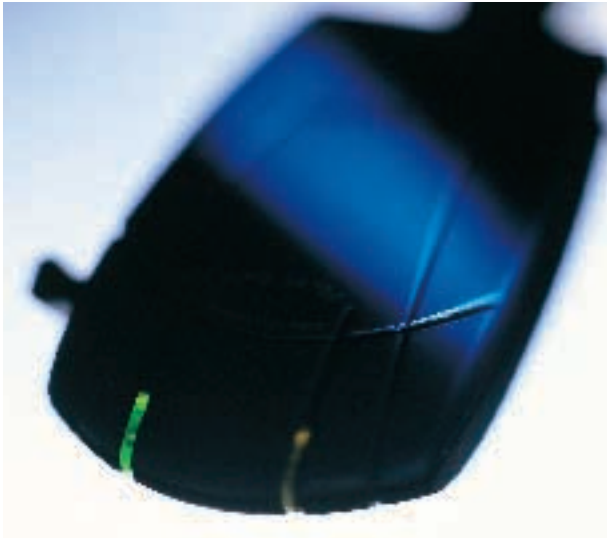
## Print servers

### Overview

Print servers make it possible for a number of users to share a printer on a network in a simple, cost-effective way. These devices allow the printer to be placed at the point at which it is to be used, while, at the same time, making it accessible to all users irrespective of their computer environments, such as PC, Mac or UNIX, or type of network. As early as 1991, Axis print servers were aimed at TCP/IP and were to be reinforced with what is known as multi-protocol support, which essentially involves the management of all popular types of computers and network environments. (For instance, a printer from Canon, Hewlett Packard or Lexmark needs to be able to work in a network from Microsoft or Novell, with computers from Compaq, IBM or Apple).

Print servers can be further divided into external and integrated print servers. External print servers are separate





A print server connects a printer to a LAN.

units connected between printer and network or other units. Integrated print servers are instead connected directly to the printer but have the same function as an external print server. Printers with integrated print servers are also known as network printers. The advantages of an external print server are that a number of printers can be connected, these printers can be replaced without having to reinstall a new unit, and different makes of printer can be connected and controlled in a standardised manner. On the other hand, an internal print server often gives better status information because it can be tightly integrated with the printer’s capabilities.

An alternative way in which to share a printer in a network is to connect the printer to a computer, which in

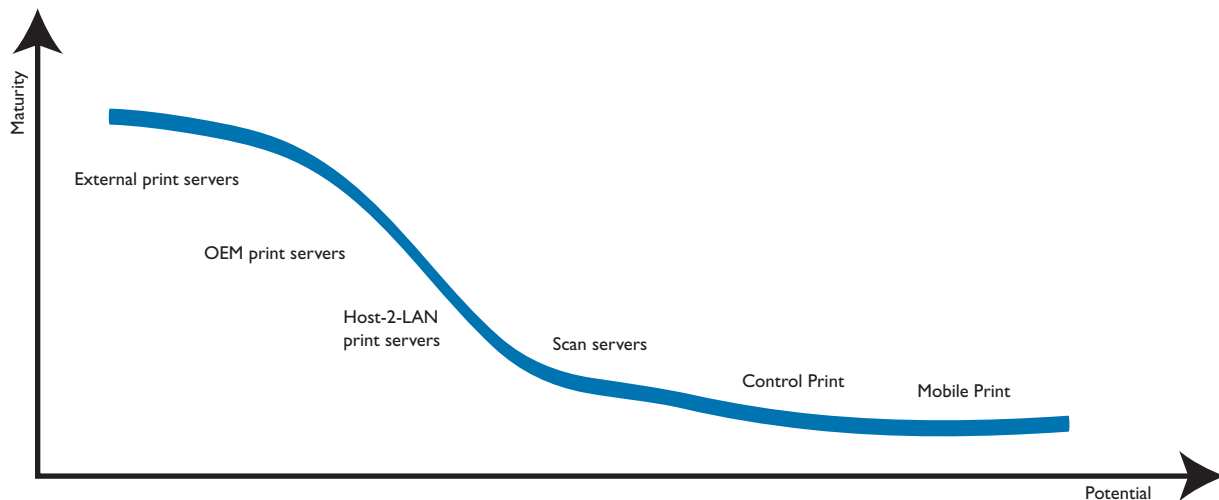
turn is connected to the network. However, this is a more expensive, more complex solution in comparison with print servers, and it offers less flexibility as regards where the printer can be positioned.

**Axis print servers**

Axis develops and sells both external print servers and integrated print servers. To be able to offer effective solutions for the connection of printers to networks, Axis has established relationships with a number of the biggest manufacturers of printers such as Canon, Epson, Fuji Xerox, IBM and Minolta.

Axis’ latest external print servers, AXIS 5400 and AXIS 5600, support Internet Printing Protocol (IPP), which means

**The maturity of products today**



that they can also connect printers directly to the Internet as well as connecting them to local networks. This makes it possible, for example, to print from the office to a printer at another office or at home, where the printer is connected to the Internet via a modem or a LAN, for instance.

More and more Axis print servers are being sold on an OEM basis (Original Equipment Manufacturer) directly to manufacturers of printers so that they can be integrated in their products, and this is becoming an increasingly important sector. During the financial year 1999/2000, OEM sales of print servers amounted to approximately 20 percent of total sales of print servers. The product range includes network interface cards (NICs) and solutions based on OEM customers manufacturing network cards, and that Axis sells its own ETRAX circuit developed in-house and licenses out the software.

Axis also offers print servers for an IBM environment. These are based on the same concept as other external print servers, but they also permit specific protocol conversion and communication between computers in IBM's minicomputer and mainframe environments and printers in PC network environments. These products thereby make it possible to share printers between both LAN and IBM environments within organisations, something that is also known as Host-to-LAN communication.

### Axis Control Print

Experience gained by Axis has shown that some companies and organisations, such as public administration, the military sector and banking and finance require more advanced solutions, such as:

- Confidentiality and security. Preventing other users from seeing printouts before they are picked up from a shared printer.

- Flexibility and accessibility. Being able to send a document to print and decide later when to pick up the job and from which printer (what is known as the "follow-me" principle).
- Cost sharing. Being able to bill printing activities on separate accounts for different users.

Axis has developed a new concept, AXIS ControlPrint, to meet these requirements. This was introduced in April 2000 and consists of an external print server with specially adapted software, server software for NT or NetWare servers, and a magnetic card reader which is connected to the print server.

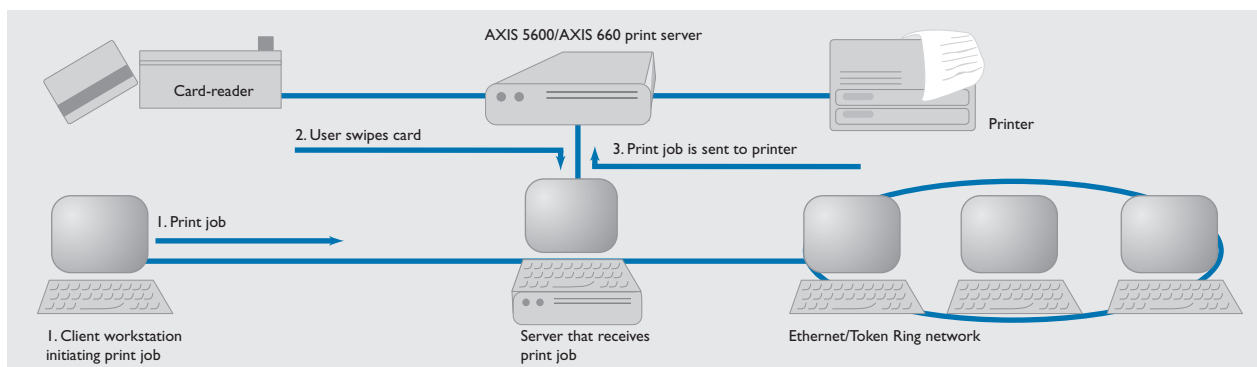
With AXIS ControlPrint the user sends a print job to a controlled print queue. This print job is captured in the network by the server software and is not sent to the printer until the user's magnetic card has been swiped in a card reader at the printer to which the user chooses to send the printout.

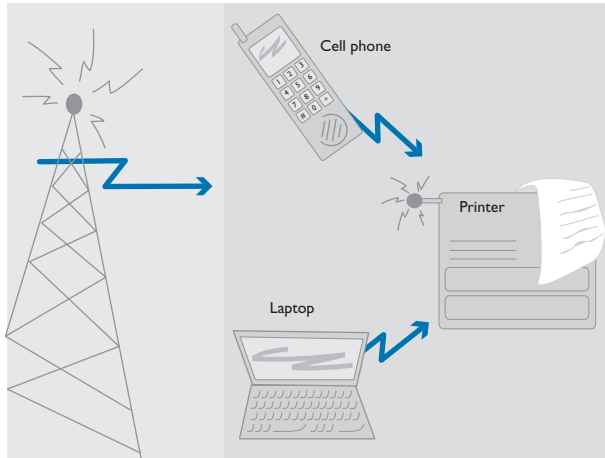
Other solutions already on the market for confidential printing include printers with lockable printout trays, locked-in printers and personal desktop printers. Locked-in printers require investment in space and premises, and printouts can be viewed by anyone who has access to the room. Personal desktop printers involve high investment and maintenance costs compared with shared printers.

### Customers

Axis external print servers are used primarily by medium to large companies with complex networks, multi-protocols and multiple operating systems. The list of end customers includes a number of the leading companies in the world in their respective industries, such as General Motors, Coca-Cola, Astra, Volvo, Ericsson, Lockheed-Martin, KLM, Shell, Philips, Siemens, Deutsche Bank and Volkswagen.

### Axis ControlPrint





*The first generation Axis Mobile Print solutions.*

Axis sees considerable potential on account of the increasing use of print servers in smaller companies as well.

Axis' biggest OEM customers for integrated print servers are Canon, Fuji Xerox and QMS/Minolta, where the servers are sold as an integral component in the printers under the name of the OEM customer.

Axis' end customers for Host-to-LAN print servers are users of IBM AS/400 systems and mainframes who need to be able to run printouts on printers connected to networks. The end users are companies in many sectors, such as banking and finance, insurance, transport, manufacture, trade and commerce and public administration.

### **Market**

The market for print servers is driven by a number of factors:

- Printer sales
- Number of printers connected to networks
- Number of these printers which are connected by means of a print server as opposed to via a computer

The global market for print servers was estimated at 6,1 million units in 1999 (IDC 1999), which corresponds to an increase of 27 percent in comparison with 1998. Of these print servers, approximately 60 percent were internal print servers (OEM and servers manufactured in-house, i.e. manufactured by the printer manufacturer and integrated in the printer). Based on the latest independent market reports from IDC and Gartner Group and own estimates, Axis is of the opinion that the global volume growth for print servers will be around 15 percent during the year 2000. The Company is of the opinion that this growth will then fall slightly as the market matures further. The relatively tough competition in this market, in conjunction with pressure from the OEM customers to decrease their costs, will lead to significant pricing pressure. Axis estimates

that the revenue growth in the market for traditional print servers will consequently amount to between 0 and 5 percent in the year 2000.

The more standardised print servers form a maturing sector of the market. Network printers, i.e. printers with integral servers, are becoming more and more established as a category on the printer market, which means an opportunity for Axis to expand in the OEM segment. However, this means that there is a risk that the manufacturers of printers will view print servers as a strategically vital component which they should manufacture themselves. Also, new and further developed products such as Axis ControlPrint and Host-to-LAN constitute growth sectors with expected high margins.

Axis ControlPrint is a new concept, and as yet there is no established market for this type of product. Therefore, it is difficult to quantify the size and growth of the market. Given information from test customers and a certain amount of newly established competition, Axis is of the opinion that there is great interest in this type of solution.

### **Competitive situation**

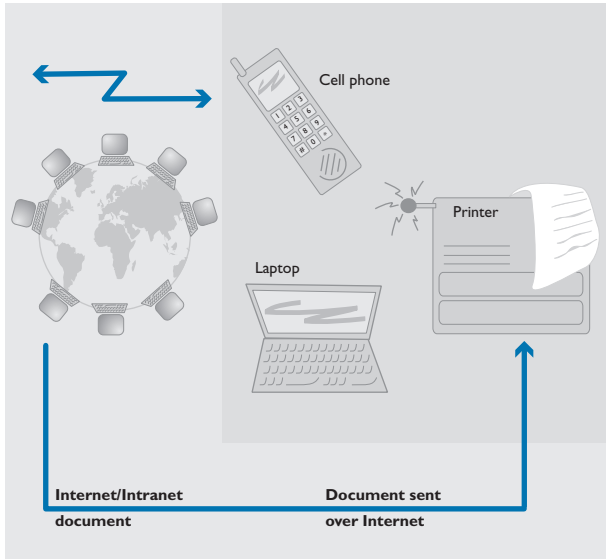
In addition to the major players represented above, there are also several smaller players with a focus on either geographical areas or niches of bigger markets. However, the demands for efficient, large-scale production and distribution in order to meet pricing pressure have made it difficult for smaller players to act independently in this market. Axis views consolidation within the industry to be likely, and the Company is well prepared for active participation in a restructure.

Axis is of the opinion that it has a strong position within both maturing sectors of the market for print servers and new niches. This strong position is based on the Company's development of network products with multi-protocol support, its cost-effective circuits and its established sales organisation.

The market for solutions for the printing of confidential information is at an early stage in its development, and Axis has a few direct competitors in this product area. The foremost competitors are i-data, a listed Danish company, and the British company HBM/Ringdale. Unlike the solutions of its competitors, the Axis solution is based on standard print servers in combination with any card reader, which means volume benefits in production as well as flexibility.

### **Future prospects**

Given the opportunities for growth in the OEM sector and the opportunities offered by ControlPrint and Host-to-LAN, Axis is of the opinion that the Document Division's print server operations have the requirements necessary to grow more quickly than the market for traditional print servers.



*The second generation Axis Mobile Print solution.*

## Mobile Print

### Overview

Mobile Print is a completely new concept, based on the anticipated continued development and rapid volume expansion of wireless equipment (such as mobile telephones, communicators, laptop and palmtop computers), and the fact that there is a continuous increase in information and applications adapted and available for this kind of equipment (such as e-mail and Internet-based information via WAP technology). The growth of wireless communication technologies such as Bluetooth wireless technology, makes it possible to offer solutions for printing information which users have received on their mobile equipment.

Previously, it was possible to request documents via telephone and to get them sent to any fax machine. Mobile telephones and other hand-held computer equipment opens up areas of application that used to require computers and permanent connections. Wireless technologies facilitate simple connections for the exchange of information and the synchronisation of data. The demand for mobile printing will be driven by the need to acquire a simple overview of large quantities of information and the need to submit hard copies, such as papers requiring a signature.

### Products and solutions

The first generation of Axis products in the field of mobile printing will facilitate the printing of the kind of information which today can be downloaded from the Internet or is available on mobile telephones and communicators,

such as e-mail, SMS messages, WAP information, calendar information, and so on, as well as all information which the user is able to access on a laptop/palmtop computer. Axis' product can be described as a print server with the additional function of being able to communicate with mobile devices using wireless technology. The first product based on Bluetooth wireless technology will be available during the third quarter of 2000.

In a second stage, Axis will be developing solutions to facilitate the direct printing, on a nearby or known printer, of information accessible on the Internet without this information first having been transferred in its entirety to, say, a mobile telephone or laptop. With this solution, most of the information is transferred to a printer via a permanent network.

### Market

As mobile printing is a new product area for Axis and other players on the market are still at an early stage of development, Axis is expected to have great potential initially in Scandinavia and Japan, as the market for wireless Internet solutions based on WAP, Bluetooth wireless technology and i-mode is growing and developing.

### Competitive situation

Anticipated competitors offering similar solutions for mobile printing include Hewlett Packard, Extended Systems and i-data.

Axis assesses that the Company has the following competitive advantages over potential competitors:

- Time-to-market. Axis intends to introduce the first Mobile Print product during the third quarter of 2000 and will thus be early on the market with functioning products.
- The co-operation with Ericsson within the scope of the Developer Alliance Program and the proximity to Ericsson's development centre in Lund will give early access to Bluetooth wireless technology prototypes.
- Axis can utilise its well-developed network of subsidiaries, distributors and OEM relationships to introduce Mobile Print solutions quickly on a large number of markets.

### Future prospects

Axis' concept for mobile printing primarily demands development of Bluetooth wireless technology-enabled mobile telephones, but also demands that printers or access points in networks are fitted with Axis print servers for mobile printing.

The first Bluetooth wireless technology solutions for mobile telephones, PDAs and laptops are expected to find their way onto the market during the second half of 2000.



This technology is, in this early stage of development, too expensive for a broader use in this kind of products. The prices for Bluetooth chips are expected to go down during 2001, and Axis estimates that a high-end segment for mobile printing will be established in the end of 2001. A mass market for mobile print solutions could then emerge during the following years.

The research institute IDC (2000) estimates that the number of wireless devices based on Bluetooth wireless technology on the market will exceed 450 million by 2004.

### **Scan servers**

A scan server facilitates the conversion of hard-copy documents into electronic documents and connects a scanner, or what is known as a MFP (Multi-Function Peripheral – a combined printer, copier and scanner), directly to a network without an additional PC or fileserver. This allows many users of a network to share the scanner equipment, resulting in lower costs. Axis scan servers also permit the direct distribution of scanned documents over a local network or the Internet to any recipient or network address, which facilitates document management and the flow of information within companies and other organisations. Axis scan servers are based on ThinServer technology and the ETRAX integrated circuit. The first generation of scan servers, AXIS 700, was launched in January 1998.

Among other things, AXIS 700 makes it possible to convert hard-copy documents to e-mails and send scanned documents directly to addresses on the network by selecting the addressee from an e-mail list shown in the scan server display. This e-mail list is retrieved from the company's e-mail server by AXIS 700. During the spring of 2000, Axis introduced the scan server AXIS 7000 with higher transfer rates and enhanced functionality, such as the

option of using a connected keyboard to enter any e-mail address and send documents via the Internet.

### **Customers**

Axis' biggest customers as regards scan servers are manufacturers of MFPs and scanners, such as Canon, Minolta, Océ and Sharp, which sell these on as separate units together with their own scanners and MFPs in a total solution. Axis scan servers are also sold via Axis' own sales organisation, either as separate units or together with products from the manufacturers of scanners.

### **The scan server market**

To date, the most common alternative to having a scan server has been to connect a scanner to the network via a PC, which is a slower, more expensive and less reliable solution. Moreover, the learning curve is steeper, as each user has to learn how to use software for scanning to the PC. With an Axis scan server connected directly to the network, the equipment is easier to use and no separate software is required.

The market for MFPs of the type to which a scan server can be connected is expected to amount to 625,000 units by the year 2003 (Gartner Group, 1999), which is equivalent to a growth of around 14 percent as from the current year. The number of document scanners sold is expected to rise by 32 percent during the period 2000 – 2002 to 305,000 units (Gartner Group, 1998).

### **Competitors**

The most significant competitors on the scan server market are NetCore, a Taiwanese company that concentrates on the connection of scanners to networks, and the MFP manufacturers themselves (see above). Some MFP manufacturers have chosen to integrate parts of the functionality offered by the scan server as a software component in their MFPs. A major player on the market is Hewlett Packard, but at present this is an indirect competitor as it supplies scan servers integrated in scanners under its own brand name and does not supply scan servers externally.

### **Future prospects**

The market for scan servers is still relatively young, which is why it is difficult to predict either the future structure or the rate of development of the market. There is great potential in connecting more and more office scanners and MFPs to networks, but at the same time there is a risk in that the manufacturers of MFPs will integrate more and more server functionality in future models. At the same time, this presents an opportunity for sales on an OEM basis to these customers as several of them are already customers of Axis as regards print server technology. Axis is in a good position to develop its position in this new market.

## CAMERA DIVISION

Axis launched the world's first network camera, NetEye, in 1996 and today assesses that it is the world leader within directly connected network cameras. Since the introduction of the latest network camera, AXIS 2100 Network Camera, sales have rapidly increased. Based on the large interest in the product family as a whole from both end users and large companies within the security and IT sectors, sales are forecasted to increase by approximately 100 per cent per year in the coming three years.

During the 1999/2000 financial year, the Camera Division accounted for 14 percent of Axis total sales. The divisional gross margin amounted to between approximately 40 and 60 percent during the last three years.

### Camera Division – Historical development

	1996/97	1997/98	1998/99	1999/00
Revenues (SEK million)	10.7	28.4	48.1	94.7

## Products

The Camera division develops and sells video servers and digital network cameras designed for professional surveillance and IT applications.

Video servers convert and transmit images from traditional video cameras to networks where an unlimited number of users can gain access to the information/images. The spring of 1999 saw the introduction of the AXIS 2400 Video Server, with four camera inputs and a capacity for transmitting moving JPEG images at a rate of 25 images per second in a standard web browser. The AXIS 2400 Video Server won the award for the best product at the prestigious ISC security trade fair in New York in August 1999.

Digital network cameras are digital cameras with an integrated compression chip and a built-in web server. The AXIS 200+ camera can be connected easily to a network and transmit moving images or stills over a network and the Internet. At the COMDEX, which took place in the USA in November 1999, the Company had on display the new Linux-based AXIS 2100 Network Camera, which has since shown a very strong increase in sales with demand exceeding Axis' expectations. Axis network cameras contains CCD sensors manufactured by SONY.

Using Axis camera products yield great potential cost savings for surveillance companies, as they make the transition from analog to digital surveillance systems. Companies can take advantage of existing networks, telephone lines and mobile telephony when installing the systems. They avoid the expensive installation of separate analog networks for image transfer.

The core competence of this division is its ability in the field of network-connected cameras. This ability has been expanded over the last financial year by a compression integrated circuit developed by Axis, the ARTPEC-1. This chip supports high-speed compression directly from different image sensors (CCD or CMOS) and has built-in signal processing, compression and data flow control. The images are accessible over the Internet or intranet via a standard web browser with no additional software having to be installed on the PC. The new cameras are based on embedded Linux and are very reliable and flexible.





## Customers

The market for Axis camera products is characterised by rapid growth in the utilisation of network-based solutions that include moving images.

