

Axis AB
Annual Report 2004



Axis – market leader in network video and print servers. The company's products and solutions are used mainly for security surveillance, remote monitoring and document management.



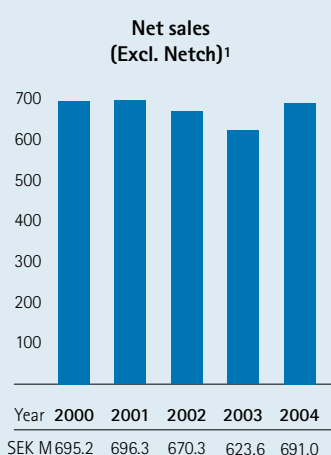
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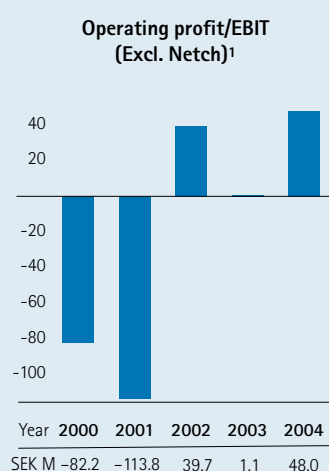


The year in brief

- **Net sales** amounted to SEK 691 M, up 11 percent compared with a year earlier.
- **Product portfolio** was renewed and expanded with 20 new video products and software solutions. Most of these are based on Axis' own ARTPEC-2 chip.
- **A number of strategic customer agreements** were signed that clearly underscores the increased importance of IP-based video systems.
- **The number of sales channels** was expanded during the year. Most were system integrators and Application Development Partners (ADPs) with focus on large integrated security solutions.
- **Relations with distributors** were strengthened, among other consequences, resulting in an Award of Excellence from Ingram Micro.



¹ During the second half of 2001, Axis carried out a restructuring that included the sale of the 50-percent holding in Netch.



FINANCIAL INFORMATION 2005

Three-month report	April 18, 2005
Annual General Meeting	April 19, 2005
Six-month report	July 11, 2005
Nine-month report	October 20, 2005
Year-end report for 2005	February 8, 2006
Annual Report 2005	March 2006

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

Reports may also be ordered from Axis AB, Emdalavägen 14, SE-223 69 Lund, Sweden tel +46-46 272 18 00, fax +46-46 13 61 30, e-mail ir@axis.com

KEY FIGURES

Consolidated, SEK M	2004	2003
Net sales	691	624
Operating profit	48	1
Profit before taxes	57	8
Profit after taxes	37	-3
Earnings per share, SEK	0.54	-0.04
Liquid funds at end of period	121	103

This is Axis

Axis develops products that provide added value for users of network solutions. The company is an innovative global market leader in network video and print servers. Axis' solutions are primarily used for security surveillance, remote monitoring and document management. Axis' products are based on proprietary integrated chips that are also resold via third-party developers. The company is a global player through its own offices in 16 countries, as well as through distributors, systems integrators and OEM partners in some 70 countries. More than 95 percent of sales are to countries outside Sweden. Axis was founded in 1984 and is listed on the O list of the Stockholm Stock Exchange.

MARKET CHANNELS

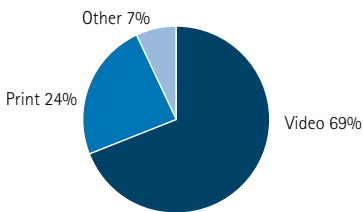
PRODUCTS AND SOLUTIONS UNDER THE AXIS BRAND

Products and solutions under the Axis brand comprise the company's sales under its own brand with a focus on two product areas, Video and Print.

OEM AND TECHNOLOGY PRODUCTS

OEM and technology products comprise customized products that are sold under other brands through OEM licensing, as well as hardware and development platforms that are sold to third-party developers. OEM customers are primarily major global manufacturers of printers, copiers and video products.

Sales per product area



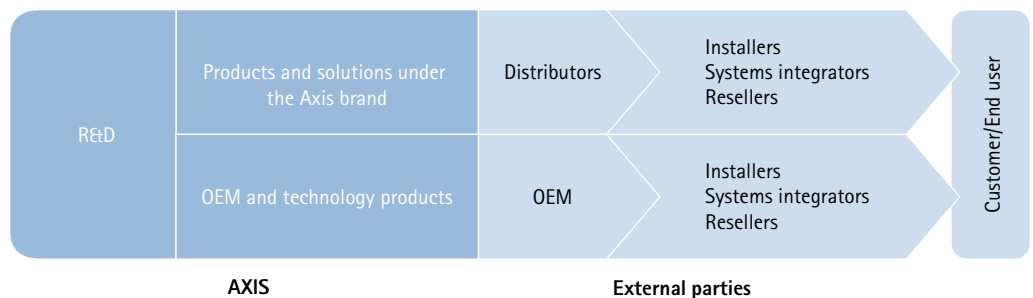
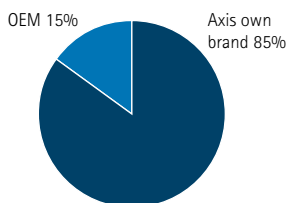
Video. Network cameras and video servers in systems that are primarily used for security surveillance and remote monitoring.



Print. Print server solutions for flexible print processing.



OEM – proportion of sales

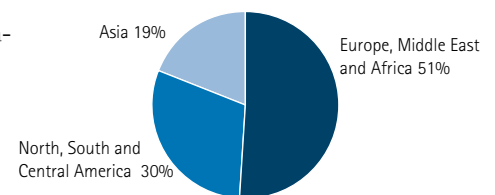




MARKETS AND SALES

Axis is active globally with sales in more than 70 countries. Marketing and customer service take place through the company's local offices. Products and solutions reach end users via a well-developed network of distributors, OEM partners, systems integrators and resellers. The geographic distribution between regions contributes to a favourable risk spread.

Sales by region



CUSTOMER SEGMENTS

Axis prioritizes six primary end-user segments for products sold under its own brand.

Education. Universities, schools, education institutes, etc.	Bank & Finance. Banks, post offices, insurance companies, etc.	Retail. Stores, gas stations, hypermarkets, etc.	Transportation. Airports, railways, harbors, traffic surveillance, locks, toll stations, etc.	Government. Authorities, police, military, health care, prisons, museums, casinos, etc.	Industrial. Process industries, engineering, construction, pharmaceutical, energy and mining companies.
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LEADING TECHNOLOGY

Since its establishment in 1984, Axis has based its business on proprietary hardware and software that enables the company to offer leading products at attractive prices. At the core of Axis' products is ETRAX, an integrated chip for network connection. In addition, Axis has developed ARTPEC, an integrated chip for network cameras and video servers. Together with Axis software, these chips provide a common technical platform.



President's message

The year 2004 was a successful one for Axis. We were able to report both growth and improved profitability. In addition, we continued to advance our market positions during the year, not least through a strengthened product portfolio, new partnerships and development of our sales and distribution channels. The company's overall strategies for long-term growth in the video segment were shown to remain viable.

Axis holds an undisputed position as the global market leader in network video solutions, a position that we intend to maintain.

SALES GROWTH

When we look at Axis' sales growth during 2004 in greater detail, it can be noted that sales rose to SEK 691 M, compared with SEK 624 M in 2003, corresponding to an 11-percent increase. Profit before tax amounted to SEK 57 M for the year, which was also a clear improvement over 2003, when profit was SEK 8 M.

Growth in video continued to be very strong, amounting to 33 percent during the year. Adjusted for local currencies, growth in several markets was significantly greater than that.

However, Axis' sales in the Print product area and its OEM sales declined somewhat during the year. The decline was primarily due to a mature market for print servers. OEM customers in the Print segment are increasingly purchasing chips and the associated licenses, rather than complete products, which also contributed to declining sales for print products.

While it is very gratifying to be able to report growth and improved profits, there is still scope for additional improvements, particularly because general market trends in the Video segment clearly favor Axis.

MORE DISTINCT VIDEO FOCUS

Axis' highly successful development during the year was actually not reflected fairly in either sales or profit figures. In less than five years, we have carried out a substantial strategic repositioning, from print servers to a distinct video focus. During this period, Axis has developed into the undisputed international market leader in network video solutions.

The general market development during 2004 indicates that there are favorable possibilities for continued rapid growth for IP-based video solutions. The trend toward increased demand for digital video solutions at the expense of analog installations was further strengthened during the year at the same time that Axis achieved significant success in the Video product area.