To date, Axis digital network cameras and video servers have primarily been aimed at customers within the professional surveillance sector. Here, Axis sells its products via the Company's traditional distribution channels through the established security distributors, and to OEM customers. Important OEM customers in this area are Gyr, Sensormatic and SONY.

The IT segment includes users who rely on moving images for both private and professional purposes, such as companies with an interest in increasing the attractiveness of their web sites by showing live images, or companies/private individuals who need a simple surveillance system. One example of an existing user category for Axis network cameras is "camera portals", which offer live pictures from different locations around the world that are of interest to a large number of Internet users. By showing these pictures, the sites attract traffic and can use the images for commercial purposes, such as e-commerce and the selling of advertising. One of the biggest camera portals on the Internet is Earthcam.com.

## Overview of the market

### ***Professional security and surveillance.***

According to the assessment of Axis, the factors in the surveillance industry that will chiefly drive the market for video servers and digital network cameras are as follows:

- Shift in technology from analog to digital systems.
- Greater demands for security in society, resulting in an increasing need for security solutions.
- Support for efficient logical decision-making in emergencies by offering an option for visual confirmation of situations, resulting in cost savings.
- A higher degree of accessibility for a broader clientele due to lower costs for security systems.

Frost & Sullivan (April 2000) assert in a report that the North American market for video server systems and software will rapidly grow into a lucrative area for active players on the market. The demand for high-quality video for a number of different areas of application, such as broadcasting and the Internet, is forming the basis for a shift in media, that guarantees the continued growth of video servers. Manufacturers who are able to provide secure access to streaming video and, at the same time, offer flexible, scalable systems, will gain access to what may be a multi-billion market.






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 AXIS 2100 Network Camera

In 1998, Frost & Sullivan estimated total sales of video cameras for "branded CCTV" solutions in Europe to amount to around 600,000 units, at a value of approximately USD 188 million, with an annual increase of around 30 percent. According to the report "1999 Report on the Closed-Circuit Television Market" (J.P. Freeman, USA), the American CCTV market will double from a value of USD 1.3 billion in 1998 to USD 2.5 billion in 2004. The industry is expected to grow by 11 – 13 percent per year due to the introduction of digital technology, increased demand and the use of the Internet, applications for non-professional security solutions and the falling price of security systems. In Asia, the industrial journal Security Information estimates the market in 1999 to amount to around 150,000 units, equivalent to a value of approximately USD 50 million.

### **IT applications**

The increase in Internet connection both for business use and in private homes is stimulating the need to reinforce the information on the Internet using moving images. Axis' technology makes possible a simple solution to problems founded on the need to be present at locations

and in situations where it was previously financially or practically impossible to be present in person or to have traditional cameras mounted.

Factors driving the market for IT applications include the following:

- The expansion of broadband permits the transfer of greater quantities of information.
- Existing and new types of Internet operators providing broadband need to offer income-generating (image-based) applications and service as added value to their connection to the Internet (such as the Danish company Sonofon and the Belgian company Belgacom).
- The development of application areas where moving images reinforce the rest of the information on the Internet/intranet.
  - e-commerce
  - Company information over an intranet/extranet
  - Image transfer within tourism (e.g., [www.karlskronalive.se](http://www.karlskronalive.se)), public service (e.g., [highwaynet.com](http://highwaynet.com)), healthcare, and in other vertical markets.

According to IDC (1997), the demand for what are known as web cameras will increase globally from 600,000 units in 1997 to 9.2 million units in 2002. The value of the

global web camera market is expected to exceed USD 654 million in 2003. It is the opinion of Axis that part of this market can be opened for the Company's products by substituting directly connected network cameras for web cameras that have to be connected via a PC.

### Competition and market position

It is important to make the distinction between digital network cameras of the type manufactured by Axis and what are known as web cameras or PC cameras. There are great differences in both performance and functionality. A web camera is connected to a PC, which limits both its data transfer capacity and its ability to be connected to the Internet/intranet. In contrast, a network camera can be connected directly to the network, and then only the bandwidth/data transfer rate in the network limits the image quality that can be achieved. The price per unit for web cameras is lower than for network cameras, but as web cameras have to be closely connected to a PC, the total solution is normally more expensive, more detailed and less reliable. The biggest manufacturers of web cameras are Logitech and Intel.

Axis is of the opinion that there are currently no other solutions to compete, in terms of either price or quality, with the Company's digital network cameras regarding the transfer of moving images over the Internet.

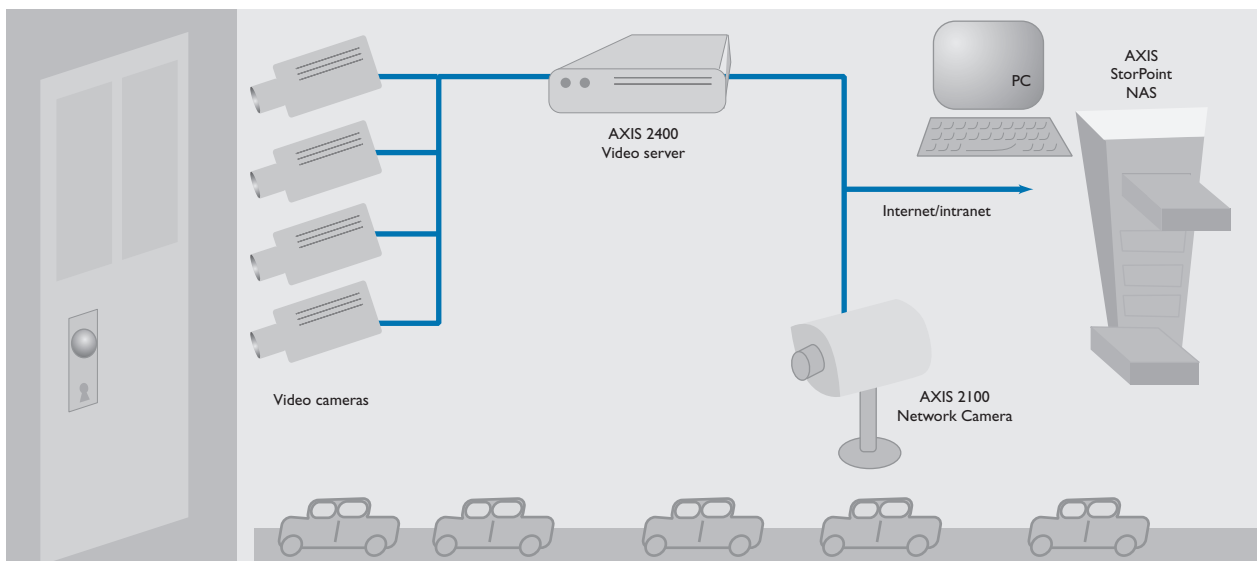
There is at present one manufacturer of similar products in Europe, the German-based VCS, and a small number of local players in Korea and Japan. Axis is of the

opinion that these players currently lack established organisations for global marketing and sales.

There are a number of competitors on the video server market, chiefly from companies offering traditional analog CCTV solutions, such as Panasonic and Philips. Axis has established a strong position among OEM customers and security companies. This customer group is considerably less price-sensitive than the end users of network cameras.

### Future prospects

Given the very rapid growth in the development of and accessibility to faster networks and network-based services, Axis' future prospects for its Camera division are extremely positive. Services based on the storage and transfer of images are currently displaying a very strong rate of growth, which has already been apparent from the division's growth rate. Demand for the Camera division's products come from a wide range of organisations and private individuals all over the world, reflecting the broad market potential offered by Internet-based services. It is the opinion of Axis that the growth in this market will accelerate over the next few years. This opinion is shared by international market research firms such as Frost & Sullivan and IDC, which also predict very strong growth in this sector over the next years. Axis views the digital network camera as a potential high-volume product in a market where competition is expected to increase. Its network knowledge, leading technology and strong sales channels provide Axis with a good position for the future.



Axis video servers and network cameras enable camera surveillance over the Internet.

## STORAGE DIVISION

*The Storage Division products make information and storage space accessible to network users in a simple and efficient way.*

*The Storage Division develops and markets what is known as NAS (Network Attached Storage) and currently markets two product lines, the CD/DVD servers (StorPoint™ CD), and the division launched its harddisk server (StorPoint™ NAS) in 2000. These products are specifically designed to improve the ease-of-use, manageability and cost-efficiency of providing storage access on LAN, the Internet or intranets, compared to using traditional general-purpose file servers.*

*When Axis launched the first CD/DVD server in 1995, it was the first company in the world market with this file-server independent product category in which the Company is now the world leader (International Data Corporation 1999).*

*During the 1999/2000 financial year, the Storage Division accounted for 18 percent of Axis total sales. The divisional gross margin amounted to between approximately 55 and 60 percent during the last three years.*

Storage Division – Historical development

	1996/97	1997/98	1998/99	1999/00
Revenues (SEKm)	52.2	120.2	139.4	128.3

### Products

Axis storage products enable connection of CD/DVD disks (i.e. optical storage) or harddisks (i.e. magnetic storage) directly to a network. This facilitates simpler and more efficient access to, and storage of, information from/to these storage media for all users of the network compared to using general-purpose file servers in many applications and environments. Axis products thereby off-load the network's other servers, releasing performance to other applications in the network. Like other servers in the Axis range, Storage Division products are multi-protocol based and contain the in-house developed ETRAX chip, features that provide flexibility in respect of network environment and synergies in the development and manufacture of software and hardware. NAS is defined as a server that has the sole task of enabling access to common storage areas/information for all users in a network, and is independent of the traditional network servers.

#### CD servers

The StorPoint CD server enables shared access to information on CD/DVD media in a network. The server connects what is known as a CD/DVD tower containing a number of CD drives directly to the network, which makes it easy for users to utilise information supplied on these media. Examples of such information are parts lists, reference material, manuals, software, etc.

The latest model of an Axis optical NAS product, StorPoint CD E100, makes it easy to write to CD-R disks in a network, which means Axis has a product for the market for back-up- and archival applications.

Axis CD servers are part of the majority of the network-attached CD/DVD towers being sold on the world market.

#### Harddisk servers

The harddisk server StorPoint NAS is based on the same technology as the CD server. The main difference as far as the end user is concerned is that the CD/DVD drive has been replaced by a harddisk.

The harddisk server provides a simple way of increasing available harddisk space for network users. The traditional network server (such as an NT server) is relieved of the file-sharing function and its capacity can be thus released for other applications, reducing the risk of operational shutdowns. Since Axis harddisk server is a thin server designed specifically for sharing harddisks, it is able to provide better availability and manageability than a general-purpose file server at the same cost.



## Customers

Traditionally, the largest groups of end users of Axis CD/DVD servers include schools, universities, libraries, hospitals, public administrations and traditional manufacturing industries. The CD/DVD servers are sold primarily through larger IT distributors and to end users via dealers.

Storage Division's harddisk servers are primarily sold via leading manufacturers of storage systems, to whom Axis sells the servers on an OEM basis.

Axis has entered into an agreement with the American harddisk manufacturer Seagate concerning the development of a new harddisk server. Seagate, the foremost harddisk manufacturer in the world, chose Axis as a partner because of the Company's competitive combination of skills in the development of software and integrated ASIC solutions.

## Market overview

NAS is a very broad concept that currently covers products from individual network-attached harddisks (NAD) to enterprise-class network-attached storage systems with up to 100 disks as well as optical CD/DVD servers.

According to IDC (1999) the value of the total NAS market will grow by 54 percent (CAGR) per year during the period 1999-2003. Factors such as the need for continually available data and the increased demand for data security within networks mean that the Network Attached Storage (NAS) concept has won positive recognition from the market.

### The CD server market

The global market for CD towers amounted to USD 368 million in 1999 (Dataquest, 1999). The total solution (which includes Axis products as a subsystem) is becoming increasingly oriented towards the end user, changing from

an expensive technology-based solution to a simple, attractively priced way of sharing information.

The CD/DVD server solution is still relatively unknown. One of the most important criteria for growth is continued successful training of end users, which increases their awareness of these solutions. As a market leader, Axis is in a position of strength that can be exploited in this context.

### The harddisk server market

The most important underlying driving factors for the market growth of harddisk space are partly the development of broader bandwidths in connections to the Internet, and partly the expectation of increased supply and demand for services with large information content such as music and video, which require storage of large amounts of data.

An important challenge for manufacturers and sellers of harddisk products is to be able to offer easy-to-use solutions with tailored functionality, at a price that is sufficiently attractive to warrant establishment on high-volume markets. These markets include new and smaller companies, work groups in larger companies, distance workers and private persons needing increased data storage space at home.

## Competitive situation

Based on independent market analyses and the Company's own estimations, Axis appreciates its market share in the CD-server segment to over 60 percent. Other major players on the market include Allion, Microtest and Procom.

On the hard disk server market there are several major server and harddisk manufacturers that compete with Axis but are also potential partners, such as Hewlett-Packard, Maxtor and Quantum. Besides these there is a larger number of smaller players such as Cobalt, CrosStor and Procom.

The capability of Axis to build small, user-friendly and cost-effective solutions, and the way the products support multiple protocols, are major strengths against competing manufacturers and products on the market.

## Future prospects

During the 1999/2000 financial year, the divisional sales was negatively affected by problems within the distribution channels, which however, in Axis' opinion are temporary. Axis considers that the existing activities in respect of the CD/DVD server market have continued good growth potential. In addition, Axis has the opportunity of extending its range of products for the NAS market through its technology base.

## MOBILE INTERNET DIVISION

*The vision of Mobile Internet is to enable wireless broadband services for users with mobile terminals by offering local mobile system solutions.*

*Solutions for local mobile systems cover, on the one hand, access points based on free-spectrum radio technologies (such as Bluetooth wireless technology, 802.11 and HiperLAN/2), and on the other, a systems and application platform that provides such as security, mobility and access control.*

*This vision is based on three fundamental industry trends:*

- Rapid growth in mobile terminals (telephones, PDAs and laptops)*
- Bluetooth wireless technology is expected to become established as a de facto standard for short-distance wireless voice and data traffic through being incorporated in a very large number of mobile terminals*
- Rapid expansion of wire-dependent broadband access to the Internet such as ADSL, cable modems and Ethernet*

### Background

Today's mobile telephony systems are optimised for voice traffic and offer only slow data traffic (max. 14 kbit/s). Broadband access to the Internet and e-mail is primarily only available in homes or offices. If all mobile traffic and future wireless services can only be carried via the nationwide licensed mobile networks, Axis considers that there is a danger that systems will not be able to cope with demand in terms of capacity and bandwidth, leading to high user costs.

However, the above restrictions constitute an opportunity for other approaches to provide Internet or intranet mobile wireless access. One possibility is for new local mobile operators to offer these services in the form of what is known as hotspots, or local mobile networks using alternative wireless access techniques. Local mobile networks, attached to an infrastructure of TCP/IP based networks, are expected by Axis to constitute a complementary service relieving the load on licensed mobile networks such as GSM and UMTS. Local networks are expected to become established in environments with many users, offering wireless broadband services and telephony at a lower cost than the licensed networks. In addition, local mobile networks provide completely new possibilities for providing information and service content adapted both locally and personally; this is expected by Axis to contribute to a rapid growth in local mobile networks.

Bluetooth wireless technology, 802.11 and HiperLAN/2 are examples of alternative, short-range access techniques offering high transfer speeds (the latter up to 54 Mbit/s) and are based on open standards. These technologies operate on unlicensed frequency bands, in contrast to the current mobile networks and the future 3G network. This combination of open technologies and unlicensed spectrum allows for both faster and cheaper network expansions, resulting in lower costs for end users.

Axis predicts that networks based on unlicensed frequency bands will create completely new mobile network structures, complementing current and future mobile networks. Mobile terminals such as mobile telephones, PDAs and laptops will provide mobile access to services in a way currently only available via a permanently connected, Internet-linked PC.





Bluetooth™ Access Point introduced by Axis in May 2000.

## Overview of Operations

### Axis solutions

Axis systems solutions will consist partly of LAN-attached access points and partly of a systems and application platform for the systems' "intelligence" ("Mobile Internet Server"), which are required to build such wireless networks and services.

### Products

#### Access points

Mobile Internet's first product, Bluetooth™ Access Point by Axis, which is expected to be delivered in late 2000/early 2001, is an access point to be connected to an Ethernet LAN and supports both data and telephony services. Bluetooth™ Access Point has a transfer capacity of up to 723/57 Kbit/s for input and output traffic respectively, or 434 Kbit/s for both input and output traffic, and up to 7 data users or up to 3 voice users can be simultaneously connected. The product has a built-in gateway for Internet telephony. This access point has, like other newly developed Axis products, been designed around the Axis Linux-based ThinServer technology utilising the latest version of the Company's integrated "system-on-a-chip" ASIC. The Company believes it is the first in the world to produce prototypes for this type of Bluetooth wireless technology product. Axis plans to further develop Bluetooth™ Access Point and expand the range to a product family based on other higher performance radio technologies, such as 802.11a and HiperLAN/2. It is assessed that these technologies will be available on the market during the second half of 2001 and in 2002 respectively.

#### Systems platform

The next step in the Axis product programme is intended to be the AXIS Mobile Internet Server, a systems and applications platform providing functions to support data and telephony services for local mobile networks.

The software will offer a number of important functions associated with an operator's network: access control, security, mobility and billing.

It is intended that the AXIS Mobile Internet Server will be available in different versions to cater for requirements ranging from those of smaller companies with ten or so users to those of operators with thousands of users. It is expected that the first version will be launched during 2001.

Axis systems are consistently based on open standards to ensure low costs and interoperability with other suppliers.

### Business model

Direct business development is done towards operator customers, such as telecom companies, ISPs, ASPs and other new players establishing operator activities. It is intended to enter into partnerships with system integrators that customise solutions for various areas including retailing, hotels and airports. Axis can also exploit the Company's established distribution channels and its position on the OEM market for the sale of access points and systems software.

The division's income will primarily come from the sale of systems and access points, as well as in the form of license fees from operator customers. The access points have a price per unit and the number needed by an operator depends on the area to be covered and the required traffic capacity. There is a standard price for the basic configuration of server software that supports a smaller number of users. The system can then be upgraded to support more users, with a charge for each user.

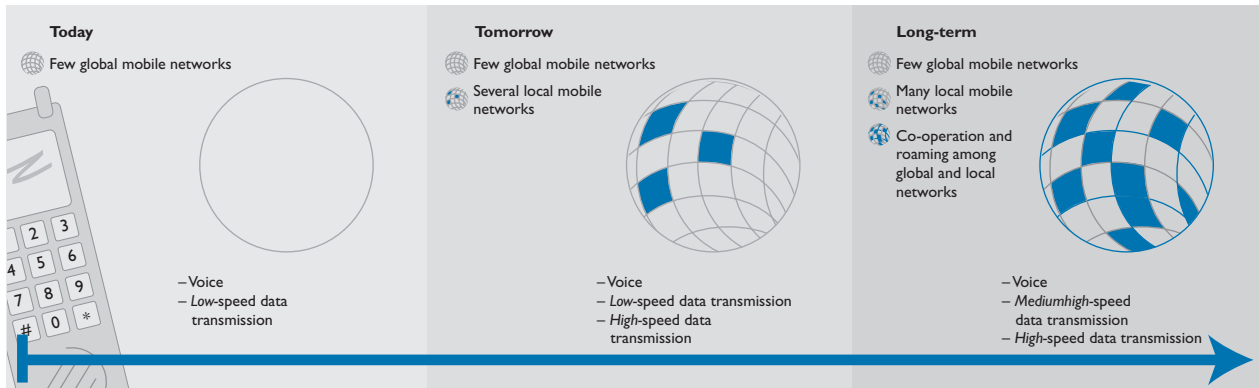
### Partnership

Mobile Internet has established important co-operation agreements in respect of sales and development. A running contract for the joint development of products and services has been signed with Telia, the largest Scandinavian telecom operator. An initial contract has been signed in respect of the delivery of prototype units of Bluetooth Access Point to a non-disclosed "Bluetooth Internet Service Provider" in the USA, with the actual delivery planned for May 2000. Partnership and co-operation discussions are actively being conducted with leading players in the market.

### Organisation

The Axis business area Mobile Internet plans to expand to more than 50 employees in 2000, from current 20. The Company has attracted business developers and people with the technical skills and experience from firms such as Ericsson, Sonera and SUN Microsystems. Business development employees are located in Lund and Stockholm in Sweden, Silicon Valley in the USA, and in the "Multimedia Super Corridor" in Malaysia. The current development centre in Lund will be extended and supplemented by a corresponding unit in Stockholm.

## The Mobile Evolution



### Market overview

The analyst company IDC (2000) predicts that there will be over 450 million Bluetooth wireless technology terminals on the market by 2004. The first solutions for mobile telephones, PDAs and laptops are expected to be on the market in the second half of 2000.

In addition, Micrologic Research predicts, in the “Wireless2000” report, that sales of Wireless LANs (such as 802.11 and HiperLAN/2) will grow by 75.9 per cent (CAGR) between 2000 and 2004 to around USD 5.5 billion.

### Potential customers

There are several potential customer segments for the business area Mobile Internet, including new “mobile

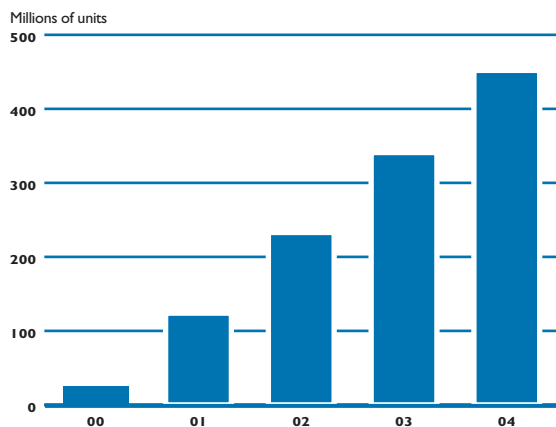
Internet” operators that are rapidly establishing themselves on the market, established ISPs and telecom operators, property management and Axis’ existing customer groups in the form of large and medium-sized companies.

Both new and established operators can see business opportunities in being able to offer wireless data and voice services to their customers.