- **Product offering** – A substantial broadening and renewal of the product portfolio was completed. A total of 20 new video products and solutions were launched during the year. These products were based mainly on the new proprietary video chip ARTPEC-2, which was introduced at the beginning of the year. The new products generated very substantial interest among players in the video surveillance sectors.

- **Customers** – Axis continued to increase its sales within all established customer segments. Customer contracts that were signed during the year included prestigious installations with such companies and organizations as Turning Stone Casino, Western Australian Public Transport Authority and Frisco Independent School District.
- **Partners** – A large number of new business partners initiated relationships with Axis during the year. The majority of these were systems integrators and ADPs (Application Development Partners) with a focus on large-scale integrated security solutions. Among the most significant developments in partnerships was the agreement with Securitas relating to IP-based surveillance that began in June. This partnership was formed to offer digital security solutions to Securitas' global customer base, which currently uses analog systems.
- **Distributors** – During the year, distributors showed a clear focus on Axis' network video products. Axis continued to enhance relations within this area and also strengthened its leading position among major global distributors. One indication of this was the Award of Excellence that Axis received from Ingram Micro in November.

In summary, these developments meant that we can be more than satisfied with 2004 with respect to Video. Axis now has a stable platform with respected technology and is the market leader in a growth market.

PROSPECTS FOR 2005

To ensure that we can capitalize in the best manner on the expected continued rapid development of the global market for IP based video solutions, we are now optimizing our organization for rapid growth in Video.

Naturally, the print server solutions will continue to represent significant revenues in the foreseeable future, but this is not the area in which Axis will create growth. Accordingly, we will defend our strong position on the print server market, but most of our resources will be focused in the future on our core offering – Video.

As part of the optimization of the organization, the earlier products groups, Store and Access, will be phased out of our combined offering.

Looking ahead to 2005, we see a video market that will continue to develop at a rapid pace, with excellent growth opportunities for Axis as a logical consequence. The primary driving force underlying market growth remains the transition from analog to digital video systems.

I see solid opportunities for increased growth and further improvements in profitability during 2005.

Axis consists of many extremely talented employees. I want to thank all of you for excellent performance during the year. During 2005, we will take further steps towards realizing our common long-term goals.

Lund, February 2005

Ray Mauritsson





AXIS' LONG-TERM GOALS

- Annual growth 20 percent.
- Profit margin at least 10 percent.
- Equity ratio exceeding 50 percent.

Business concept, goals and strategy

BUSINESS CONCEPT

Axis' business concept is to offer the market intelligent network-based products and solutions. The company is focused primarily on the rapidly growing market for IP-based video solutions. In addition to this business area, Axis has a leading position as a supplier of print servers. Its proprietary products are primarily used in network applications for security systems and remote monitoring, as well as for document management. These products provide maximum customer value through effective video surveillance solutions, reduced costs and increased flexibility and performance, for example in the form of scalable systems.

OVERALL GOALS

Axis' overall goal is to further strengthen and develop its position as the market-leading supplier of IP-based video solutions, as well as to retain its strong position in the Print product area.

Axis' goal is to drive the technology shift from analog to digital network-based video solutions and to continue to strengthen its position in this market. This is an area that is expected to continue growing at a rapid pace, with excellent growth opportunities for Axis as a logical consequence. The primary driving force underlying market growth consists of the customer benefits in terms of the flexibility, integration and scalability that network solutions provide. Even during 2005, Axis will maintain an aggressive launch schedule within the Video product area.

The increasing dominance of video sales and the continued strong growth that is expected in this area provide an excellent foundation for continued profitable growth. Axis' financial goals can be summarized in the two overriding key words, profitability and growth.

Within the Video product area, Axis will defend its leading position and grow with the market. The market for print servers is considered mature, which limits

expectations for the Print product area. Against this background, the goal for the coming three to five years is total annual growth for the Group of about 20 percent. At the same time, Axis must achieve its profitability target. Given current market trends, the company's goal is to achieve a profit margin of at least 10 percent over the coming year. Axis' equity/assets ratio should not fall below 50 percent.

Through growth, continued profitability and a strong financial base, prerequisites will be created for long-term growth in shareholder value.