Already today there are new types of operators setting up local mobile networks at airports and hotels in order to offer business travellers mobile Internet access; these include Telia HomeRun and Scandic/Nokia/Wirelessbolaget in Sweden, and Mobilestar in the USA. Axis views this as confirmation of the need for the Company’s solutions for local mobile networks.

### Forecasted deliveries of Bluetooth

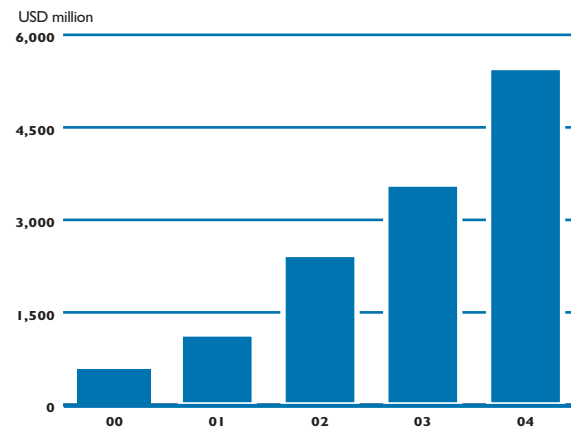
#### wireless technology terminals



Source: IDC, 2000

### Forecasted global revenues from

#### Wireless LAN devices



Source: Micrologic Research, 2000

### A feasible application – the airport:

When the airport's local mobile network identifies the user's mobile terminal, the operator can display on the user's terminal at which gate the user is to check in, the relevant waiting time before check-in, whether the flight is delayed and the estimated time of arrival at the destination. Other information that can be made available are offers in tax-free shops coupled with adverts from product suppliers. The user can be offered a broadband connection via the mobile terminal, as well as the opportunity to make a call via the airport's telecom network at a lower cost than the normal mobile telephone rate. On arrival, the user can be shown which carousel the luggage will be coming to. While waiting for the luggage, there will be an opportunity to use the mobile terminal to book a taxi, hotel or some other service connected to the airport.

It will be possible to offer similar facilities at other locations such as train stations, hotels and conference centres, restaurants and cafés, business and shopping centres, universities, schools and libraries, as well as at the office or in the home.

### **Competitive situation**

#### **Competitors**

The market's initial focus has been on mobile Internet services adapted to mobile telenetworks such as WAP. As the market for local unlicensed mobile systems with greater transfer capacity develops, Axis expects competition from players primarily in the following categories:

1. Traditional LAN suppliers supplementing their products with wireless access solutions such as 3Com, Cisco, Intel and TDK.

2. Suppliers of infrastructure for mobile telephony supplementing their range with wireless LAN technology such as Ericsson, Lucent, Nokia and Siemens.

#### **Axis' market position**

Axis own judgement is that the Company has several general strengths compared with both new and established competitors in the field of local wireless networks.

The Company's long experience and technical skills in building network products, using things like an in-house optimised ASIC and embedded Linux, have created an efficient development and production process. This in-depth network knowledge has also helped to give Axis an early insight into new Mobile Internet business opportunities, which should give the Company the advantage of getting solutions to the market early.

In addition, the established global Axis sales and distribution organisation constitutes a force that creates the prerequisites for rapid and widespread product launches, as well as supplying knowledge about local market conditions and business opportunities.

The collaboration with SUN Microsystems in respect of Jini, and the status of elected "associate" in the Bluetooth Special Interest Group and board member of the industry group for Universal Plug and Play (initiated by Microsoft), gives the Company early access to, and the opportunity to influence, new technology trends and standards. This creates competitive advantages in that Axis can get value added solutions for customers to the market early.

Axis has attracted supplementary key skills in radio technology and mobile systems, primarily thanks to the Company name and reputation in the industry, and its geographical location in Scandinavia.

#### **Future prospects**

The market for Mobile Internet Division products is still relatively young, and it is therefore difficult to predict either the market's structure or its rate of development. Axis is positive about the market and its development potential and considers that there is a great marketing potential for Mobile Internet Division solutions, although it is difficult to quantify. Axis' Board of Directors considers that the Company is well positioned to develop a strong position on this new market. The activities of the Mobile Internet Division are expected to constitute a significant part of the total revenues of Axis within a few years.

## TECHNOLOGY DIVISION

*This new division is responsible for internal sales of services and technology to other product divisions. Technology is also sold to external customers within the framework of existing product areas and Axis perceives great opportunities to extend these sales to other new product areas.*

*The Axis technology platform and its various applications have been developed with the fundamental aim of making network connectivity simpler and cheaper for the user.*

### **Background**

Axis ThinServer technology is an optimised design integrating software and hardware with a web-based administration system. The ThinServer technology has an open, compatible interface, making it applicable to any network environment.

At the core of ThinServer technology are Axis' in-house developed integrated circuits, known as Application Specific Integrated Circuits (ASICs). The current design uses an Axis ETRAX circuit containing a 32-bit RISC processor (Risk Reduced Instruction Set Computer), several network interfaces and other interfaces for attaching peripheral equipment such as printers, scanners, CD-ROM readers and network cameras.

### **Circuit technology**

The first ETRAX circuit (ETRAX 1) was launched in 1993 and was, at the time, the world's first RISC processor with integrated network interfaces (Ethernet and Token Ring) on the same chip. The development started in 1992.

In recent years, Axis has invested large sums in the development of the Company's fifth generation system-on-a-chip solutions for connecting peripheral units to networks, ETRAX 100. The circuit is easy to use and gives very high network performance at a low cost. In addition, the platform has been developed by adapting the Linux operating system to the circuit and opening up new opportunities for technological developments. ETRAX 100 was developed for 0.35µm ASIC technology with the best cost/performance ratio available today. Current applications include network-attached printers, copiers, MFPs and storage media. ETRAX 100 can be found in the majority of newly developed Axis products and is increasingly in demand from product developers, including those external to Axis. A total of more than a million circuits in the ETRAX family have been delivered.

Future generations of the ETRAX family will be given an even more flexible internal architecture, one aim being to improve the opportunities for buying and selling function blocks and exchanging them with other companies. In addition, the use of technology of smaller and smaller dimensions means that there will be space for considerably more memory on the actual chip. For future circuits, it will be even more evident that they deserve the name system-on-a-chip.

## Products and services

Axis products are integrated (embedded) systems, in which both hardware and software have been optimised for the product's function. Previously, the software for integrated systems has in general been company-specific, i.e. built around components developed in-house. In recent years, interest in the open operating system Linux has created new opportunities. In its latest technology platform, Axis has optimised Linux for its integrated system, i.e. what is known as embedded Linux.

The Axis technology platform consists primarily of the ETRAX circuit together with embedded Linux and associated applications. Sales are oriented to both external customers and the other Axis product divisions. The open architecture enables partners and customers to build system solutions on the platform, which stimulates the development of new product lines within the framework of the Axis vision of network attachment of "Access to everything from anywhere, anytime".

## Market

Axis has identified an increasing external interest in the Company's technology platform and has therefore decided to start external sales of it, in addition to the sales that take place when the platform is part of Axis products and systems solutions. By means of a dedicated web site for the development platform, <http://developer.axis.com>, Axis has created initial customer contacts during the past financial year, and these are currently being analysed and processed.

## Competitive situation

Through in-house development of circuit technology and the Company's embedded Linux skills, Axis has taken a lead in the market. The early focus on embedded Linux also gave Axis a lead in applications development through an open systems solution.

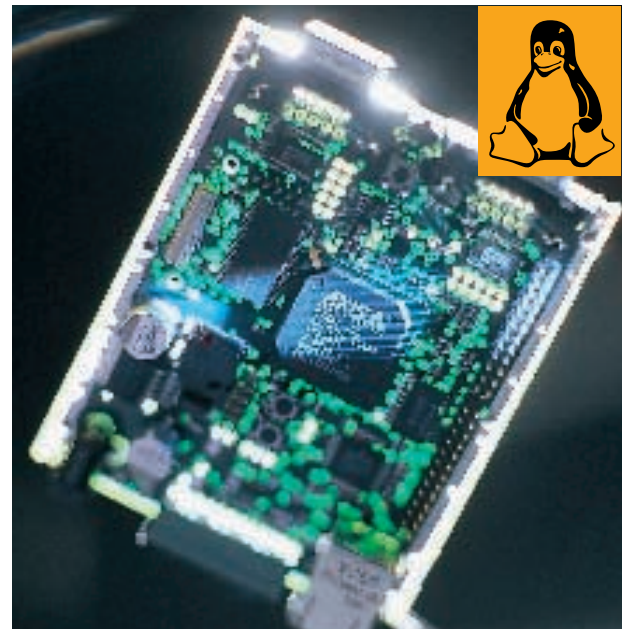
The biggest competitors to Axis technology sales are: suppliers of standard microprocessors, more specialised

circuits and suppliers of circuits for network interfaces and suppliers of traditional real time operating systems. One example of companies in this field is NETsilicon Inc. A new category of possible partners or competitors is that of companies that specialise in supplying systems solutions for embedded Linux. The Company's assessment is, however, that Axis has a strong position on the market, by virtue of a cost-effective total solution and extensive skills in network attachment of peripheral units.

## Future prospects

There is an increasing need to connect more and more products to networks in both the consumer area and the industry. The growing demand on time-to-market means that the development of network connections must be based on ready-made technology platforms adapted to applications. Because Axis technology and network expertise is integrated into an open platform, manufacturers lacking these skills can rapidly integrate their products into network solutions. Axis' open systems solution makes it very easy to adapt the products according to the customer's specific requirements.

A cost-effective technology platform is based on highly integrated system-on-a-chip solutions in combination with an open software architecture. Important success factors here are the aggressive development of new circuit solutions and the ability to influence and rapidly implement new network standards and protocols.



Axis ETRAX integrated circuit with embedded Linux.



## GROUP FUNCTIONS

### Research and development

Axis safeguards its position as a high-tech company through the group function of Research & Core Technology. The function has a research perspective of 2–5 years with the aim of supporting the long-term aspects of existing product development, and identifying new product areas for the future, while nurturing technical expertise in respect of emerging technologies and applications.

Research & Core Technology projects are carried out on both an internal and an external basis. Internal projects are designed to secure long-term skills and technology development within the Company, while external projects aim to position Axis in the research arena. Through co-operation with universities and research centres and attending technology forums, such as the Bluetooth Special Interest Group (associate member), Universal Plug and Play Forum, Jini Community, Internet Engineering Task Force, HiperLAN/2 Global Forum, Ericsson Developer Alliance Program and Salutation Consortium, Axis influences emerging technologies, receives important influences in respect of future product development, and is quick to apply and develop new technologies.

### Strategy regarding patents and intellectual property

Currently, Axis has submitted 29 unique patent applications. A further eight are currently in the course of preparation, including three provisional applications in the USA. The Company submits patent applications primarily in Sweden and the USA. Depending on the nature of the invention and possible application areas, both geographic and technical, it may be decided to utilise what is known as a PCT application (a further 105 countries). The patent applications above primarily deal with the technology areas in and around network communications, circuit design, data and memory management and the storage and distribution of data.

The Camera division generates a large number of interesting ideas in the area of image processing, which also lead to patent applications. The newly formed division Mobile Internet has recently submitted a design application. In addition, approximately three patent

applications in the Bluetooth applications area and network communications will be generated in the near future.

### Axis ease-of-use profile

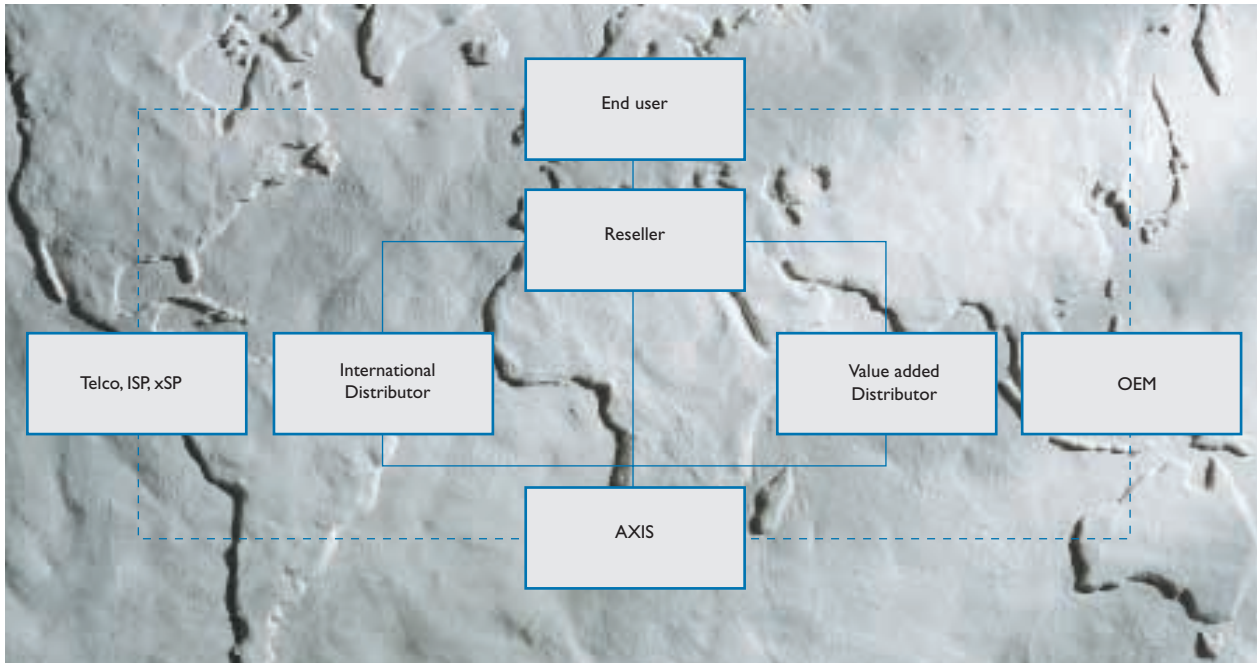
Axis has consciously focused on ease-of-use and “plug & play” features for its products in the last five years. This has led to a high-quality, uniform Internet interface in all Axis products and customer tools, making them simple to install, configure and use. In order to build really useable products, Axis has actively collaborated with standardisation bodies and larger industry partners to promote network attachment through “plug & play” between PCs and network-connected equipment. These efforts have resulted in Axis entering into important co-operation agreements with companies such as Microsoft, Novell and SUN Microsystems.

At an early stage, Axis was one of the companies that adopted SUN Microsystems’ Jini technology, which provides automatic network connectivity between network units.

Axis also participates in the Universal Plug & Play Forum and its steering committee, which was founded by Microsoft. The forum is devoted to the definition and standardisation of the “plug & play” technology for integrating network units into the Microsoft Windows operating system. This makes it very simple for anyone to use today’s network units and the host of other units that will it be possible to link together in future networks in the home.

Axis is also active in the Internet Engineering Task Force (IETF) in its work of defining and standardising Internet protocols for plug & play attachment, wireless communications and mobile Internet. Axis is one of the participants and was one of the first to implement the IETF Service Location Protocol, which enables users to detect which accessories and services are available to a local network.

Axis is currently in the process of implementing these technologies in a many of its product families while continuing to conduct research in the area. The next challenge will be to design products that are easy-to-use by ordinary people in the home, in the car, at work, and so on. Axis is thus continuing with research in several different areas, including that of intelligent peripheral units and attachments for “plug & play” services.



## Marketing and sales

### **Distribution channels**

Sales are made partly under Axis' own brand name to distributors (84 percent of revenues), and partly to OEM (Original Equipment Manufacturer) customers, who buy a varied degree of pre-packaged technology that they in turn integrate into their own products or sell under their own brand name (16 percent of turnover). Examples of the latter are print manufacturers who integrate print server solutions from Axis into their printers, and suppliers of security equipment that sell Axis camera server technology under their own name as a part of their total solutions for business surveillance. Sales via distributors, as well as those via OEM customers, are on a world market basis, and Axis has advantages over many of its competitors because of its long-term, well-established international presence and experience.

Although sales to OEM customers are accomplished without middlemen, they reach customers who also buy products with the Axis brand name via an extensive network of distributors and dealers.

The Company has also started working on a new type of channel in the form of telecom operators such as Telia and other Internet Service Providers. Axis foresees a dynamic development of Service Providers embracing both traditional operators and completely new types of niche players (which is why the collective concept of "xSP" is used in the figure above).

### **Sales organisation**

The Company has active sales channels in around 60 countries, which are supported by 20 own offices in 15 countries with over 140 employees in sales, marketing and technical support.

The distribution structure is based on close relationships with not only the leading local IT distributors on each national market, but also the internationally dominant distributors such as Ingram Micro and Tech Data, and regional players such as Azlan in Europe and Softbank in Japan. In addition, the distribution network reflects the need for various types of distributors for products in different stages of maturity, where VADs (Value Added Distributors) play a major role in the product's early stages, while BBDs (Broad Base Distributors) often dominate the sales of products that have reached a more mature stage and can be sold on a mass market.

In addition, dealers constitute an important part of the sales structure. These include smaller specialised dealers, such as systems integrators, also known as corporate resellers (specialising in the corporate market), computer shops, catalogue companies and Internet-based dealers (known as e-tailers). The distributors make the actual sales and deliveries, and thus supply the logistics and credit functions, but relationships must also be maintained directly with the dealers, who have great influence on end customers' choice of product.

The Axis sales offices in the local markets focus on sales, marketing and technical support. Through these offices, the Company has invested in building up relationships with the various types of dealer that work with Axis' end customers. A certain amount of resource adaptation is currently taking place on account of new perceptions of geographical needs and product line considerations.

The broad sales network has been a powerful contributory factor to the achievement of high market shares. This structure also constitutes an important asset when launching new products, which thereby have the prerequisites for reaching a broad customer base rapidly and cost-effectively.

The Axis sales organisation as of 30 April 2000

Region	No. of offices	No. of employees
America	3	44
Europe	8	49
Asia	9	48

## Personnel

Axis is a knowledge company in which the personnel constitute a strategic resource. The Company considers that it is been very successful in attracting personnel and creating a satisfying working environment and a strong corporate culture. In order to maintain the personnel's positive spirit and drive, it is important that Axis is capable of motivating and gaining commitment from all its employees. Internal recruitment and personnel development are two important components of the Axis personnel policy aimed at ensuring that the Company's culture and values are sustained and reinforced. Axis had 506 employees at the end of the 1999/00 financial year (329 in the previous year) of which more than 20 percent were women. The Company has approximately 170 employees that are involved in research and development, whereof around 70 percent engineers. The average age of Company employees is 33.

### Recruitment

For a technology-intensive growth company like Axis, the additional recruitment of personnel is important to support growth and supplement skills in all areas. The Company's rate of development and growth targets mean that the number of personnel additionally recruited will continue to be high for the next five-year period. Axis has an active recruitment policy primarily involving Lund Institute of Technology, from which some 30 students are annually given the opportunity to carry out thesis work within the framework of the Company's development activities.

### Incentive programme

Axis has introduced an incentive programme aimed at retaining and increasing the commitment of personnel and facilitating additional recruitment. Employees have been given the opportunity to acquire warrants on two occasions, for the first time in 1999 and the second time in conjunction with the imminent listing on the Stockholm Exchange. See also the section "Share Capital and Ownership Situation – Incentive programme".

## **Manufacturing, suppliers and logistics**

Axis does not carry out its own electronics manufacturing. The manufacturing of components for the Company's products is instead outsourced to a number of subcontractors with complementary expertise in Sweden, Finland and Thailand.

With this, Axis aims to achieve:

- Access to sufficient manufacturing capacity and possibility to quickly be able to scale production according to its needs
- Access to suppliers who, between them, have special skills covering the products' various phases, from manufacture of the early prototypes to cost-effective mass-production.
- Spreading risks: Axis will not be too large or too little a customer in respect of any individual supplier.
- Negotiating power in terms of prices and conditions.

Relations with subcontractors are handled by the Operations department, which also plays an important role in securing the Company's access to correctly priced electronics components on the world market. Axis has built up a competitive advantage by its capability of lowering the Company's production costs, which is shown by the fact that even major OEM customers with their own efficient manufacturing plants are, to an increasing extent, utilising Axis for the entire production rather than buying the technology from Axis and doing their own manufacturing.

Operations is also responsible for logistics, which come into play when the electronics factories deliver the ready-assembled component (circuit card). The product flow beyond circuit card level is completely customer order dependent, in that the product is not finally assembled until a customer order has been received. Delivery will be made directly to the customer within 48 hours of starting the final assembly. Final assembly includes a quality test, down-loading of the most recent software (customised where required) into the circuit card, fitting of enclosure, and packaging in a box. Currently, all final assembly takes place in Sweden, but the system has been designed so that it can be copied in other parts of the world if so desired.

Implementation of this logistics model has helped reduce the stock of finished products, reducing not only the amount of tied-up capital but also the risk of the products becoming obsolete, through, say, out-of-date software. The logistics model has, in addition, been designed so that the order can be taken in via the Internet, in which case the order would go directly to final assembly. This facility will be offered during 2000, and it will also be

able to provide direct access to information about order statuses, as well as product and account statuses.

Axis' most important suppliers are:

### **PartnerTech**

PartnerTech AB (publ) works on development, industrialisation, manufacturing, distribution and after-sales services for leading companies, primarily in the areas of telecom, IT and medical devices. PartnerTech is listed on the O-list of the OM Stockholm Exchange. Axis has collaborated with PartnerTech since the end of the 1980s.

### **Vellinge Elektronik**

Vellinge manufactures electronics products for Swedish industry. The company started in 1996 when it took over operations formerly carried out by Electrolux Electronics. Axis has collaborated with this company since the mid-1980s, when it was still Electrolux Electronics. Since April 2000, Vellinge Elektronik has been a wholly-owned subsidiary of Skanditek, one of the three largest owners of Axis.

### **GSS/Array**

GSS/Array is an American company with its head office and manufacturing facility outside Bangkok, Thailand. The company's turnover last year was USD 250 million (around SEK 2,100 million). In terms of electronics manufacturing, GSS/Array has not only mass-production capacity, but it has also built up special skills in the wireless area in recent years. Axis has collaborated with the company since 1997.

### **Elcoteq**

Elcoteq is a Finnish company with 11 factories manufacturing electronics. The company's turnover in 1999 was EUR 752 million (around SEK 6,400 million). Elcoteq's customers are primarily in the telecom and computer areas, with a focus on mobile telephony. Axis has collaborated with the company since 1996.

### **TSMC, LSI Logic, Samsung**

TSMC (Taiwan – one of the world's largest circuit manufacturers), LSI Logic (California) and Samsung (Korea) make ASIC chips for Axis and also act as partners in the development of circuits, tools and technology as Axis continually strives to use the latest technology available.

# Partner Companies

## Netch Technologies

Axis has invested in the unlisted Swedish company Netch Technologies AB ("Netch"). The investment took place in two stages, the last of which was at the start of 2000. Axis' participating interest in Netch since the start of 2000 amounts to 50.0 percent before dilution (45.0 percent after dilution). Netch is being consolidated into the Axis accounts from the 1999/00 financial year onwards, and it was previously included in the accounts as an associated company.

Netch was founded in 1996 by Håkan Dennersten with the vision of creating an Internet business focused on technology and systems. Netch has grown organically from being a small company with just a few employees to its current size with more than 140 employees and is a pioneer and leading player for business-critical and transaction-intensive e-commerce solutions on the Scandinavian market.

### Business concept and strategy

The Netch business concept is to use Internet technology to supply market-leading skills, products and systems solutions on an individually customised basis for transaction-based, interactive markets. Netch considers that every individual is a mobile marketplace in the "new economy", which means that new systems solutions must be based on individual requirements rather than pre-defined processes. This is why Netch is working on the development of mobile Internet technology in combination with e-commerce.

Netch's ambition is to be a market leader in the development of individually customised business-critical systems for the Internet and mobile Internet.

Core aspects of the company's hitherto successful strategy are:

- Innovative and unique systems solutions using established technology (services and software).
- Linking systems solutions together with customer strategy and organisation.
- Establishing long-term relationships to guide the company's customers to success.

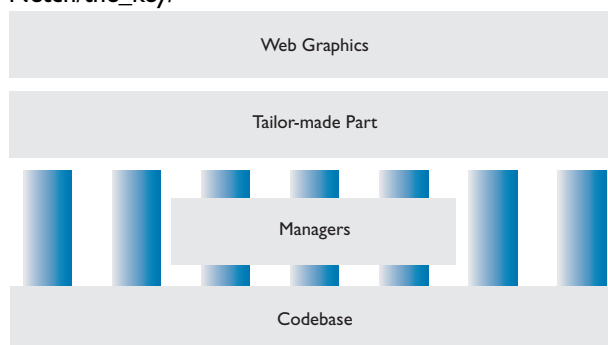
### Overview of the business

Netch has production and development centres in Lund, Helsingborg, Karlskrona and Kalmar, as well as sales offices in Lund, Stockholm, Copenhagen, Oslo and San Francisco. At the end of 1999, 75 people were employed at Netch. Turnover in 1999 amounted to SEK 48.2 million, which corresponds to an organic growth of around 110 percent, compared with the previous year.

### Activities

Netch is a supplier of strategic Internet services ("SIS") but the company's focus is on technological depth. The

## Netch/the\_key/



company's engineering culture in the Internet area has given rise to several prize-winning technical solutions, including those for Bokus and NK. Today, Netch is involved with major multinational companies such as Ericsson, Tetra Pak and Telia, but the company is also well-known as the system builder behind many notable e-commerce sites on the Internet, in particular Bokus, Matomera and Planit Media. At the start of the year, Netch established the competence area Netch/strategy/, with a focus on business development.

Netch focuses on business integration issues and collaborates with other design consultants (local web agencies) and strategy consultants (like Arthur Andersen) through a number of strategic partnerships. Netch is the main supplier for these assignments and the partnerships give the company the opportunity to focus on its core business while offering its customers a broader range of expertise.

The company's overall focus is on business-critical transaction-intensive e-business solutions with a mobile perspective.

### Products/services

Netch uses proven techniques, working from an in-house developed platform, Netch/the\_key/, and adapts all solutions to each customer's unique requirements. Netch/the\_key/ is a Java-based code library that is extended and developed to comply with the customer's wishes. The platform includes a number of different functions called handlers.

The code library and the handlers together constitute Netch/the\_key/, while there is an individually adapted part that the company develops specifically for each customer. The web site graphics are subcontracted to design partners. The solution is customised, if necessary, to include ERP functions. Netch/the\_key/ is not a standardised product that can be bought off-the-shelf independently; it is rather a concept platform developed by Netch to form the basis of the business systems the company builds for the Internet and mobile Internet.



### Examples of assignments

- **Ericsson**  
Netch has built systems for both Ericsson Mobile and Ericsson Radio. The solutions are primarily business-to-business solutions, but also include business-to-consumer solutions. Assignments include the system behind Ericsson Service Point, a solution for cellular phone service globally.
- **Telia**  
Telia's objective was to rationalise operations and reduce the load on its call centres. Netch has, together with Moonwalk Sthlm produced a system in which every company customer has its own page on Telia's web site, mina sidor på arbetet (my pages at work). Telia's personnel thereby have a more convenient way of dealing with orders, queries and the distribution of information to customers.
- **Bokus**  
Netch produced the technology on which the Bokus platform is based. Netch built bokus.com, which was initiated in August 1997 and has become a major success. As a virtual bookshop, Bokus can sustain very competitive prices, with short delivery times to its customers.
- **Planit Media**  
Planit Media offers the media industry a database containing detailed information concerning some 35,000 periodicals on the Internet. This is a new way for the industry to make information more easily accessible. The service has been a success since its start-up in the summer of 1997. Netch had two different roles in the development process, the one as an Internet expert, the other as a technology supplier.
- **Artstep**  
Netch has developed the systems solution behind artstep.com, a new art gallery on the Internet. Artstep is a Swedish-owned company with the vision of being the leader in Europe concerning information and trading in art over the Internet.
- **Matomera**  
Matomera is a food store that exists only on the Internet. Thanks to an infrastructure and a system built by Netch, together with SUN Microsystems and Dimension, the owner, the Bergendahls food chain, has succeeded in finding a new way to reach its customers.
- **Tetra Pak**  
Tetra Pak asked Netch to help with development and coordination of its Intranet. Netch built two systems for Tetra Pak: a personnel register, in which all Tetra Pak's employees throughout the world can search up colleagues, and a system called Personal Orbis providing personal pages on the Intranet for all employees. The systems were developed by Netch, with Tetra Pak contributing the layout design.

## Customers

Netch customers can be split into three categories: major companies, like Ericsson and Telia, that want to use the Internet to enhance their service or get nearer to customers and suppliers; small companies, often start-ups like Bokus and Planit Media that base their entire business on the Internet; and companies like Matomera that choose to challenge their own business concepts on the Internet.

## Market overview

Netch is active in a relatively new and changing market. A lot is being linked to the Internet: computers, TVs, mobiles, the home, cars, and people. Nowadays, product development is being moved out and the value chain is being changed through constant accessibility and unlimited product supply. The Internet gives companies direct contact with customers and the opportunity to send out customer-specific and adapted offers. In order to bind customers closer to them, companies can get together with other suppliers to combine their products and services ("cross-sales") that attract a common target group. Companies that want to take a successful place in the new economy should conceptually focus on the individual.

Important market trends for Netch include demographic changes such as new consumer habits, increased demand on delivery time and quality, expanding range of goods and global competition, and increasing accessibility to the individual. The future is a matter of developing solutions for mobile individuals and giving

them access to everything they need wherever they are. Developments in the mobile Internet including the use of new wireless technologies like Bluetooth wireless technology not only generate mobile e-commerce services and tailored applications but also increase accessibility and mobility for the user.

The growth in the market for e-commerce related services is primarily attributable to the following segments: CRM (Customer Relationship Management), Data storage, "Business Intelligence", "Knowledge Management", "Supply Chain Management" (distribution systems), ERP (Enterprise Reporting Programs) and ASP (Application Service Providers).

## Competitive situation

Netch divides its competitors into three categories: web agencies, IT consultancies and systems suppliers.

The web agency category includes companies such as Framfab, Information Highway/Connecta, Razorfish and Pixelpark, while IT consultancies include IBM and Andersen Consulting. SAP is a systems supplier that Netch regards as a competitor. The competition varies between systems solutions for the Internet and those for the mobile Internet. Netch's strength over its competitors is the unique experience and technical skills it possesses. These include the capability and strength to keep up with and support the company's customers during the entire process, and a unique perspective in which the primary focus is on customer benefits and on the customer's clients.

### Future prospects

Netch is in a phase in which the company is building a critical mass of skills and an international presence, partly through organic growth, partly through acquisitions. In addition to the sales offices in Sweden, Denmark, Norway and the USA, the company is planning a geographical expansion into several more European countries. It is planned that this international expansion will to a large extent be effected in conjunction with key customers and, in appropriate cases, using the Axis contact and office network (primarily in Japan and the USA).

Netch forecasts a turnover exceeding SEK 100 million for 2000, corresponding to an increase of more than 100

percent compared with the previous year. The number of employees is expected to exceed 200 by the end of 2000.

### Ownership structure

Axis is the principal shareholder of Netch with 50.0 percent of the share capital and votes. Other major shareholders include Visionalis AB (22 percent), Great Digital Communications i Sverige AB (13 percent), the Sixth AP Fund (4 percent). The reported shareholdings are a maximum of 4.4 percent before dilution.

## Netch – Key Financial Information, 1996–1999

SEKm	1996	1997	1998	1999
<b>INCOME STATEMENT</b>				
Net sales	2.2	6.5	22.9	48.2
Operating profit	0.2	-5.6	-6.1	-5.2
Profit after financial items	0.1	-5.6	-6.4	-5.7
Tax on profit for the year	-	-	-	-0.0
<b>Net profit for the year</b>	<b>0.1</b>	<b>-5.6</b>	<b>-6.4</b>	<b>-5.7</b>
<b>BALANCE SHEET</b>				
Intangible fixed assets	0.4	0.2	0.4	0.3
Tangible fixed assets	0.5	1.1	1.6	4.7
Financial fixed assets	-	-	-	-
Inventories	-	-	-	-
Other current assets	0.1	4.0	9.4	21.0
Liquid assets	0.1	1.3	0.1	0.3
<b>Total assets</b>	<b>1.1</b>	<b>6.6</b>	<b>11.5</b>	<b>26.3</b>
Shareholders' equity	0.2	3.1	-0.3	-3.0
Interest-bearing liabilities	0.4	0.0	5.8	9.7
Non-interest-bearing liabilities	0.5	3.5	5.9	19.6
<b>Total shareholders' equity and liabilities</b>	<b>1.1</b>	<b>6.6</b>	<b>11.5</b>	<b>26.3</b>
<b>CASH FLOW</b>				
Profit after financial items	0.1	-5.6	-6.4	-5.7
Depreciation and write-offs	0.2	0.4	0.8	1.4
Tax paid	-	-	-	-0.0
Change in working capital	0.4	-0.9	-2.9	2.0
Investments	-1.3	-0.8	-1.4	-4.3
Disposals	-	-	0.0	0.0
<b>Operating cash flow</b>	<b>-0.6</b>	<b>-6.9</b>	<b>-9.9</b>	<b>-6.7</b>
Number of employees	7	17	32	56

### **nBand Communications, Inc.**

During the 1999/00 financial year, Axis has acquired a share in the unlisted American company, nBand Communications, Inc. ("nBand"). The investment was made in two phases each of USD 750,000, in November 1999 and January 2000. Axis' participating interest in nBand amounts to 17.1 percent before dilution (15.2 percent after dilution).

#### **Market background**

Wireless broadband is expected to grow dramatically in the next few years. New wireless broadband technologies, such as VOFDM (Vector Orthogonal Frequency Division Multiplexing) and HiperLAN/2, will be supplementing today's cellular networks and those of the third generation, while their high transfer rates will facilitate new permanent and wireless services.

Wireless broadband solutions place considerably higher demands on the computing power of the base stations, and have as a rule a shorter range than the slower cellular systems. It will therefore be a challenge to create cost-effective solutions while demands for performance, rate of development and flexibility are continually on the increase. Today's systems are to a great extent based on traditional DSP (Digital Signal Processors) technology (see below), combined with ASICs, which may not be sufficient to meet these new demands. An alternative solution is what is known as software defined radio where the wireless radio function can be defined and adapted using software, an area where nBand aims to take a leading position.

The available market for DSP circuits for permanent wireless broadband networks that nBand is initially focusing on is expected to amount to around USD 2.2 billion in 2005 (Micrologic Research/Forward Concepts, 2000), which corresponds to a growth of around 48 percent per year from 2000 onwards. It is forecast that the total DSP market will grow by 30 percent per year to more than USD 19 billion by 2004.

#### **Business logic**

Through its close collaboration and agreement with nBand, Axis acquires access to leading edge technology at

the forefront of Digital Signal Processors, which supports the Axis specialisation in wireless network solutions. Against the background of rapid developments and continually new demands in this area, Axis perceives great opportunities to exploit nBand's technology, especially in areas such as HiperLAN/2, system-on-a-chip and the next generation of adaptive more intelligent wireless systems.

Axis also obtains in addition to its own business development office in Mountain View, local insight into Silicon Valley and an additional foothold there that can be utilised for the exchange of ideas.

#### **nBand**

nBand develops advanced circuit technology with the objective of being a leading supplier of DSPs for wireless broadband. The company develops new kinds of technical solutions to meet the market's increasing demand for bandwidth, flexibility, development rate and cost-effectiveness in the next generation's base stations and access points. nBand's business model is based on supplying circuits and development tools to systems suppliers such as 3Com, Cisco, Nokia and Proxim, in combination with offers of co-operation on development and exchange of knowledge with strategic partners such as Axis, Cisco and Nokia.

nBand is based in Sunnyvale, California and was started in 1999 by former employees of firms like Intel and SUN Microsystems, with financial backing from private investors associated with such organisations as Cisco, MIPS, Synopsys and Stanford University. The company currently has 20 employees, of which one is a doctor of technology and 15 are graduate engineers with extensive experience of the chip and software industry in Silicon Valley. nBand plans to have at least 40 employees by the end of 2000.

#### **Products**

nBand develops DSP circuits for Wireless Broadband (VOFDM), Wireless LAN (5Ghz 802.11a, HiperLAN/2) and 3G (WCDMA), and plans for solutions for the next generation of picocells and also for mobile terminals on a longer term basis.

The raw performance of nBand's first product, nFlexion NI2004-250, which tapeout is planned for August 2000, is considered to be up to 10 times that of comparable DSPs currently on the market, while having considerably lower power consumption. nFlexion NI2004-250 and its Linux-based development environment and technology for programming language translation will be further developed during 2001. The next version of the chip, nFlexion NI2008-500, is planned for 2002 and is expected to have four times the performance.

The company has signed an agreement with TSMC, one of the world's leading chip suppliers, for manufacture of the nFlexion circuit.

nBand possesses a patent portfolio of around 15 patent applications in the fields of processor architecture and programming language translation.

#### Potential customers and partners

nBand's customers primarily comprise systems suppliers of wireless broadband networks, 3G infrastructure, wireless LAN and mobile products, and include global players such as Cisco, Nokia and Ericsson, as well as companies with new applications such as Axis. In April 2000, the company concluded an agreement with a distributor (Centaur) and is in product and evaluation discussions with several international telecom and network companies.

During the first quarter of 2000, nBand has concluded several strategic agreements regarding collaboration on technology, including one with Red Hat/Cygnus, for the production and support of the development platform. In addition, nBand is one of a total of eight companies in the world to be invited to participate in TSMC's design group for advanced memory design, and it has concluded a license agreement with PalmChip for its PalmCore systems bus.

#### Competitive situation

nBand's foremost competitive advantage is its chip architecture and development methodology that facilitates faster and cheaper development of flexible wireless systems. The scalability of the architecture means that the performance can be raised, providing the criteria for nBand to maintain its lead. Competitors include

companies developing the following: traditional DSPs (such as Texas Instruments, Analog Devices and Lucent), non-programmable circuits (such as Broadcom and Qualcomm) and what is known as configurable circuits (such as Xilinx, Quicksilver and Chameleon).

#### Future prospects

On the basis of its technological strength, nBand is well equipped to play a leading role in one of the most expansive segments of the chip market. The basic strategy is to initially exploit the solution's fine performance and flexibility and focus on new types of broadband solution while in time progressing to larger markets such as 5 GHz Wireless LAN and mobile terminals, by refining the technology's potential for low power consumption and low production cost.

#### Ownership structure

The founders of nBand and other employees own 31.5 percent of the company's shares before dilution, which does not include reserved, unredeemed options. Axis is the largest individual shareholder with 17.1 percent. Other major shareholders include Kumar Yamani (9.0 percent), Synopsis (5.7 percent) and other private investors (including the founders of SUN Microsystems, Ascend Communications, VLSI Technologies and MIPS) who have altogether 51.4 percent of the shares. Employee options can lead to a dilution of 11.3 percent.

#### Financial information

nBand is currently implementing an additional funding round to take in a further USD 10 million of external capital. This raising of capital is expected to be concluded in (the summer of) 2000.

# Summary of Group Development

## Principles and assumptions applied in preparation of the accounts

For the accounting principles applied in preparing the accounts below, please see the section "Formal financial statements – Accounting principles".

### Income statements

SEK 000	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000
Net sales	327,494	393,659	521,715	559,789	695,183
<i>Of which Netch<sup>1)</sup></i>	–	–	–	–	60,703
Cost of goods and services sold	–140,339	–194,582	–245,825	–238,835	–323,429
<b>Gross profit</b>	<b>187,155</b>	<b>199,077</b>	<b>275,890</b>	<b>320,954</b>	<b>371,754</b>
<i>Of which Netch<sup>1)</sup></i>					23,108
Selling expenses	–76,865	–110,512	–174,305	–184,212	–239,229
Administrative expenses	–23,405	–24,338	–29,446	–36,950	–62,812
Research and development expenses	–33,162	–49,538	–76,709	–93,657	–144,585
Non-recurring expenses	–	–	25,959	–	–
Other operating income	–	14,111	–	–	–
Other operating expenses	–	–	–3,233	–1,163	–7,358
Share in pre-tax profit of associated companies	–	–	–2,865	2,115	–
<b>Operating profit</b>	<b>53,723</b>	<b>28,800</b>	<b>15,291</b>	<b>7,087</b>	<b>–82,230</b>
<i>Of which Netch<sup>1)</sup></i>	–	–	–	–	–11,534
Interest income and similar items	3,933	5,525	11,009	1,395	29,677
Interest expenses and similar items	–7,724	–6,226	–15,126	–7,669	–9,776
<b>Profit after financial items</b>	<b>49,932</b>	<b>28,099</b>	<b>11,174</b>	<b>813</b>	<b>–62,329</b>
<i>Of which Netch<sup>1)</sup></i>	–	–	–	–	–12,409
Tax on profit for the year	–17,420	–11,660	–1,700	–2,859	–4,112
Minority interest	0	–	–	–	–8,281
<b>Net profit for the year</b>	<b>32,512</b>	<b>16,439</b>	<b>9,474</b>	<b>–2,046</b>	<b>–74,722</b>

### Balance sheets

SEK 000	April 30, 1996	April 30, 1997	April 30, 1998	April 30, 1999	April 30, 2000
<b>ASSETS</b>					
Intangible fixed assets	676	676	676	6,864	7,437
Tangible fixed assets	27,503	28,085	24,387	21,248	39,895
Financial fixed assets	2,396	7,348	7,573	9,106	20,738
<b>Total fixed assets</b>	<b>30,575</b>	<b>36,109</b>	<b>32,636</b>	<b>37,218</b>	<b>68,070</b>
<i>Of which Netch<sup>1)</sup></i>	–	–	–	–	7,034
Inventories	51,422	49,369	81,522	77,587	69,887
Accounts receivable	50,167	87,075	102,390	102,277	131,996
Other current assets excluding liquid assets	13,342	13,813	17,506	31,427	41,586
Liquid assets	16,995	40,509	10,203	–	12,419
<b>Total current assets</b>	<b>131,926</b>	<b>190,766</b>	<b>211,621</b>	<b>211,291</b>	<b>255,888</b>
<i>Of which Netch<sup>1)</sup></i>	–	–	–	–	33,746
<b>Total assets</b>	<b>162,501</b>	<b>226,875</b>	<b>244,257</b>	<b>248,509</b>	<b>323,958</b>
<i>Of which Netch<sup>1)</sup></i>	–	–	–	–	40,780
<b>SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>					
Shareholders' equity	72,692	79,092	87,056	85,010	11,150
Minority interests	–	–	–	–	9,905
Interest-bearing provisions	–	–	–	–	–
Non-interest-bearing provisions	14,586	14,376	12,646	11,342	12,253
Interest-bearing liabilities	21,007	53,587	67,495	79,713	162,822
Current non-interest-bearing liabilities	54,216	79,820	77,060	72,444	127,828
<b>Total shareholders' equity, provisions and liabilities</b>	<b>162,501</b>	<b>226,875</b>	<b>244,257</b>	<b>248,509</b>	<b>323,958</b>
<i>Of which Netch<sup>1)</sup></i>	–	–	–	–	40,780

<sup>1)</sup> Unaudited figures for the period May 1, 1999–April 30, 2000.