OVERALL STRATEGIES

Products and solutions

- Axis will constantly develop, strengthen and broaden the company's offering. During 2004, virtually the entire video product portfolio was renewed. The new generation of video products offers both enhanced performance and broader functionality. Even during 2005, Axis will maintain an aggressive launch schedule within the Video product area with a large number of new products and solutions designed for professional installations.
- The product portfolio in Video will continue to be supplemented with respect to software so that Axis is able to offer customers complete, scalable and flexible solutions for security surveillance and remote monitoring systems.
- Axis will continue to deepen partnerships to ensure the availability of specially customized solution based on Axis' products in all customer segments.
- Axis will retain its position of technology leadership by continuing to focus its efforts on research and development. Over the coming years, this will mean additional software, integrated chips, products and total solutions for network applications being introduced to create future sales under the Axis brand, to OEM partners and to third-party developers.

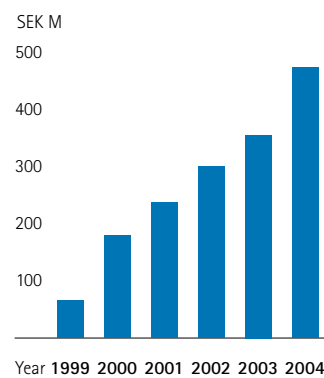


- All production of Axis' products shall be carried out in cooperation with partners specializing in contract manufacturing of electronics. By not owning production equipment, flexibility is increased and capital is freed for other purposes.

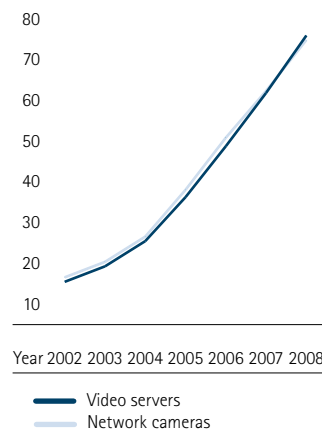
Marketing and sales

- Axis will strengthen its market presence through additional contracts with strategic partners. During 2004, significant success was achieved in deepening and developing relations with strategic integration partners such as Securitas and Honeywell, as well as on the distribution side with such companies as Ingram Micro.
- Continued enhancement of the market focus that targets six prioritized customer segments. During 2004, Axis experienced continued success in all six segments.
- Continued focus on educating the security industry and the IT industry in network video solutions. In parallel, an intensive marketing effort is in progress with partners regarding the benefits of using network video solutions.
- The market position within print servers will be defended through strengthened sales and marketing efforts together with existing partners.
- Continued collaboration with OEM partners and technology customers who demand products for network video solutions.
- Axis' primary strategy remains continued organic growth, although acquisitions in the video sector cannot be ruled out if they strengthen Axis in terms of product market or geographically.

Axis sales growth Video



IMS growth forecast for network cameras and video services (EMEA)





Enhanced security in American schools

School security is one of the fastest growing segments for network video in the US. When the Missouri School Boards Association evaluated IP-based surveillance systems, its choice was a system based on Axis' video products. Digital surveillance systems help schools to create safe teaching environments. Vandalism and theft are prevented and attendance can be more easily checked. These systems also enable more efficient cooperation with other authorities. As an example, an individual school can provide a

police authority with real-time images of the area in and around the school.

"Surveillance systems play an important role in the daily operations of a modern school and help to protect students, teachers and other employees from various types of threats," says Tim Beerup, COO at MSBA. "We evaluated many different security solutions and found that the system from Digital Technology & Surveillance based on Axis network video was by far the best product."

Products and solutions under the Axis brand

Axis' sales of products under its own brand amounted to 85 percent of total sales. The Video product area, which accounted for 69 percent of sales in 2004, continued to show strong growth.

Video

Since 1996, when Axis launched the world's first network camera for connection to an IP network, the company has been the leader in network video solutions. Axis currently offers a broad range of network cameras and video servers for a large number of applications, where the most prominent solutions are for security surveillance and remote monitoring.