## Cash flow

SEK 000	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000
Profit after financial items	49,932	28,099	11,174	813	-62,329
Depreciation	4,979	5,267	7,233	8,110	13,030
Taxes	-9,424	-16,714	-5,658	-3,870	-1,726
Total	45,487	16,652	12,749	5,053	-51,025
Change in working capital	-22,281	-9,722	-53,921	-14,493	23,206
Net investments	-7,736	-5,849	-17,814	-11,831	-29,634
Operating cash flow	15,470	1,081	-58,986	-21,271	-57,453

## Key ratios

	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000
Net sales growth (%)	-	20.2	32.5	7.3	24.2
Gross margin (%)	57.1	50.6	52.9	57.3	53.5
Operating margin (%)	16.4	7.3	2.9	1.3	neg.
Profit margin (%)	15.2	7.1	2.1	0.1	neg.
Shareholders' equity (SEKm)	73	79	87	85	11
Capital employed (SEKm)	94	133	155	165	184
Interest-bearing liabilities (SEKm)	21	54	67	80	163
Net interest-bearing liabilities (SEKm)	4	13	57	80	150
Total assets (SEKm)	163	227	244	249	324
Return on capital employed (%)	-	30.3	18.3	5.3	neg.
Return on total capital (%)	-	17.6	11.2	3.4	neg.
Return on equity (%)	-	21.7	11.4	neg.	neg.
Interest coverage ratio (times)	7.5	5.5	1.7	1.1	neg.
Net debt/equity ratio (times)	0.06	0.17	0.66	0.94	13.49
Equity/assets ratio (%)	44.7	34.9	35.6	34.2	6.5
Risk capital/total capital (%)	53.7	41.2	40.8	38.8	10.3
Capital turnover rate (times)	-	3.5	3.6	3.5	4.0
Number of employees (average)	119	165	243	313	445
Sales per employee (SEKm)	2.8	2.4	2.1	1.8	1.6
Profit per employee (SEKm)	0.5	0.2	0.1	0.0	neg.

## Data per share

	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000
Earnings after the Offering and after full dilution (SEK)	0.48	0.24	0.14	-0.03	-1.10
Shareholders' equity (SEK)	1.29	1.40	1.54	1.51	0.20
Dividend for the financial year (SEK)	0.18	0.04	-	-	-
Number of shares at end of period (000)	56,400	56,400	56,400	56,400	56,400
Average number of shares (000)	56,400	56,400	56,400	56,400	56,400

## Definitions

### Capital employed

Total assets, minus non interest-bearing liabilities, including deferred tax liability.

### Capital turnover rate

Net sales divided by average capital employed.

### Earnings per share

Profit after full tax for the period divided by the average number of shares.

### Equity/assets ratio

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

### Equity per share

Shareholders' equity divided by the number of outstanding shares.

### Gross margin

Gross profit/loss as a percentage of net sales.

### Income per employee

Operating profit/loss after depreciation divided by the average number of yearly employees.

### Interest coverage ratio

Profit/loss after financial items plus interest expenses and similar items, divided by interest expenses and similar items.

### Net debt/equity ratio

Net interest-bearing liabilities divided by shareholders' equity.

### Net interest-bearing liabilities

Interest-bearing liabilities with deduction for liquid assets.

### Operating margin

Operating profit/loss as a percentage of net sales.

### Operating margin after depreciation of tangible fixed assets

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

### Profit margin

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

### Return on capital employed

Profit/loss after financial items plus interest expenses and similar items, divided by average capital employed.

### Return on equity

Profit/loss after financial items with deduction for full tax, divided by average shareholders' equity.

### Risk capital/total capital

Shareholders' equity plus minority interest and deferred tax liability as a percentage of total assets.

### Sales per employee

Net sales divided by the average number of yearly employees.

# Comments on Financial Developments

## Overview

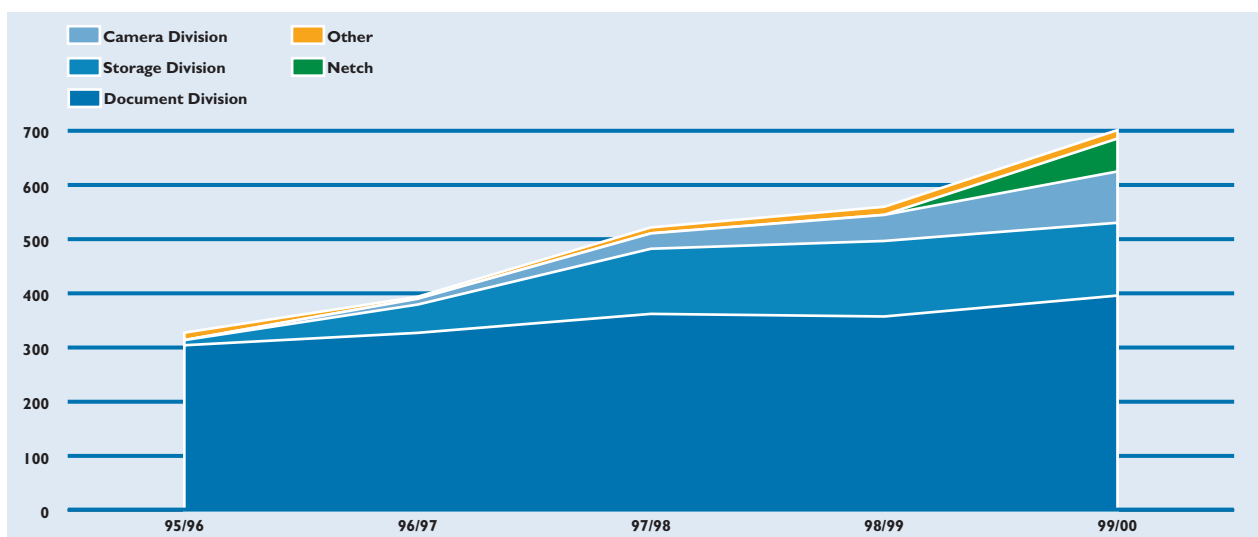
The Axis Group consists of 10 operating companies situated in Sweden, the USA, Japan, France, Germany, the UK, Spain, Hong Kong, Singapore and South Korea. A subsidiary is currently being set up in Malaysia. In addition to the established subsidiaries, there are also representative offices in the Netherlands, Australia, China and Taiwan. In total, Axis currently has its own representation in 15

countries (20 offices) as well as an established network of distributors, who actively cover more than 60 countries.

The Axis group also includes Netch Technologies AB. The shareholding in Netch Technologies AB amounts to just over 50 per cent, so there is a minority interest in this part of the group.

Axis also has a minority share in nBand Communications, Inc. in the USA (California).

## Sales by business area 1995/96–1999/00



## 1999/00 compared with 1998/99

### Background

In the light of developments in wireless data communication and the ensuing opportunities for mobile Internet, as well as the convergence between fixed and wireless networks, between protocols and applications and between telecommunication and datacommunication, Axis continued its fourth investment phase during the financial year 1999/00. This fourth phase in Axis' development includes, for instance, Bluetooth wireless technology and wireless multi-protocol technology, with an emphasis on products for wireless network connection of both peripherals and personal communication equipment, such as laptops, mobile telephones and Personal Digital Assistants (PDAs).

Furthermore, Axis has taken another important step with the ThinServer technology this year, in that Axis now

uses Linux as its open operating system, which provides a number of advantages in terms of development speed, cost and partnerships. Axis is one of the first companies in the world with this application, which has also led to business partnerships with, for example, Red Hat, another leading company in Linux software.

During the financial year, Axis' Japanese organisation has expanded as the macroeconomic conditions in the country have improved, and business partnerships have been entered into with several leading Japanese IT companies. A stable development in sales has been noted in the other areas of Asia. Compared with the previous financial year, sales in Asia have increased by 53 per cent. As part of Axis' fourth development phase, described above, an office has been established in what is known as the Multimedia Super Corridor in Malaysia (Kuala Lumpur).

## **Turnover**

Turnover in the Group increased during the period by 24 per cent to SEK 695 million (560), 86 per cent of which came from the export markets. Growth is on the whole organic, with the exception of some growth as a result of the consolidation of Netch Technologies AB.

As a result of the large disruptions in the pattern of demand for network products that arose at the end of 1999 and in the beginning of 2000, some of Axis' distribution channels have suffered financial difficulties. These difficulties have particularly affected sales of storage products, which have declined by 8 per cent compared with the previous financial year. However, the Group's turnover is still higher than that for the previous year, despite these problems.

## **Operating result**

The Group's operating loss amounted to SEK 82 million (profit of SEK 7 million) and the loss before tax was SEK 62 million (profit of SEK 1 million). The Board of Directors' decision to expand the Group's operations through a fourth expansion stage, with a focus on products for wireless network connection of both peripherals and personal communication equipment, means that the expenses for research and development, as well as sales and marketing, are increasing, and will sharply affect the operating result. Expenses for research and development during the period amounted to SEK 145 million (94), while expenses for sales and marketing were SEK 239 million (184).

In addition to the large investment in the future, the operating result has been negatively affected by over SEK 20 million as a result of the problems in the distribution channels described above.

## **1998/99 compared with 1997/98**

### **Background**

During the financial year, Axis' ThinServer technology for high speed networks (100 Mbit/s), including the fifth generation of the Company's own computer chip (Etrax 100), has been developed and implemented in the majority of Axis' network products.

At the beginning of the financial year, the Company signed a collaboration agreement with Ericsson Mobile Communications on the use of Bluetooth wireless technology for wireless data and voice communication. This agreement has contributed to laying the foundation for Axis' technological know-how in the fields of wireless communication (such as Bluetooth) and telecom-

munication and datacommunication applications, as well as to taking the first important steps towards an introduction of new types of Axis products in new market areas.

## **Turnover**

Turnover increased to SEK 559.8 million, compared with SEK 521.7 million in the previous year. The entire increase in turnover was attributable to the Storage and Camera product areas. Sales in the product area Document continued to be weighed down by the economic crisis in Asia. Axis' sales on the Asian market continued to decline as a result of the economic crisis, and the fall of approximately 10 per cent noted in the previous year was followed by a further decline of almost 20 per cent during the financial year. Axis' turnover in Asia during the financial year thus comprised approximately 13 per cent of the Group's total turnover.

## **Operating profit**

Axis' operating profit after depreciation amounted to SEK 7.1 million, compared with SEK 15.3 million during the previous year. The established expansion strategy led to a continued increase in costs for research and development, as well as for sales and marketing, which resulted in a significant negative effect on income. The costs for research and development for the financial year amounted to SEK 94 million (SEK 77 million for the previous year), while costs for sales and marketing amounted to SEK 184 million (SEK 174 million for the previous year).

## **1997/98 compared with 1996/97**

### **Background**

Axis' product portfolio at this point in time was completely within its own niche in the network market, where the focus lies on connecting peripherals to networks. All of the product areas were tied together by a common technical architecture (ThinServer technology), a common brand and common distribution channels.

Axis had chosen to establish its own subsidiaries on the large markets where the company is active. When the Group's new strategy was decided in 1995, Axis had its own subsidiaries in three countries – the USA, Japan and Hong Kong. Up until the end of the financial year 97/98, new subsidiaries or representative offices had been opened in eight new countries.

Considerable resources were allocated to marketing Axis on the international market, with the aim of establishing the Axis brand as a symbol of all types of connection products related to networks.

### Turnover

The turnover rose to SEK 521.7 million, compared with SEK 393.7 million in the previous year. A large part of this increase was attributable to the product areas Storage and Camera. The strong growth level was achieved despite the very negative influence on the IT market, particularly the Japanese market, from the Asia crisis. The Asian market was responsible for approximately 25 per cent of the turnover in the previous year, but after a decline in sales of around 10 per cent, the Asian turnover amounted to approximately 17 per cent of the Group's total turnover.

### Operating profit

Axis' operating profit after depreciation amounted to SEK 15.3 million, compared with the previous year's SEK 28.8 million. The reported operating profit after depreciation of SEK 15.3 million includes capital gains of a total of SEK 26.0 million. The established expansion strategy involves the costs for research and development, as well as sales and marketing, increasing, which strongly affects income. For this financial year, the costs for research and development amounted to SEK 77 million (SEK 50 million in the previous year), while the costs for sales and development amounted to SEK 174 million (SEK 111 million in the previous year).

### Seasonal variations

The broad geographical spread achieved by Axis' products means that a large part of the seasonal variations so clear on certain individual markets are eliminated.

### Interest-bearing net liability

Table 1: As of 30 April 2000, the interest-bearing liabilities amounted to approximately SEK 163 million. The liquid assets amounted at the same point in time to around SEK 12 million. The table below shows how interest-bearing liabilities and liquid assets have changed over the last five-year period.

The interest-bearing liabilities have largely arisen as a result of the increase in operating capital that is the result of the Group's underlying growth strategy.

As of 30 April 2000, the equity ratio amounted to approximately 6 per cent, which can be compared with approximately 34 per cent for the financial year 1998/99.

### Effects of the impending new share issue<sup>1)</sup>

According to the present Offer, a new share issue of SEK 400 million will be carried out, which after deduction for issue costs will contribute approximately SEK 375 million to the Company. To describe the effects the new issue would have had if it had been carried out at the beginning of the financial year 1999/00, the following information is presented:

Net interest-bearing liabilities, SEK 000	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000
Interest-bearing liabilities	21,007	53,587	67,495	79,713	162,822
Liquid funds	-16,995	-40,509	-10,203	-	-12,419
<b>Net interest-bearing liabilities</b>	<b>4,012</b>	<b>13,078</b>	<b>57,292</b>	<b>79,713</b>	<b>150,403</b>

Investments, SEK 000	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000
Investments in operating assets	7,736	5,849	17,814	11,627	29,634
Depreciation	4,663	4,951	7,233	8,110	13,030
Investments/Depreciation ratio	1.66	1.18	2.46	1.43	2.27

<sup>1)</sup> Based on the lowest price in the price interval.

The new share issue will increase Axis' shareholders' equity, reduce interest-bearing debt and increase liquid assets. Compared with Axis' balance sheet as of 30 April 2000, this will mean that the balance sheet total increases from SEK 324 million to SEK 536 million, based on the assumption that SEK 163 million of the new issue is used to reduce interest-bearing debt. The net effect of the increase in shareholders' equity is that the equity ratio rises from 6.5 to 73.9 per cent.

Under the assumption that the proceeds from the new issue was provided to Axis as at May 1, 1999, the after tax loss would have decreased with SEK 7.9 million to SEK 66.8 million. In conjunction with the new share issue, the number of shares will increase with 12,500,000 to 68,900,000. With these assumptions, a proforma loss per share after the new issue can be estimated to SEK 1.0.

The calculation of earnings per share is made on the assumption of a new issue payment of SEK 400 million, which will be SEK 375 million after the deduction of issue costs. Using the same assumptions, shareholders' equity will change to SEK 386 million after the proposed new share issue.

Equity per share pro-forma can in this way be calculated at SEK 5.6 per share. Based on the lowest price in the price range, SEK 32 per share, this gives a P/Book value ratio of 5.7.

## Investments

*Table 2:* The Group's most important investments are connected with technology and market developments. Investments, with the exception of investments in fixed assets, are continuously expensed. Investments in operating assets during the financial year 1995/96 up to and including 1999/00 mainly consist of investments in office equipment. Because of the very rapid development, these expenses are continuously expensed. All operating assets are written off over 3-5 years, depending on their estimated economic life.

*Table 3:* To create the right conditions for a continued expansion, a large piece of land was acquired in the Ideon research park in Lund during the financial year 1997/98 at a cost of SEK 6.8 million. At the same time, the property that had previously housed the Group's Swedish operations was sold, as this property offered no opportunity for expansion. The current premises are rented on market terms.

## Research and development

*Table 4:* All costs for development operations are charged to the results as they occur. Over the past years, Axis has prioritised investments in future growth opportunities over short-term profitability. The Company assesses that these investments will lead to a successively increasing

Investments in land and land improvements, SEK 000	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000
Investments in land and land improvements	–	–	6,835	204	1,267
Disposal of property	–	–	–27,500	–	–
Depreciation on buildings and land improvements	316	316	–	–	114

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Research and development, SEK 000	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000
Net sales	327,494	393,659	521,715	559,789	695,183
Research and development expenses	33,162	49,538	76,709	93,657	144,585
R&D as a percentage of sales	10.1	12.6	14.7	16.7	20.8

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operating margin. Development costs have increased over the five-year period from approximately SEK 33 million during 1995/96 to SEK 145 million. In relation to the turnover, costs for technical development amount to 21 per cent of the turnover for the financial year 1999/00. Development activities will continue to be given high priority during the next few financial years.

### Working capital

*Table 5:* As of 30 April 2000, the working capital amounted to approximately SEK 116 million. The rise in working capital that has occurred since the financial year 1995/96 is mainly attributable to the increase in accounts receivable that has arisen as a result of the increase in the percentage of sales through national American distribution chains. Since the financial year 1998/99, Axis has worked on balancing the extended customer credit time with renegotiations of supplier agreements so that a better working capital structure can be achieved.

### Capital employed and cash flow

*Table 6:* The capital employed as a percentage of sales has increased in recent years, primarily as a result of the rise in accounts receivable. During the financial year 1999/00 there has been an increased focus on tying up capital, which

has meant that the working capital has declined by approximately SEK 23 million. Capital employed amounted, as of 30 April 2000, to 25 per cent of sales during the financial year 1999/00. The average capital employed during the financial year 1999/00 amounted to SEK 168 million, corresponding to a capital turnover rate during the year of a multiple of 4.

The relationship between operating assets and operating liabilities has not favoured the cash flow in recent years. Measures have been taken during the financial year 1999/00 to achieve a better balanced working capital structure. During the five-year period, the total change in working capital has negatively affected the cash flow by approximately SEK 37 million. During the same period, sales increased by approximately SEK 368 million. The accumulated investments during the period 1995/96 up to and including 1999/00 amounted to SEK 73 million.

### The tax situation

It is difficult to assess future tax expenses for the Axis group, but in the long term this should be around the nominal Swedish corporate income tax rate (currently 28 per cent). Some countries where the Company has operations, such as the USA and Japan, have a higher nominal tax rate than Sweden. As Axis pursues global

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Working capital, SEK 000	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000
Inventories	51,422	49,369	81,522	77,587	69,887
Accounts receivable	50,167	87,075	102,390	102,277	131,996
Other current assets excluding liquid assets	13,342	13,813	17,506	31,427	41,586
Current non-interest-bearing liabilities	-54,216	-79,820	-77,060	-72,444	-127,828
<b>Working capital</b>	<b>60,715</b>	<b>70,437</b>	<b>124,358</b>	<b>138,847</b>	<b>115,641</b>

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Capital employed and cash flow, SEK 000	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000
Inventories	51,422	49,369	81,522	77,587	69,887
Accounts receivable	50,167	87,075	102,390	102,277	131,996
Other current assets excluding liquid assets	13,342	13,813	17,506	31,427	41,586
Current non-interest-bearing liabilities	-54,216	-79,820	-77,060	-72,444	-127,828
<b>Working capital</b>	<b>60,715</b>	<b>70,437</b>	<b>124,358</b>	<b>138,847</b>	<b>115,641</b>
Fixed assets	30,575	36,109	32,636	37,218	68,070
Provisions, non-interest	-14,586	-14,376	-12,646	-11,342	-12,253
<b>Capital employed</b>	<b>76,704</b>	<b>92,170</b>	<b>144,348</b>	<b>164,723</b>	<b>171,458</b>
Capital employed as a percentage of sales	23.4	23.4	27.7	29.4	24.7
Average capital employed	68,176	84,437	118,259	154,535	168,090



business operations, no guarantee can be given that local tax authorities will not question the Company's internal pricing and enforce taxation in a different way than that described above.

### Sensitivity analysis

Axis is a company with a strong international flavour. During the financial year 1999/00 the percentage of income in foreign currency amounted to approximately 94 per cent. This means that both sales and results are dependent on the relationship of the Swedish krona to other currencies. With a gradually improved working capital structure, the sensitivity to changes in the interest situation will be modest. The factors which are estimated to have most effect on the result, apart from currency exposure, are purchase prices and wage costs. The table below gives an indication of the effect the most important factors will have on Axis' results for the financial year 1999/00.

Factor, SEK million	Change	Effect on operating profit/loss
SEK/USD	+/-5%	4
SEK/Euro	+/-5%	11
Purchase prices	+/-5%	15
Wage costs	+/-5%	10

### Foreign exchange and financial policy

As a result of the Company's international exposure, Axis has an established foreign exchange policy that is based on hedging all currency flows in a businesslike and non-speculative manner. Of the total expected sales, after deduction for costs, approximately 70 per cent is hedged. Expenses should be drawn against income in the same currency within the Group, regardless of where income and expenses arise. It is thus not the currency exposure of the individual subsidiary that is hedged, but the Group's exposure. Hedging of currency flows occurs mainly in US dollars, euro, yen and sterling, as these are the foreign currencies responsible for the major part of the Group's currency risk.

Axis has a group policy for its financial operations, which defines financial risks. The policy describes how the risks should be measured and in what risk intervals. The policy also covers the reports that should be made and how responsibilities and powers of authority should be delegated.

### Investment regulations

The Axis financial policy allows investment of cash assets in bank accounts or other deposits such as commercial papers, treasury bills, and government, corporate and housing bonds. The issuer of commercial papers,

corporate bonds or housing bonds must have a P1 credit rating with Moody's or an A1 rating with Standard & Poor's or, in the case of Swedish companies, a KI rating with Nordic Rating. Investments of the Company's liquid assets may be made in instruments with a remaining life amounting to a maximum of one year. If investments are planned to be long term, the remaining life of the chosen instruments may amount to a maximum of two years.

### Dividend policy

Axis has traditionally paid a dividend amounting to approximately one third of the annual profit after tax, taking into account the Company's equity ratio target. In the light of the expansion strategy established in 1995, no dividends have been paid after the financial year 1996/97. The dividend policy will continue to be restrictive over the next few years, while waiting for operations to generate a positive cash flow and for the results and financial position to allow for dividends to be paid.

### Financial targets

Axis' Board of Directors is of the opinion that the Company should have a strong capital base to create opportunities for continued strong growth, both through organic expansion and through supplementary acquisitions.

In the light of the above, Axis feels that the Company's equity ratio should not normally fall below 50 per cent. Following the impending new share issue, the equity ratio is expected to amount to a maximum of approximately 80 per cent. Axis' growth targets for the next five years include increasing sales by 30 per cent per year and achieving a margin before tax of 10-15 per cent.

### Future prospects

Axis' Board of Directors expects that the Group's ventures will lead to continued strong growth in turnover and estimates that the Group will grow at a level with the long-term growth target over the next few years.

Axis' large investments, particularly in the Mobile Internet business area, will be allowed to reach a level that is expected to lead to a reported operating loss for the Group for the coming year.

The growth in turnover from the product areas Document and Storage is expected to be stable but lower than the Group's average growth target, while the product area Camera is expected to grow much faster than the Group's average growth target. Axis has the aim that the Camera Division and the Mobile Internet Division jointly will comprise a significant part of Axis' turnover within a few years.

# Share Capital and Ownership Structure

## Share capital

The share capital in Axis amounts to SEK 564,000, before the new share issue in accordance with the Offering, divided over 56,400,000 shares, each share with a nominal value of SEK 0.01. Each share gives an equal right to a percentage of Axis' assets and profits and entitles the holder to one vote.

The impending new issue of a maximum of 12,500,000 shares will increase the share capital by a maximum of SEK 125,000, to a maximum of SEK 689,000, divided over a maximum of 68,900,000 shares. Before the ownership spread, Axis has approximately 30 shareholders.

## Share capital development

Year	Transaction	Number of shares	Nominal value (SEK)	Share capital (SEK)
1984	Formation of the company	500	100.00	50,000
1985	New issue	5,040	100.00	504,000
1987	Conversion of debenture loan	5,640	100.00	564,000
1997	Split 100:1	564,000	1.00	564,000
1999	Split 100:1	56,400,000	0.01	564,000

## Ownership

The table below shows the ownership in Axis before the Offering and before full dilution of the shares which may

arise through the incentive programme (see "Share Capital and Ownership – Incentive programme"):

Owner	Number of shares	Percentage of capital and votes
Mikael Karlsson privately and through a company (LMK Industri AB)	23,085,000	40.9
G. Kallstrom & Co AB <sup>1)</sup>	14,100,000	25.0
Martin Gren through company (AB Grenspecialisten)	10,005,000	17.7
Dag Tigerschiöld	2,427,600	4.3
Isac Brandberg AB	2,270,000	4.0
Johan Björkman	2,132,400	3.8
Other shareholders	2,380,000	4.2
<b>Total</b>	<b>56,400,000</b>	<b>100.0</b>

The table below shows the ownership in Axis after the Offering and before full dilution of the shares which may arise through the incentive programme, assuming full

subscription to the Offer and that the Over-allotment Option is exercised in full.

Owner	Number of shares	Percentage of capital and votes
Mikael Karlsson privately and through a company (LMK Industri AB)	22,167,764	32.2
G. Kallstrom & Co AB <sup>1)</sup>	13,539,765	19.7
Martin Gren through company (AB Grenspecialisten)	9,607,471	13.9
Dag Tigerschiöld	2,427,600	3.5
Isac Brandberg AB	2,270,000	3.3
Johan Björkman	2,132,400	3.1
Other shareholders	2,380,000	3.5
New investors	14,375,000	20.9
<b>Total</b>	<b>68,900,000</b>	<b>100.0</b>

<sup>1)</sup> G. Kallstrom & Co AB is 70 percent owned by Skanditek Industrieförvaltning AB.

## **Commitment (Lock-up)**

The Principal Shareholders – who are listed in note 1 on page 1 and who, under the assumption of full subscription to the Offering and full utilisation of the Over-allotment Option, will own shares representing a total of approximately 65.8 percent of the shares and votes in Axis – intend to retain significant shareholdings in Axis in the long term. The Principal Shareholders and certain senior managers at Axis<sup>1)</sup> have undertaken not to transfer, directly or indirectly, shares or warrants in the company during a period from the first day that Axis' shares are listed on the Stockholm Exchange and until the publication of Axis' preliminary full-year results for the financial year 2000/2001, without the written consent of Enskilda Securities.

## **Authorisation for the Board of Directors**

An Extraordinary General Meeting of Axis resolved on May 3, 2000 to authorise the Board of Directors, at one or more occasions and not longer than to the year 2000 Annual General Meeting, to resolve to issue a maximum of 25,000,000 new shares in the Company in connection with a so called Private Placement and/or a listing of Axis' shares on the Stockholm Exchange. The Board of Directors of Axis has, in connection with the resolution to issue a maximum of 12,500,000 new shares, also resolved not to utilise the remaining part of the authorisation.

## **Incentive programme**

The Board of Directors of Axis resolved in June, 1999 to implement a yearly recurrent incentive scheme to employees in the Group in Sweden and abroad. Employees in the U.S. are offered US-styled so called stock options.

In 1999 employees of the Axis Group were offered the possibility to acquire in total 570,000 warrants at market price. All employees were offered, by using a specifically designated cash bonus, to acquire warrants. In addition, approximately 45 key employees were offered to acquire warrants by paying a cash amount. In total 30,000 warrants are held by the subsidiary Axis Network AB and is intended to be offered to new employees in the Axis Group. Subscriptions of new shares in Axis based on the year 1999 warrants shall be made during the period from

and including September 2, 2002 up to and including September 1, 2004, at a subscription price per share of SEK 19.50.

On May 3, 2000, an Extraordinary Shareholders Meeting of Axis unanimously approved the Board's resolution on April 14, 2000 to issue in total 1,128,000 warrants at market price, entitling the holders to subscribe for new shares in Axis, to be offered to employees of Axis at market price. Those persons being employed in the Axis Group as of July 5, 2000, will, by using a specifically designated cash bonus, be offered the possibility to acquire a maximum of 1,000 warrants per employee. In addition, approximately 50 key executives will be offered to acquire, against a cash payment, a maximum of 3,000, 10,000 and 141,000 warrants per employee, depending on the office held by such employees. Moreover, the Managing Director of the Company will be offered to acquire against a cash payment, a maximum of 282,000 warrants. Warrants not acquired by employees will be held by a wholly-owned Swedish subsidiary and is intended to be offered to new employees of the Axis Group. Subscription of new shares in Axis based on the year 2000 warrants shall be made during the period from and including October 2, 2003 up to and including September 30, 2005. The subscription price per share will correspond to 130 percent of the average final transaction price for the shares of Axis quoted on the Stockholm Exchange's official price list calculated during the period of five trading days commencing the sixth trading day and ending at the tenth trading day after the first day of the listing of the company's shares on the Stockholm Exchange.

Assuming the acquisition and full subscription of all warrants issued as described above and under the condition that the Offering is fully subscribed, Axis' share capital will increase by in total SEK 16,980, corresponding to a total dilution of approximately 2.5 percent, however, excluding the increase that could be result of re-calculations of the number of shares each warrant entitles the holder to subscribe for in connection with new issues and similar conditions. Approximately 0.8 percent of the dilution effect relates to the year 1999 programme and approximately 1.6 percent to the year 2000 programme.

<sup>1)</sup> These senior managers are Mikael Karlsson through LMK Industri AB, G. Kallstrom & Co AB, Martin Gren through AB Grens specialisten, Dag Tigerschiöld, Johan Björkman, Peter Ragnarsson, Bengt Christensson, Mikael Nilsson, Bengt-Arne Molin, Charlotta Falvin, Per Ådelroth, Fredrik Nilsson, Anders Laurin, Torbjörn Ward, Ray Mauritsson, Lars Beckman, Fredrik Sjöstrand, Kenneth Jonsson and Brigitte Salmi.

# Special Considerations

*All business and share ownership involves a certain amount of risk taking and in this respect Axis is no exception. It is therefore important, in the light of the current Offering and the listing on the Stockholm Exchange, that potential investors read carefully the information in this prospectus and consider the risk factors mentioned below.*

## **Technological developments**

Axis' field of operation is prone to extensive research and technological change and it is assumed that new advances will continue to be made at a rapid rate. There is no guarantee that developments from competitors will not limit Axis' potential to expand its operations or lead to the Company's technology and products becoming uneconomic or out-of-date.

## **Early development phases and new markets**

Axis is at an early stage of development within several of the Company's product divisions. The Company has not yet introduced any products from the Mobile Internet division onto the market in any large scale. There is no guarantee that the Company will be able to introduce any products onto the market successfully. Nor is there any guarantee that this product area will become profitable. Further development work is required, as well as testing of the products within the Mobile Internet division, before large-scale market introduction.

## **The market's interest in Axis' technology and products**

Axis is dependent on the Company's target groups perceiving Axis' technology and products as competitive in relation to other players such as Hewlett & Packard, Intel and 3Com, in order to achieve success and profitability. In addition, it is necessary that the end users accept the Internet as a reliable, safe and effective medium for business communications.

## **Technical defects in the Company's products**

All of Axis' products are technically complicated and contain a number of hardware and software components that are developed both internally and externally. There is no guarantee against malfunctions in products due to defects in the hardware or software, regardless of whether the products have been tested in accordance with Company policy. Serious defects in the Company's products could undermine the Company's market position and can lead to a loss of sales and demands for compensation from customers, which may have negative effects on the Company's operations, financial position and operating profit.

## **Developments in the market**

Axis is dependent on the development of the IT market in general and the network market in particular. That is to

say, how quickly companies and private persons in various parts of the world adopt and invest in new technology, both the specific products marketed by Axis and the infrastructure that gives the products meaning. This market development is influenced by both macroeconomic factors and the global economy, i.e. large steps in the development of technology, such as what has happened with the Internet in recent years.

## **Dependency on OEM customers, ISPs and other Service Providers**

There is no guarantee that the Company will either keep its existing OEM customers or attract new ones. Nor is there any guarantee that the product areas marketed now or in the future to Internet Service Providers (ISPs) or other types of Service Providers, will always be accepted by them for integration into their total infrastructure.

## **Dealers**

The customers who buy Axis brand products are reached through a chain of external distributors, system integrators and dealers. There is no guarantee that this structure will be available in the future. Nor is there any guarantee that factors in the distribution and dealer networks will not negatively affect the Company's sales and profitability.

## **Access to components and manufacture under licence**

Axis has relied on external manufacture under licence ever since it was founded. There is no guarantee that the Company will in future continue to have access to components and manufacture under licence that correspond to the level of quality required for the Company's products. Nor is there any guarantee that the Company will always have access to a sufficient quantity of components. Any of the problems mentioned above in the production chain could have a negative effect on the Company's operations, financial position and operating profit.

## **Integration of acquired operations**

Axis' growth until now has solely been of an organic nature. The Board of Directors has now decided that future growth can also be based on acquisitions. The Company's future development will in this case be dependent on how well the acquired operations can be integrated into the Company. If the Company fails in the integration of an acquisition, this may have a negative effect on the Company's operations, financial position and operating profit.

## **Dependence on key persons**

Key persons have always been and will continue to be the most important reason for Axis' success. Axis' capacity to

attract and retain skilled employees is a decisive factor for Axis' long-term competitiveness. There is a bonus system for Axis' employees, which is based on financial factors and on the employees' intellectual contribution. However, there is no guarantee that Axis will be able to attract and retain important personnel. Any loss of key persons may have a negative effect on the Company's operations, financial position and operating profit.

Mikael Karlsson and Martin Gren were the driving forces behind the founding of Axis and are assessed to be important for the group's future development. However, the dependence on these persons will gradually diminish as Axis grows and as both group management and the Board of Directors are given greater resources. Both Karlsson and Gren intend to remain principal shareholders in Axis, but can give no guarantee that their ownership will not decrease.

### **Dependence on intangible assets**

Axis' commercial success is partly dependent on there being no encroachment on a third party's patent or other intangible assets. The Board of Directors is not aware of any patent infringement or encroachment on any other intellectual property by the Company, but there is no guarantee that the Company's technology will not infringe on a third party's patent or intellectual property. If such an infringement were to occur, the Company could be liable to buy licences for these patents or intellectual property or else the Company may be forced to develop its own alternative technology. There is no guarantee that the Company can gain access to licences on commercially acceptable terms, or that it will be possible to obtain such licence. If it is not possible to obtain a licence, or to develop alternative technology, the Company risks delays or obstacles in marketing its products, which may have a negative effect on the Company's operations, financial position and operating profit.

### **Influence from authorities**

The Company works on a global market. No guarantee can be given that the authorities in different countries will not change their regulations in future in a way that delays or prevents the Company's sales of products on certain markets. If such obstacles were to arise, they could have a negative effect on the Company's operations, financial position and operating profit.

### **Corporate tax**

As the Company operates on a global basis, there is no guarantee that local tax authorities will not question the Company's internal pricing and enforce a level of taxation that would have a negative effect on the Company's operations,

financial position and operating profit. However, Axis' Board of Directors assesses that there is at present no reason to question the Company's internal pricing.

### **Foreign exchange risk**

As a result of its international exposure, the Company has an established foreign exchange policy, which is based on all hedging of currency flows being done in a businesslike and non-speculative manner. There is no guarantee that the Company can remain unaffected by changing exchange rates on every occasion. The Company's foreign exchange risk could thus cause a negative effect on the Company's operations, financial position and operating profit.

### **Product liability and insurance**

The Board of Directors assesses that the Company has the proper insurance for the Company's operations. However, there is no guarantee against obligations arising or demands being made in the future that are not covered by the Company's insurance policies. If such obligations or claims arise, they could have a negative effect on the Company's operations, financial position and operating profit.

### **Future capital requirement**

Axis' long-term capital requirement is based on many factors, including the success of the Company's investment in the Mobile Internet business area and Axis' capacity to handle a continued high level of growth. If the capital acquired through the new share issue in conjunction with the Offering, together with the current resources and any future profits or credits, is not sufficient to cover investments and day-to-day costs, Axis may need to acquire further capital. If capital is generated through a new share issue with no preferential rights for existing shareholders, these shareholders' holdings will be diluted. There is no guarantee that further capital will be available or that it can be acquired on terms beneficial to Axis and its shareholders. The shareholdings of those who acquire shares through the Offering may also be subject to dilution in the future as a result of the utilisation of already issued warrants and of warrants issued in the future.

### **The development of the share**

Prior to the Offering there has been no public market for shares in Axis. Although an application has been made to list Axis on the Stockholm Exchange, there is no guarantee with regard to the liquidity of the share. The price of the share will be affected by, for instance, variations in Axis' profits, changes in the stock market's expectations of future profits, supply and demand for shares, developments on Axis' markets and financial developments in general. This means that the price at which the shares are traded can fluctuate.

# Additional Information

## **Important agreements**

Axis is not dependent on any individual commercial agreement. Nor is there any other agreement that is of any significance to the Company's results and financial position. There is no individual commercial agreement that would significantly affect the Company's operations.

## **Disputes and legal proceedings**

Axis is not and has never been party to, or aware of, any legal proceedings that have or can be expected to have significance for Axis or its operations.

## **Transactions with related parties**

There are no contracts or transactions between Axis and related parties. No member of the Board or manager has or has had any direct or indirect participation in any business transaction that is or was of an unusual nature or contained unusual terms, that has occurred during the current or previous financial year and is in any way unregulated or uncompleted. Nor have the auditors taken part in any business transaction as above. The Company has not granted any loan, given any guarantees or stood surety for or to the benefit of any of the members of the Board of Directors, the managers or the auditors.

## **Observance of regulations, etc.**

Axis assesses that the Company observes the current regulations and directives and holds the necessary licences with regard to its operations.

## **Credits and other commitments**

The Company has bank overdraft facilities amounting to SEK 180 million.

## **Pensions**

Axis makes pension premium allocations in accordance with the Swedish plan for supplementary pensions for salaried employees.

## **Insurance**

Axis has a company insurance policy covering the companies and operations included in the group. This insurance policy covers property/real estate, stoppages, liability, liability for damage to capital, crime against assets and legal protection. It

is Axis' opinion that the Company has adequate insurance cover for the liability arising from day-to-day operations. No part of the Company's operations is assessed to be of a nature that will not allow insurance cover on reasonable terms.

## **Significant events**

There have been no significant events since 30 April 2000 that have affected Axis' financial position or future prospects, otherwise than those described in this prospectus.

## **Annual accounts for the financial year 1999/2000**

The annual accounts for the financial year 1999/2000 have been signed by the Axis Board of Directors and audited by Axis' auditors, but not yet adopted by the Annual General Meeting. The annual accounts will be put before the Axis Annual General Meeting in August 2000 for adoption.

## **Change of President, etc.**

At the end of 1999/beginning of 2000, Mikael Karlsson was appointed the new Chairman of the Board at Axis and succeeded Dag Tigerschiöld, who had been Chairman of the Board at Axis since 1994, when he succeeded Jan Wabreus, who had been Chairman of the Board since 1985. Both Dag Tigerschiöld and Jan Wabreus are still on the Axis Board of Directors. Mikael Karlsson, who has been President at Axis since 1984, was succeeded by Magnus Karnsund as of 1 January 2000. However, the Axis Board of Directors and Magnus Karnsund had differences of opinion in areas of vital importance to the Company and it was therefore mutually decided that a replacement be sought as soon as possible. On 14 April 2000, Peter Ragnarsson was appointed the new President for the Company. Peter Ragnarsson has previously been Vice President, Head of Operations and CFO at Axis.

## **Agreement on sale of shares**

In connection with the sale of shares and the new share issue to the capital market, it is the usual practice for sellers of shares and the Company issuing the shares to sign an agreement regarding the terms for the sale and new share issue with the issuing institution responsible for the



placement of the shares. The Company and the Principal Shareholders intend to sign such an agreement around 15 June 2000 with Enskilda Securities. Below follows a brief description of certain important terms, which will be included in the agreement ("the Placing Agreement").

Enskilda Securities will undertake in the Placing Agreement, under certain conditions, to find buyers for the shares covered by the Offering.

The Placing Agreement will contain certain conditions that must be fulfilled, such as the listing of the share on the Stockholm Exchange, that there are no significant changes in

conditions at Axis and that none of the Principal Shareholders nor the Company breaches the Placing Agreement.

The Principal Shareholders have, in the Placing Agreement, additionally undertaken not to, whether directly or indirectly, divest shares, warrants or corresponding securities in Axis, without written consent from Enskilda Securities, during a period with effect from the first day the Axis share is listed on the O-list at the Stockholm Exchange to the date of publication of the preliminary full-year results for the financial year 2000/2001.

## Extract From the Company's Articles of Association, etc.

### Extract from the Company's articles of association

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#### **Name of the Company**

The name of the company is Axis Aktiebolag. The company is a public limited liability company ('publ' in Swedish).

#### **Registered office**

The registered office shall be in Lund, in the county of Skåne.

#### **Operations**

The object of the Company's operations is, directly or indirectly, through wholly-owned or part-owned companies, to develop, manufacture and sell products based on microprocessors, to own and manage property and to pursue other business compatible with this.

#### **Share capital, etc.**

The share capital shall comprise no less than five hundred thousand (500,000) and no more than two million (2,000,000) Swedish kronor. The share shall amount to one (1) öre (SEK 0.01).

#### **Board of Directors**

The Board of Directors shall consist of a minimum of three and a maximum of six members, with a maximum of three deputies. The members and the deputies will be elected

annually at the Annual General Meeting for a period up to the end of the next Annual General Meeting.

#### **Notice of meeting**

Notice of the Annual General Meeting shall be given through advertisements in the Swedish Official Gazette (Post- och Inrikes Tidningar) and in Dagens Nyheter or another national daily newspaper.

#### **Voting rights**

At the Annual General Meeting each person entitled to vote may vote for the full number of shares owned and represented by him or her, without limitation.

#### **Financial year**

The Company's financial year shall be 1 May – 30 April.

#### **Affiliation to the Swedish Securities Register Centre (VPC)**

The Company is affiliated to the Swedish Securities Register Centre (VPC).

#### **Other information**

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The Company's corporate identity number is 556241-1065. The Company was registered at the Patent and Registration Office (PRV) on 5 April 1984 and has pursued operations since then. Its legal form of business entity is regulated by the Swedish Companies Act (1975:1385).

# Board of Directors, Senior Managers and Auditors



## Board of Directors

### Mikael Karlsson

Chairman of the Board

Born 1962

Chairman of the Board of Netch Technologies AB and IT-Öresund.

Member of the Board at the Institute of Economic Research, Lund University Näringslivsforum, Ruben Rausing Fonden, SEB Lund, Teknikbrostiftelsen i Lund, Visionalis AB and Beijer Electronics AB.

Member of the Board since 1984.

President and CEO 1984–1999.

Chairman since 2000.

Shares in Axis: 23,085,000<sup>1)</sup>

Warrants in Axis: 0

### Dag Tigerschiöld

Deputy Chairman

Born 1942

Chairman of the Board at Arkivator AB, Mydata Automation AB and Vellinge Electronics AB.

Member of the Board of Skanditek

Industriförvaltning AB, Industriförvaltnings AB Kinnevik, Korsnäs AB

and Investment AB Öresund.

Member of the Board since 1986.

Chairman 1994–1999.

Shares in Axis: 2,427,600

Warrants in Axis: 0

### Martin Gren

Born 1962

Member of the Board of Switchcore AB, Netch Technologies AB and Itact AB.

Member of the Board since 1984.

Shares in Axis: 10,005,000<sup>2)</sup>

Warrants in Axis: 1,000

### Johan Björkman

Born 1944

Chairman of the Board of the Third AP Fund, Skanditek Industriförvaltning AB, LjungbergGruppen AB and Nordstjernan AB.

Member of the Board of companies such as BZ Gruppe Holding AG, Korsnäs AB, Invik AB, Mydata Automation AB, AB Persson Invest and Plenja Sweden AB.

Member of the Board since 1995.

Shares in Axis: 2,132,400

Warrants in Axis: 0

### Jan Wabreus

Born 1941

CEO Timelox AB and Subsidiary Head of Assa Abloy AB.

Member of the Board since 1985.

Chairman 1985–1994.

Shares in Axis: 0

Warrants in Axis: 3,000

### Nils Rydbeck

Born 1946

Senior Vice President Research & Technology, Chief Technical Officer Ericsson Consumer Products.

Member of the Board of Anoto AB.

Member of the Advisory Board at the School of Management, North Carolina State University.

Member of the Board since 1997.

Shares in Axis: 0

Warrants in Axis: 3,000

<sup>1)</sup> Privately and through LMK Industri AB.

<sup>2)</sup> Through AB Grenska Specialisten.



## Senior Management

### Peter Ragnarsson

President and Chief Executive Officer

Born 1963

BSc Economics, MBA

Employed at Axis since 1995.

Shares in Axis: 10,000

Warrants in Axis: 13,000

### Bengt-Arne Molin

Head of Research and Core Technology

Born 1958

PhD in applied electronics,

MSc Engineering, Electrotechnology

Employed at Axis since 1999.

Shares in Axis: 0

Warrants in Axis: 0

### Mikael Nilsson

Head of Corporate Strategy

Born 1951

MSc Engineering, Electrotechnology

Employed at Axis since 2000.

Shares in Axis: 0

Warrants in Axis: 10,000

### Bengt Christensson

Head of Strategic Alliances

Born 1960

MSc Engineering

Employed at Axis since 1986.

Shares in Axis: 140,000

Warrants in Axis: 10,000

*From left: Mikael Karlsson, Martin Gren, Jan Wabreus, Dag Tigerschiöld, Mikael Nilsson, Bengt-Arne Molin, Bengt Christensson and Peter Ragnarsson.*



From left: Ray Mauritsson, Charlotta Flavin, Anders Laurin and Kenneth Jonsson.

## Senior Management (cont.)

### Charlotta Falvin

Head of Sales & Operations  
Born 1966  
MSc Economics  
Employed at Axis since 1994.  
Shares in Axis: 10,000  
Warrants in Axis: 13,000

### Per Ädelroth

Head of Document Division  
Born 1966  
MSc Engineering  
Employed at Axis since 1994.  
Shares in Axis: 10,000  
Warrants in Axis: 10,000

### Fredrik Nilsson

Head of Storage Division  
Born 1967  
MSc Engineering,  
Employed at Axis since 1996.  
Shares in Axis: 0  
Warrants in Axis: 3,000

### Anders Laurin

Head of Camera Division  
Born 1960  
Graduate in computer studies  
Employed at Axis since 1997.  
Shares in Axis: 0  
Warrants in Axis: 10,000

### Torbjörn Ward

Head of Mobile Internet Division  
Born 1965  
MSc Engineering, Electrotechnology  
Employed at Axis since 2000.  
Shares in Axis: 0  
Warrants in Axis: 0

### Ray Mauritsson

Head of Technology Division  
Born 1962  
MSc Engineering Physics  
Employed at Axis since 1995.  
Shares in Axis: 10,000  
Warrants in Axis: 10,000

### Lars Beckman

Head of Finance  
Born 1965  
BSc  
Employed at Axis since 1994.  
Shares in Axis: 0  
Warrants in Axis: 3,000

### Fredrik Sjöstrand

Group Controller  
Born 1969  
BSc Economics  
Employed at Axis since 1998.  
Shares in Axis: 0  
Warrants in Axis: 3,000

### Kenneth Jonsson

Operational manager of Research  
and Core technology  
Born 1960  
Engineer  
Employed at Axis since 1985.  
Shares in Axis: 10,000  
Warrants in Axis: 3,000

### Brigitte Salmi

Acting Head of Corporate  
Communications  
Born 1959  
BSc Marketing Management  
Employed at Axis since 1996.  
Shares in Axis: 0  
Warrants in Axis: 3,000





## **Auditors and Deputies**

### **Öhrlings PricewaterhouseCoopers Chief auditor**

Anders Lundin, born 1956  
Authorised Public Accountant  
Has undertaken audits at Axis since 1996.

### **Deputy**

Gustav Jönsson, born 1950  
Authorised Public Accountant  
Has undertaken audits at Axis since 1984.

## **Remunerations and Benefits, etc.**

Salaries and other remunerations have been paid out during the financial year 1999/2000 as shown in the table below.

### **SEK 000**

Board of Directors:	
Fees	325 <sup>1)</sup>
Salaries and remunerations	1,469 <sup>2)</sup>
Management	2,762
Auditors	718 <sup>3)</sup>

<sup>1)</sup> The Chairman of the Board of Directors for the period 1 May – 31 December 1999 received a remuneration of SEK 130,000. The other members of the Board received a total remuneration of SEK 195,000.

<sup>2)</sup> Salaries and remunerations refer to Mikael Karlsson and Martin Gren who have both been active in the group. Mikael Karlsson has been President and CEO during the period 5 April 1984 – 31 December 1999.

<sup>3)</sup> The total refers to the auditing fees.

All of the senior managers participate in, or will be given the opportunity to participate in, an incentive programme (see "Share Capital and Ownership – Incentive programme").

The CEO and other senior managers have pension plans in accordance with market conditions. The senior managers have a period of notice, both when giving notice themselves or being given notice by the Company, of between one and three months. The CEO has a period of notice of six months (12 months in the case of notice given by the Company). However, if they have been employed for more than six years, the period of notice stated in the Act on Security of Employment applies if the Company gives notice of dismissal.

The CEO receives remuneration of SEK 1,400,000 for the financial year 2000/2001.





# Financial Statements

## Statement of income

SEK 000		Group			Parent Company
		1999/2000	1998/1999	1997/1998	1999/2000
Net sales	Note 2	695,183	559,789	521,715	3,460
Cost of goods and services sold		-323,429	-238,835	-245,825	-
<b>Gross profit</b>		<b>371,754</b>	<b>320,954</b>	<b>275,890</b>	<b>3,460</b>
Selling expenses		-239,229	-184,212	-174,305	-
Administrative expenses		-62,812	-36,950	-29,446	-4,917
Research and development expenses		-144,585	-93,657	-76,709	-
Non-recurring expenses		-	-	25,959	-
Other operating expenses		-7,358	-1,163	-3,233	-
Share in pre-tax profit of associated companies		-	2,115	-2,865	-
<b>Operating profit</b>	<b>Note 3, 4</b>	<b>-82,230</b>	<b>7,087</b>	<b>15,291</b>	<b>-1,457</b>
<i>Profit from financial investments</i>					
Share of profits in affiliated companies	Note 5	-	-	-	-43,997
Interest income	Note 6	29,677	1,395	11,009	28,566
Interest expenses	Note 7	-9,776	-7,668	-15,126	-40,224
<b>Profit after financial items</b>		<b>-62,329</b>	<b>814</b>	<b>11,174</b>	<b>-57,112</b>
Tax on profit for the year	Note 8	-4,112	-2,859	-1,700	-
Minority interest in profit for the year		-8,281	-	-	-
<b>Net profit for the year</b>		<b>-74,722</b>	<b>-2,045</b>	<b>9,474</b>	<b>-57,112</b>

## Balance Sheet

ASSETS, SEK 000		Group			Parent Company
		April 30, 2000	April 30, 1999	April 30, 1998	April 30, 2000
<b>Fixed assets</b>					
<i>Intangible fixed assets</i>					
Intangible fixed asset	Note 9	4,989	–	–	–
Rights	Note 10	2,448	3,074	–	2,448
Advances of intangible fixed asset	Note 11	–	3,790	–	–
<b>Total intangible fixed asset</b>		<b>7,437</b>	<b>6,864</b>	<b>–</b>	<b>2,448</b>
<i>Tangible fixed assets</i>					
Buildings and land	Note 12	8,193	7,039	6,835	–
Fixtures and equipment	Note 13	31,702	14,209	17,552	–
<b>Total tangible fixed assets</b>		<b>39,895</b>	<b>21,248</b>	<b>24,387</b>	<b>–</b>
<i>Financial fixed assets</i>					
Shares in subsidiaries	Note 14	–	–	–	130,299
Shares in associated companies	Note 15	1,151	1,650	500	–
Other long-term securities	Note 16	12,893	–	–	12,893
Share in co-operative building society	Note 17	676	676	676	–
Long-term receivables	Note 21	6,018	6,780	7,073	–
<b>Total financial fixed assets</b>		<b>20,738</b>	<b>9,106</b>	<b>8,249</b>	<b>143,192</b>
<b>Total fixed assets</b>		<b>68,070</b>	<b>37,218</b>	<b>32,636</b>	<b>145,640</b>
<b>Current assets</b>					
<i>Inventories</i>					
Trade goods		69,887	77,587	81,522	–
<b>Total inventories</b>		<b>69,887</b>	<b>77,587</b>	<b>81,522</b>	<b>–</b>
<i>Receivables</i>					
Tax receivables		12,316	–	–	5,548
Accounts receivable		131,996	102,277	102,390	–
Receivables from Group companies		–	–	–	179,205
Other receivables		3,538	21,276	11,356	–
Prepaid expenses and accrued income		25,732	10,151	6,150	1,141
<b>Total receivables</b>		<b>173,582</b>	<b>133,704</b>	<b>119,896</b>	<b>185,894</b>
<i>Cash and bank</i>					
Cash and bank		12,419	–	10,203	–
<b>Total cash and bank</b>		<b>12,419</b>	<b>–</b>	<b>10,203</b>	<b>–</b>
<b>Total current assets</b>		<b>255,888</b>	<b>211,291</b>	<b>211,621</b>	<b>185,894</b>
<b>TOTAL ASSETS</b>		<b>323,958</b>	<b>248,509</b>	<b>244,257</b>	<b>331,534</b>

## Balance Sheet

SHAREHOLDERS' EQUITY AND LIABILITIES, SEK 000	Group			Parent Company
	April 30, 2000	April 30, 1999	April 30, 1998	April 30, 2000
<b>Shareholders' equity</b>	Note 18, 19			
<i>Restricted equity</i>				
Share capital	564	564	564	564
Restricted reserves	44,045	31,782	32,717	2,449
<b>Total restricted equity</b>	<b>44,609</b>	<b>32,346</b>	<b>33,281</b>	<b>3,013</b>
<i>Unrestricted equity</i>				
Unrestricted reserves	41,263	54,710	44,301	87,681
Profit for the year	-74,722	-2,046	9,474	-57,112
<b>Total unrestricted equity</b>	<b>-33,459</b>	<b>52,664</b>	<b>53,775</b>	<b>30,569</b>
<b>Total shareholders' equity</b>	<b>11,150</b>	<b>85,010</b>	<b>87,056</b>	<b>33,582</b>
<b>Minority interest in shareholders' equity</b>	<b>9,905</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Untaxed reserves</b>				
Tax allocation reserves	Note 20			
	-	-	-	39,038
<b>Total untaxed reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39,038</b>
<i>Provisions</i>				
Provisions for taxes	Note 21			
	12,253	11,342	12,646	-
<b>Total provisions</b>	<b>12,253</b>	<b>11,342</b>	<b>12,646</b>	<b>-</b>
<b>Liabilities</b>				
<i>Long-term liabilities</i>	Note 22			
Other liabilities due to credit inst., interest-bearing	-	79,245	67,495	115,000
Bank overdraft facilities	162,822	468	-	138,544
<b>Total long-term liabilities</b>	<b>162,822</b>	<b>79,713</b>	<b>67,495</b>	<b>253,544</b>
<i>Short-term liabilities</i>				
Accounts payable	72,355	35,322	43,146	-
Tax liabilities	-	133	3,119	-
Other liabilities	1,295	12,452	6,028	24
Accrued expenses and prepaid income	Note 23			
	54,178	24,537	24,767	5,346
<b>Total short-term liabilities</b>	<b>127,828</b>	<b>72,444</b>	<b>77,060</b>	<b>5,370</b>
<b>Total liabilities</b>	<b>290,650</b>	<b>152,157</b>	<b>144,555</b>	<b>258,914</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>323,958</b>	<b>248,509</b>	<b>244,257</b>	<b>331,534</b>
<b>CONTINGENT LIABILITIES AND ASSETS PLEDGED</b>				
<i>Contingent liabilities</i>	Note 25			
	17,583	NONE	NONE	2,225
<i>Assets pledged</i>	Note 24			
	NONE	NONE	NONE	45,998

## Cash Flow Statement

SEK 000	Group			Parent Company
	1999/2000	1998/1999	1997/1998	1999/2000
<b>Operating activities</b>				
Operating profit	-82,230	7,087	15,291	-1,457
Depreciation and amortisation	13,030	8,110	7,233	626
Adjustment for other non-cash items	-	-	-12,196	-
	<b>-69,200</b>	<b>15,197</b>	<b>10,328</b>	<b>-831</b>
Received interest	708	1,395	8,350	20,564
Received Group contributions	-	-	-	18
Paid Group contributions	-	-	-	-44,015
Paid interest	-8,415	-6,794	-10,626	-15,332
Paid income tax	-14,217	-6,856	-16,588	-4,727
	<b>-21,924</b>	<b>-12,255</b>	<b>-18,864</b>	<b>43,492</b>
Changes in inventories	7,700	3,935	-32,153	-
Changes in accounts receivable	-25,832	113	-15,315	-
Changes in other short-term receivables	9,938	-13,921	-3,693	-42,394
Changes in accounts payable	34,081	-7,824	645	-
Changes in other short-term operating liabilities	15,529	6,194	7,525	-6,929
	<b>41,416</b>	<b>-11,503</b>	<b>-42,991</b>	<b>-49,323</b>
<b>Cash flow from operating activities</b>	<b>-49,708</b>	<b>-8,561</b>	<b>-51,257</b>	<b>-93,646</b>
<b>Investing activities</b>				
Investments in intangible fixed assets	-4,127	-6,916	-	-
Investments in tangible fixed assets	-25,507	-4,919	-17,814	-
Disposal of tangible fixed assets	-	-	27,606	-
Investment in associates	-1,151	-1,150	-	-
Investment in subsidiaries	-523	-	-	-124,136
Investment in other financial fixed assets	-12,893	-	128	-12,893
Disposal of other financial fixed assets	-	-	1,875	-
Changes in short-term financial investments	-	-	2,556	8,002
Result from disposal of shares in subsidiaries	28,969	-	-	-
	<b>-15,232</b>	<b>-12,985</b>	<b>14,351</b>	<b>-129,027</b>
<b>Cash flow from investing activities</b>	<b>-15,232</b>	<b>-12,985</b>	<b>14,351</b>	<b>-129,027</b>
<b>Financing activities</b>				
Premium proceeds from issuance of promissory notes	1,425	-	-	1,425
Increased borrowings	77,763	11,750	13,908	60,000
Dividends paid	-	-	-2,538	-
Exchange rate differences	-1,361	-875	-4,500	-24,892
Received/paid Group contributions	-	-	-	60,881
	<b>77,827</b>	<b>10,875</b>	<b>6,870</b>	<b>97,414</b>
<b>Cash flow from financing activities</b>	<b>77,827</b>	<b>10,875</b>	<b>6,870</b>	<b>97,414</b>
<b>Cash flow for the year</b>	<b>12,887</b>	<b>-10,671</b>	<b>-30,306</b>	<b>-125,259</b>
Liquid assets at beginning of the year	-468	10,203	40,509	-13,285
Change in liquid assets	12,887	-10,671	-30,306	-125,259
<b>Liquid assets at end of the year</b>	<b>12,419</b>	<b>-468</b>	<b>10,203</b>	<b>-138,544</b>

NET DEBT	Group		
	April 30, 2000	April 30, 1999	April 30, 1998
Borrowings	162,822	79,245	67,495
Bank overdraft facilities	-12,419	468	-10,203
	150,403	79,713	57,292

## Notes to the financial statements

### Note 1 Accounting Principles

The annual accounts and consolidated accounts have been prepared in accordance with the Accounting Act and taking into account generally accepted accounting principles in Sweden. The accounting principles remain unchanged compared with the previous year, unless otherwise stated.

#### Consolidated accounts

The consolidated accounts include the parent company and the companies in which the parent company holds, directly or indirectly, more than 50 percent of the votes at the end of the financial year. The Group's income statement includes companies acquired during the year, with the value from the date of acquisition.

The Group's annual accounts have been prepared in accordance with acquisition accounting, which means that the acquisition value of the shares in a subsidiary is eliminated against the respective subsidiary's equity at the time of acquisition. Equity is here determined on the basis of a market evaluation of assets, provisions and liabilities at the time of acquisition. If there are untaxed reserves in an acquired company, an provision is made for deferred tax on these reserves, based on the tax rate in the respective country. This tax is reported among the provisions for taxes.

In those cases where the acquisition value of the shares in the subsidiary exceed the acquired equity calculated as above, the difference is attributed to goodwill and written off over the estimated time of use. If the acquisition value of the shares falls below the acquired equity, the difference reduces the acquired company's monetary assets.

Companies acquired during the year are included in the consolidated accounts with effect from the date of acquisition. Companies disposed of during the year are included in the consolidated accounts up to the date of disposal.

#### Translation of foreign subsidiaries

All foreign subsidiaries within the Axis group have been classified as integrated foreign operations, whereby the monetary method is applied for translation of annual accounts for foreign subsidiaries. This means that the foreign subsidiaries' monetary assets and liabilities are translated at the closing day rate, while the non-monetary assets are translated at a historical rate. All items in the income statements are translated at the average rate over the year. Translation differences are reported in the result from financial investments.

When the parent company or another company within the Axis group has used hedging measures to balance and protect against exchange rate differences on net investments in a subsidiary, the exchange rate difference on the hedging instrument is transferred directly to the result from financial investments, to the extent this corresponds to a translation difference allocated to the subsidiary during the year.

In the event of differing evaluations of assets and liabilities at group and company level, the tax effect is taken into account and reported as deferred taxes recoverable or deferred tax liability respectively. However, deferred tax liability is not taken into account on either positive or negative goodwill for the group.

#### Minority interest

Minority interest in income for the year and shareholder's equity is based on the subsidiary's annual accounts, prepared in accordance with the group's accounting principles.

#### Associated companies

Associated companies are those companies that are not subsidiaries, but where the parent company holds, directly or indirectly, between 20 and 50 percent of the votes for all shares. Shares in associated companies are reported in accordance with the equity method.

According to the equity method, shares of the results in associated companies come under Profit before tax. If the acquisition value of the

shares in the associated company was higher than the share of equity in the acquired company at the time of acquisition, the difference is treated as goodwill. The percentage of the associated company's tax is included in the group's tax costs. In the consolidated balance sheet, holdings in associated companies are reported at the acquisition value, adjusted for contributions, dividends and shares in income after the time of acquisition.

#### Receivables and liabilities in foreign currency

Current receivables and liabilities in foreign currency are translated at the closing day rate. Any exchange rate differences arising are included in other operating income, with the exception of exchange rate differences in liquid assets that are reported in net financial items.

Hedge reporting is used for hedging of future currency flows. The result of the hedging transactions is reported in the same period as the underlying flows.

#### Stocks

Goods for resale are valued at the lowest of acquisition value and actual value on the closing day rate, with the application of the FIFO principle. Internal profits on sales between group companies are eliminated.

#### Receivables

Receivables are taken up at the amount they are estimated to come in.

#### Expenses for research and development

Expenses for research and development are charged against the results in the year they arise.

#### Depreciation according to plan

Depreciation according to plan is calculated on the basis of the original acquisition value minus an estimated residual value and based on the estimated time of use of the assets as follows:

Software	3 years
Rights	5 years
Equipment	3–5 years
Land improvements	5 years

#### Taxes

The tax expense for the year is calculated in accordance with each country's tax regulations and on the reported profit/loss for the year. Remaining tax still to be paid is reported under tax liability.

Provisions for deferred tax are made to untaxed reserves in accordance with each country's tax regulations. No deferred tax recoverable is estimated on tax deficits.

### Note 2 Net sales by business sector and geographical market

Net sales by business sector:

	Group		
	99/00	98/99	97/98
Document Division	395,903	357,276	362,115
Storage Division	128,302	139,449	120,221
Camera Division	94,702	48,127	28,356
Consultation services	60,703	–	–
Other	15,573	14,937	11,023
Total	695,183	559,789	521,715

Net sales by geographical market:

	Group		
	99/00	98/99	97/98
Europe (incl. Africa and Middle East)	385,473	311,545	268,085
Asia	113,652	74,372	91,463
Americas	196,058	173,872	162,167
Total	695,183	559,789	521,715

**Note 3 Personnel**

Average number of employees by gender:

	Women			Men			Total		
	99/00	98/99	97/98	99/00	98/99	97/98	99/00	98/99	97/98
Parent Company	–	–	–	–	–	–	–	–	–
France	4	2	2	7	4	4	11	6	6
Japan	6	5	4	10	8	6	16	13	10
Hong Kong and China	7	7	8	9	10	13	16	17	21
Singapore, Australia, Korea and Malaysia	4	3	2	6	4	4	10	7	6
Spain and Italy	1	–	–	4	–	–	5	–	–
UK	2	1	1	5	3	1	7	4	2
Sweden (Lund)	61	35	23	237	165	122	298	200	145
Germany	3	1	–	8	4	2	11	5	2
USA	21	14	12	50	47	39	71	61	51
<b>Group total</b>	<b>109</b>	<b>68</b>	<b>52</b>	<b>336</b>	<b>245</b>	<b>191</b>	<b>445</b>	<b>313</b>	<b>243</b>

Salaries and remuneration amounted to:

	Board of Directors & CEO			Other			Total		
	99/00	98/99	97/98	99/00	98/99	97/98	99/00	98/99	97/98
Parent Company	–	–	–	–	–	–	–	–	–
France	–	–	–	3,873	2,787	2,379	3,873	2,787	2,379
Japan	–	–	–	8,857	5,951	3,943	8,857	5,951	3,943
Hong Kong and China	–	–	–	2,369	2,838	3,326	2,369	2,838	3,326
Singapore, Australia, Korea and Malaysia	–	–	–	4,240	2,864	2,022	4,240	2,864	2,022
Spain	–	–	–	895	–	–	895	–	–
UK	–	–	–	4,960	1,860	814	4,960	1,860	814
Sweden	2,426	1,832	2,289	90,139	57,124	42,074	92,565	58,956	44,363
Germany	–	–	–	4,807	3,822	920	4,807	3,822	920
USA	–	–	–	47,602	38,840	24,492	47,602	38,840	24,492
<b>Group total</b>	<b>2,426</b>	<b>1,832</b>	<b>2,289</b>	<b>167,742</b>	<b>116,086</b>	<b>79,970</b>	<b>170,168</b>	<b>117,918</b>	<b>82,259</b>

	Salaries and remuneration			Social expenses			(whereof pension expenses)		
	99/00	98/99	97/98	99/00	98/99	97/98	99/00	98/99	97/98
Parent Company	–	–	–	–	–	–	–	–	–
Subsidiaries	170,168	117,918	82,259	49,358	30,791	23,117	5,448	3,397	3,211
<b>Group total</b>	<b>170,168</b>	<b>117,918</b>	<b>82,259</b>	<b>49,358</b>	<b>30,791</b>	<b>23,117</b>	<b>5,448</b>	<b>3,397</b>	<b>3,211</b>

Salaries and remuneration to the Board and President have been paid via the subsidiary Axis Communications AB.

Of group pension costs, 511 (211) refers to the President of the group. There are no pension costs related to the Board of Directors. No retirement benefits in excess of the regular pension scheme are payable to senior management.

Salaries, remuneration and benefits to the Board of Directors and management amounting to 4,556 (3,020) have been charged to the profit/loss for the year as below.

**Board of Directors**

	99/00	98/99
Fees	325	1,495
Salaries and remuneration	1,469	325
	<b>1,794</b>	<b>1,820</b>

Salaries and remuneration have been paid to Mikael Karlsson and Martin Gren who have both been operationally active within the group. Mikael Karlsson held the position of CEO and President during the period 5 April 1984 to 31 December 1999.

Of the board fee, 130 has been paid to Dag Tigerschiöld, who was the Chairman of the Board during the period 1 May 1994 to 31 December 1999. As of 1 January 2000, Mikael Karlsson is Chairman of the Board and Dag Tigerschiöld is Deputy Chairman.

**Corporate management**

2,762 relating to the CEO, President and Vice President has been charged to the profit/loss for the year.

**Mikael Karlsson**

Remuneration to Mikael Karlsson in his capacity as CEO and President during the period 1 May 1999 to 31 December 1999 is reported under the heading Board of Directors.

**Magnus Karnsund**

CEO and President during the period 1 January 2000 to 14 April 2000. In addition to salary and remuneration for the year, 1,400 relating to salary during the period of notice and severance pay has been charged to the profit/loss for the year.



**Note 3 cont.**

Peter Ragnarsson

Vice President during the period 4 June 1998 to 14 April 2000 and CEO and President from 15 April 2000 onwards.

Termination on behalf of the CEO, President or Vice President is subject to a mutual six-month period of notice. The CEO and President receives a salary amounting to 1,400.

All members of the board and corporate management participate in the group's option programme under the same terms and conditions as the rest of the personnel.

**Note 4 Auditors' fees**

	Group	Parent Company
Auditors' fees to Öhrlings PricewaterhouseCoopers	276	–
Other fees to Öhrlings PricewaterhouseCoopers	486	–
Auditors' fees to other auditors	442	–
Total	1,204	–

Auditors' fees and other fees to auditors in the Parent Company have as a whole been charged to the subsidiary Axis Communications AB.

**Note 5 Share of profits in affiliated companies**

	Parent Company
	99/00
Group contributions received	18
Group contributions given	–44,015
Total	–43,997

**Note 6 Interest income and similar items**

	Group			Parent Company
	99/00	98/99	97/98	99/00
Interest income from long-term receivables	708	1,395	8,350	20,564
Capital gain from sale of shares in subsidiary	28,969	–	–	–
Exchange rate differences	–	–	2,659	8,002
Total	29,677	1,395	11,009	28,566

**Note 7 Interest expenses and similar items**

	Group			Parent Company
	99/00	98/99	97/98	99/00
Interest expenses	–7,902	–6,431	–10,626	–15,013
Exchange rate differences	–1,361	–875	–4,500	–24,892
Other financial expenses	–513	–363	–	–319
Total	–9,776	–7,669	–15,126	–40,224

**Note 8 Tax on profit for the year**

	Group			Parent Company
	99/00	98/99	97/98	99/00
Current tax	–1,726	–3,870	–5,658	–
Deferred tax	–2,386	1,011	3,958	–
Total	–4,112	–2,859	–1,700	0

**Note 9 Intangible fixed assets**

	Group			Parent Company
	99/00	98/99	97/98	99/00
Acquisitions during the year	4,127	–	–	–
Company acquisitions	510	–	–	–
Transfer from advances	3,790	–	–	–
Reclassification to fixtures and equipment	–2,020	–	–	–
<b>Closing acquisition value</b>	<b>6,407</b>	–	–	–
This year's depreciation according to plan	–1,223	–	–	–
Company acquisitions	–195	–	–	–
Closing accumulated depreciation according to plan	–1,418	–	–	–
Closing residual value according to plan	4,989	–	–	–

**Note 10 Rights**

	Group			Parent Company
	99/00	98/99	97/98	99/00
Opening acquisition value	3,126	–	–	3,126
Acquisitions during the year	–	3,126	–	–
Closing acquisition value	3,126	3,126	–	3,126
This year's depreciation according to plan	–52	–	–	–52
This year's depreciation according to plan	–626	–52	–	–626
Closing accumulated depreciation according to plan	–678	–52	–	–678
Closing residual value according to plan	2,448	3,074	–	2,448

**Note 11 Advances of intangible fixed assets**

	Group			Parent Company
	99/00	98/99	97/98	99/00
Opening acquisition value	3,790	–	–	–
Acquisitions during the year	–	3,790	–	–
Transfer to intangible fixed assets	–3,790	–	–	–
Closing acquisition value	–	3,790	–	–

**Note 12 Buildings and land**

	Group			Parent Company
	99/00	98/99	97/98	99/00
<i>Buildings, land and land works</i>				
Opening acquisition value	7,039	6,835	16,615	–
Acquisitions during the year	1,267	204	6,835	–
Disposals during the year	–	–	–16,615	–
Closing acquisition value	8,306	7,039	6,835	–
This year's depreciation according to plan	–	–	1,123	–
This year's depreciation according to plan	–113	–	–	–
Disposals during the year	–	–	–1,123	–
Closing accumulated depreciation according to plan	–113	–	–	–
Closing residual value according to plan	8,193	7,039	6,835	–
Rateable values (Sweden)	3,769	1,507	19,488	–

**Note 13 Fixtures and equipment**

	Group			Parent Company
	99/00	98/99	97/98	99/00
Opening acquisition value	49,825	45,110	34,131	–
Acquisitions during the year	24,240	4,715	10,979	–
Company acquisitions	3,391	–	–	–
Reclassification from intangible fixed assets	2,020	–	–	–
Closing acquisition value	79,476	49,825	45,110	–
Opening accumulated depreciation according to plan	–35,616	–27,558	–21,538	–
Change in principles	–	–	1,213	–
This year's depreciation according to plan	–11,068	–8,058	–7,233	–
Company acquisitions	–1,090	–	–	–
Closing accumulated depreciation according to plan	–47,774	–35,616	–27,558	–
Closing residual value according to plan	31,702	14,209	17,552	–

**Note 14 Participations in subsidiaries**

	No. of shares	Percentage (capital)	Percentage (votes)	Nominal value	Book value			
					00.04.30	99.04.30	98.04.30	
<i>Lund, Sweden</i>								
Axis Communications AB	1,600	100%	100%	160	342	342	342	
Gren&Karlsson Firmware AB	500	100%	100%	100	50	50	50	
Axis Technologies AB	500	100%	100%	100	50	50	50	
Netch Technologies AB	1,800,000	50%*	50%	1,677	2,225	–**	–**	
<i>Paris, France</i>								
Axis Communications SA	2,500	100%	100%	320	320	162	162	
<i>London, UK</i>								
Axis Communications (UK) Ltd	30,000	100%	100%	376	376	376	376	
<i>Munich, Germany</i>								
Axis Communications GmbH	1	100%	100%	223	223	223	223	
<i>Boston, USA</i>								
Axis Communications Inc	10,000	100%	100%	60	123,330	60	60	
<i>Tokyo, Japan</i>								
Axis Communications KK	200	100%	100%	762	762	762	762	
<i>HongKong, China</i>								
Axis Communications Ltd	1,000,000	100%	100%	1,023	1,744	1,744	1,702	
<i>Singapore</i>								
Axis Communications (S) Pte Ltd	50,000	100%	100%	237	677	677	439	
<i>Sao Paolo, Brasil</i>								
Axis Communications Ltda	10,000	100%	100%	67	67	67	67	
<i>Madrid, Spain</i>								
Axemet Communications SA	100,000	99%	99%	105	133	–	–	

\*The Company's holding amounts to 50.00001%.

\*\*During the financial year, the company has acquired additional shares, whereby Netch Technologies was reclassified as a subsidiary.

**Details of corporate identity numbers and registered offices of subsidiaries:**

	Corporate id. no.	Registered office
Axis Communications AB	556253-6143	Lund
Axis Network AB	556505-3450	Lund
Axis Peripherals AB	556505-1785	Lund
Gren&Karlsson Firmware AB	556304-6209	Lund
Axis Technologies AB	556485-0765	Lund
Netch Technologies AB	556505-1801	Lund

**Note 15 Participations in associated companies**

	Percentage (capital)	Percentage (votes)	No. of shares	Book value			
				Group			Parent Company
				00.04.30	99.04.30	98.04.30	00.04.30
Basset A/S	49%	49%	245,000	1,151	–	–	–
Netch Technologies AB	–	–	–	–	–	–	–
Total				1,151	–	–	–

During the financial year, additional shares have been acquired, whereby the holding in Netch Technologies AB now exceeds 50 percent. The company is therefore reported as a subsidiary.

**Note 16 Other long-term securities**

	Percentage (capital)	Percentage (votes)	No. of shares	Book value		
				00.04.30	99.04.30	98.04.30
				nBand Communications Inc.	17%	17%
Total			1,807,229	12,893	–	–

**Note 17 Share in co-operative building society**

	Group		
	99/00	98/99	97/98
Opening and closing acquisition value	676	676	676

**Note 18 Change in shareholders' equity**

Group	Share capital	Restricted reserves	Non-restricted reserves	Profit for the year	Total shareholders' equity
Opening balance	564	31,782	52,664	–	85,010
Transfers between restricted and non-restricted equity	–	10,838	–10,838	–	–
Premium in connection with the issue of promissory notes with associated subscription rights	–	1,425	–	–	1,425
Change in group structure	–	–	–563	–	–563
Profit for the year	–	–	–	–74,722	–74,722
Closing balance	564	44,045	41,263	–74,722	11,150

**Parent Company**

Opening balance	564	1,024	87,681	–	89,269
Premium in connection with the issue of promissory notes with associated subscription rights	–	1,425	–	–	1,425
Profit for the year	–	–	–	–57,112	–57,112
Closing balance	564	2,449	87,681	–57,112	33,582

**Note 19 Shareholders' equity**

Axis AB currently has an outstanding option programme covering all employees. The programme was introduced in 1999 and was directed at all employees of the Axis group. The purpose of this programme is to encourage long-term commitment among employees to promote operational and earnings growth in the group.

The table below shows the terms and effects of the option programme on shareholders' equity when the options are fully exercised.

Recipient	Maturity	Issue price	No. of warrants	No. of shares	Capital contributed
Personnel	04-10-01	19.50	570,000	570,000	12,450

**Note 20 Untaxed reserves**

	Parent Company
	99/00
Tax allocation reserve (Tax 95)	–
Tax allocation reserve (Tax 96)	10,488
Tax allocation reserve (Tax 97)	9,112
Tax allocation reserve (Tax 98)	14,403
Tax allocation reserve (Tax 99)	2,767
Tax allocation reserve (Tax 00)	2,268
Total untaxed reserves	39,038

**Note 21 Provisions for taxes***Group*

In the group, deferred tax for the year amounting to 2,386 (–1,011) is reported as tax expenses in the consolidated income statement. Of the deferred tax expense for the year, 363 (1,305) is attributable to the change in untaxed reserves.

Deferred tax liability in the group amounts to 12,253 (11,342) and is reported under Provisions. Of the group's deferred tax liability, 11,705 (11,342) refers to tax in untaxed reserves. The group's deferred tax recoverable amounts to 5,304 (6,780) and is reported under Long-term liabilities.

*Parent company*

Deferred tax in reported untaxed reserves amounts to 10,931.

**Note 22 Long-term liabilities**

All of the Group's and Parent Company's long-term liabilities will fall due in 1 to 5 years' time.

**Note 23 Accrued expenses and prepaid income**

	Group			Parent Company
	99/00	98/99	97/98	99/00
Accrued payroll expenses	17,186	11,074	10,090	–
Accrued social insurance contributions	10,273	6,241	4,585	–
Other accrued expenses	26,719	7,222	10,092	5,346
Total	54,178	24,537	24,767	5,346

**Note 24 Contingent liabilities**

	Group			Parent Company
	99/00	98/99	97/98	99/00
Contingent liabilities in favour of other group companies	–	–	–	45,998

**Note 25 Assets pledged**

	Group			Parent Company
	99/00	98/99	97/98	99/00
Pledged shares in Netch Technologies AB	17,583	–	–	2,225

# Auditors' Statement

## Statement

As auditors of Axis Aktiebolag (publ), corporate identity number 556241-1065, we have examined this prospectus in accordance with the recommendation issued by the Swedish Institute of Authorised Public Accountants (FAR). In accordance with this recommendation, we have only examined to a limited extent the forecasts contained in this prospectus. The pro forma accounts included in the prospectus are prepared in accordance with the assumptions presented in the section "Effects of the impending new share issue" on page 52 and 53. The information in the prospectus from the annual accounts has been reproduced correctly.

The annual reports for 1997/1998, 1998/1999 and 1999/2000 have been examined by us. The information in the prospectus from the annual reports has been reproduced correctly.<sup>1)</sup>

Nothing has come to our knowledge that suggests that the prospectus does not comply with the requirements of the Swedish Companies Act and the Swedish Financial Instruments Trading Act.

Lund, May 30, 2000

Öhrlings PricewaterhouseCoopers AB

*Anders Lundin*

Authorised Public Accountant

The Swedish Prospectus has been approved by and registered with the Swedish Financial Supervisory Authority in accordance with the provisions in chapter 2, section 4 of the Act (1991:980) regarding trading with financial instruments. The approval and registration does not imply that the Swedish Financial Supervisory Authority guarantees that the stated facts in this Prospectus are accurate and complete.

<sup>1)</sup> The information on page 45, from the annual reports for 1996, 1997, 1998 and 1999 for Netch Technologies AB, has been reproduced correctly.

# Tax issues in Sweden

*The following summary of certain Swedish tax consequences is based on Swedish tax legislation in effect as of the date of this prospectus. The summary is intended to provide general information only and does not address tax issues arising where securities are held as current assets in business operations or held by a partnership. The tax treatment of each individual shareholder partly depends on the holder's specific situation. Each holder should consult their tax advisor as to the tax treatment applicable to their particular situation. The special rules in some situations applicable on shareholdings in a company that is or has been closely held, will not be considered below. Furthermore, the special provisions that in some cases might be applicable on a transitional basis, regarding relief in the taxation of dividends and capital gains on shares in companies previously unquoted, will not be dealt with.*

## **Individuals**

For individuals who are fiscally domiciled in Sweden, all items of interest, dividends and capital gains are classified as capital income and are taxed at a rate of 30 percent. As a principal rule, capital losses are tax deductible as to 70 percent. However, capital losses on quoted securities that are taxed as shares (shares and other securities that are taxed as shares) are fully deductible against capital gains on quoted securities that are taxed as shares. According to a current proposal, capital losses on quoted shares may be offset also against capital gains on i.a. unquoted shares (prop. 1999/2000:100). The proposal, which is proposed to have retroactive effect on sales from January 1, 2000, has not yet been approved.

If a net loss should arise in the capital income category in a given year, such excess net loss may reduce the tax on income from employment and business operations, as well as property tax. This tax reduction is granted at 30 percent of the net loss that does not exceed SEK 100,000, and 21 percent of the net loss for any remaining part. Excess net loss not absorbed by these tax reductions cannot be carried forward to future tax years.

For individuals resident in Sweden a preliminary tax of 30 percent on dividends is withheld. The preliminary tax is normally withheld by VPC or – in the cases of nominee-registered shares – by the nominee.

## **Allotment to employees**

Generally, the allotment of shares is not a taxable transaction in Sweden. However, in certain circumstances employees may be subject to taxation on the allotment as part of their salary and benefits. Such taxation will generally not arise if the employees (including members of the board, deputies and present shareholders), acquire no more than 20 percent of the number of offered shares on the same terms as others, and the employee thereby acquires shares for no more than SEK 30,000.

## **Net wealth taxation**

The shares in Axis that will be listed on the O-list of the Stockholm Exchange are exempted from net wealth tax.

## **Limited liability companies**

All income for limited liability companies is attributable to the category of business operations and taxed at a rate of 28 percent. Any capital losses on securities that are taxed as shares (shares and other securities that are taxed as shares) held as a capital investment by a limited liability company may only offset capital gains on securities that are taxed as shares. Capital losses not deducted against such gains may be carried forward to offset such capital gains in future tax years, without limitations in time. Specific tax consequences may be applicable to certain categories of corporations.

## **Withholding tax relating to shareholders resident outside of Sweden**

For shareholders who are fiscally resident outside of Sweden and who receive dividends on shares in a Swedish limited liability company, Swedish withholding tax is payable. The same applies to payments made by the company i.a. due to redemption of shares and repurchase of the company's own shares by means of an offer directed to the shareholders. The withholding tax rate is 30 percent. This tax rate is, however, generally reduced through treaties with other countries to avoid double taxation. In Sweden, VPC or – for nominee-registered shares – the nominee, normally effect the withholding deductions.



# Glossary

## **ASIC**

Application Specific Integrated Circuit. Pronounced "A-sick". A chip that is designed for a specific application rather than a general-purpose chip, such as a micro-processor. The use of ASICs can improve performance, reduce power consumption, increase reliability and save cost over general-purpose microprocessors.

## **ASP**

Application Service Provider. An organisation that hosts software applications on its servers within its facilities. Customers access the application via private lines or the Internet.

## **Bluetooth**

Bluetooth is an open standard for short-range transmission of digital voice and data between mobile devices (laptops, PDAs, phones) and desktop devices.

## **Broadband**

High-speed transmission. The term is used to define the speed of communications lines or services, usually at T1 rates (1.544 Mbps) and above, although the actual threshold may be below or well above T1, depending on the application.

## **Browser**

The user interface to the Internet. A browser is a software application.

## **CCD**

Charge Coupled Device. A light-sensitive electronic memory for use in cameras and scanners.

## **CD-ROM**

Compact Disc Read Only Memory. An optical compact disc used to store text, graphics and sound information for computer applications.

## **CMOS**

Complementary Metal Oxide Semiconductor. The most widely-used type of integrated circuit technology for digital processors and memories.

## **DSP**

Digital Signal Processor. A special-purpose CPU used for digital signal processing executed in computing-intensive applications. DSP chips are widely used in everyday products, such as cellular phones, fax machines, and digital TVs.

## **DVD**

A family of optical discs with the same physical size as a CD, but significantly higher storage capacity.

## **GSM**

Global System for Mobile Communications. A digital cellular phone technology that is the predominant system in Europe, but is also used around the world.

## **HiperLAN/2**

A standard for high-speed wireless LAN that provides up to 54 Mbit/s data rate. It is similar to 802.11a and works in the same frequency band, 5 GHz.

## **IP**

Internet Protocol. A communications transport protocol used for transmitting data via the Internet. See also TCP/IP.

## **ISP**

Internet Service Provider. An organisation that provides access to the Internet. Smaller ISPs provide service via modem, ISDN, xDSL or Cable while the larger ones also offer private line hook-ups.

## **LAN**

Local Area Network. A communications network that serves users within a confined geographical area. It is made up of servers, workstations, a network operating system and a communications link.

## **Linux**

Linux is an open source operating system software in the family of Unix operating systems. Due to its stability and availability, Linux has gained popularity both in the open source community and for commercial applications.

## **Mbit/s**

Mega Bits Per Second = One million data bits, ones and zeros, per second. A rating of how fast data is transmitted over a communications link.

## **MFP**

(Multi-Function Peripheral) Hardware that combines several functions into one unit; for example, the combination of a fax, copier, printer and scanner.

## **Network connectivity**

The physical (wired or wireless) connection of a computer network or a single computer to a network, e.g. Internet or a LAN.

**OEM**

Original Equipment Manufacturer. A company that manufactures equipment (e.g. computers) and sells it under its proprietary brand name, as opposed to a company that sells equipment made by other companies.

**PDA**

Personal Digital Assistant. A handheld computer that serves as an organiser for personal information. It generally includes at least a name and address database, to-do list and note taker.

**Print server**

A thin server device that connects a printer to a network allowing users to seamlessly share the printer. Can be a separate box or a printer plug-in card.

**Protocol**

A set of formal rules describing how to transmit data across a network. Low level protocols define the electrical and physical standards and high level protocols deal with the data formatting. TCP and IP are examples of high level protocols for LANs.

**RISC**

Reduced Instruction Set Computer. A computer architecture that reduces chip complexity by using simpler instructions to increase its overall performance.

**Server**

A computer or software application, which provides some service for other computers connected via a network. The most common example is a file server, which has a local disk, and services requests from remote clients to read and write files on that disk.

**System-on-a-Chip (SoC)**

An ASIC developed to meet the requirements of a specific application area, with the intention to integrate a wider range of functions on a single chip, thereby gaining advantages in price, performance and reliability. Micro processors, memory and interface are examples of functions often integrated on a SoC.

**TCP/IP**

Transmission Control Protocol over Internet Protocol. The TCP/IP protocol defines for how data reliably is transmitted over networks. TCP/IP is the most widely used communications standard and is a basis for how the Internet works.

**Thin server**

A specialised, network-based hardware device designed to perform a single or specialised set of server functions, such as a print server or network attached storage (NAS). Designed for ease of installation, it is a "closed box" and has little expandability and no keyboard or monitor.

**UMTS**

Universal Mobile Telecommunications System. The European implementation of the 3G wireless phone system. UMTS provides service in the 2GHz band and offers global roaming and personalised features. Designed as an evolutionary system for GSM network operators, multimedia data rates up to 2 Mbps are expected.

**VAR**

Value Added Reseller. A company that sells products (e.g. computers) made by another company (an OEM) with extra components or expertise added (e.g. specialist software and programming).

**VOFDM**

Vector Orthogonal Frequency Division Multiplex. A method for transmitting digital signals. Known to be reliable in areas with a lot of interference, VOFDM is being developed and supported as an open standard for broadband wireless Internet services.

**802.11**

A family of standards for wireless LAN. 802.11 provides 1 or 2 Mbit/s transmission in the 2.4GHz band, 802.11b defines an 11 Mbit/s data rate in the 2.4GHz band, and 802.11a defines up to 24 Mbit/s in the 5GHz band.

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