Network-based video equipment increase efficiency and flexibility in systems. At the same time, both installation and operation are simplified, resulting in digital systems that provide lower total cost of ownership. Unlike analog cameras in CCTV systems, network cameras do not require special cables, custom infrastructure and special monitoring stations. Since network cameras are connected directly to an IP network, they can rapidly and easily provide access to real-time video of high quality, regardless of where in the world the user is located. Since the standard IT structure is employed, the end user can make use of open storage solutions that are easily scalable and that can be integrated with access control systems. The user can then also record, store, transmit and process images more efficiently with sharply reduced demands on administration.

For companies that currently have large analog surveillance systems and want to be able to exploit exist-

ing investments for an additional period, an Axis video server offer a cost-efficient bridge to IP-based video. With the video servers, the analog information can be digitized and then processed in the same manner as information from digital network cameras.

THE YEAR IN BRIEF

During 2004, Axis further strengthened its leading position in the international network video market, not least through a significantly broader product offering with a new generation of network cameras and video servers.

During the year, Axis launched a total of 20 new video products and solutions. Most of the video products are based on the new proprietary ARTPEC-2 video compression chip. The new technology attracted considerable attention at international security exhibitions during 2004 where interest for Axis' new products was very great.

The year was also successful with respect to sales partnerships. The partnership with Honeywell was expanded. Axis was appointed as strategic supplier of network video products for installations within several customer segments. In addition, Axis received a significant order from Honeywell Ltd. in May for a security surveillance system for the railway network in Western Australia.

In June, Axis initiated a global partnership in IP-based surveillance with Securitas of major strategic importance. This partnership means that Securitas' Systems Division will offer Axis network video products to its global customer base, which thus far has primarily used analog video technology. During the autumn, Axis conducted significant education programs within Securitas in several major markets.



Reduced crime in Kingston-upon-Hull

As a result of the high crime rate in a residential area in the English town of Kingston-upon-Hull, local authorities launched an initiative to reduce crime and vandalism. Within the framework of the projects, an IP-Surveillance system was installed to make it possible to monitor areas from a central location. When the system, which consists of analog cameras that have been linked together and digitalized with the help of Axis video servers, had been in operation for five months, encouraging statistics could be pre-

sented. Car-related crime in the area had been reduced by a full 80 percent, the number of robberies by 68 percent, violent crimes by 30 percent and vandalism by 59 percent.

"The reduction in the number of crimes and disturbances of the peace that we have achieved is truly remarkable. This project really shows the results that can be achieved when we can use innovative technology in our work," says Paul Cheesman, chief superintendent at the Humber-side Police.

In November, Axis received a major order from an American casino, Turning Stone Casino, together with its important partner Lenel.

During the year, Axis also signed several strategic customer contracts that clearly indicate recognition both of Axis and the increased importance of IP-based video systems.

A large number of orders were received within all customer segments, including additional school districts in the US and an industrial plant surveillance system in Mexico. In November, an interesting contract was presented with VISICU, which sells network video-based systems for improved intensive care.

During the year, Axis also strengthened and broadened its video offering through the introduction of the AXIS Camera Station. The Camera Station is a complete IP-based software solution for video recording, monitoring and event processing for Axis network cameras and video servers.

With Camera Station, Axis is responding to the increasing demand for complete solutions for video and remote monitoring that combine software with network video equipment. This solution was well received in the market during the year

APPLICATION PARTNERS PROVIDE STRENGTH

An important part of Axis continued penetration of the professional market is the company's successful ADP (Application Development Partner) program. This program is an initiative that brings application developers closer to Axis while ensuring that there is a broad range of applications that include the company's products. In addition, the ADP program broadens Axis presence to new market segments and new language areas.

The Axis ADP program currently includes slightly more than 200 companies around the world, including several key players, such as Honeywell, Milestone and Lenel.

MARKET TRENDS

Axis is the recognized leader in the professional market, which is largely being driven by the technology shift now in progress from analog systems to network-based video systems. This shift, which is still in an early phase, opens the door not only for new solutions in the security market, but also for completely new application areas for network video. Video surveillance has thus far been associated primarily with security applications, but will also be used increasingly in other applications in the retail industry and education, as well as in health care.

IP-Surveillance also creates opportunities for integrating more intelligence in the systems, for example to be able to generate an alarm if abnormal behavior is detected or to avoid false alarms. Increased intelligence also makes it possible to create completely new applications, such as for example being able to analyze customer movements in a store. Axis is working actively to take advantage of the latest possibilities in intelligent video both through its own development and through partnerships with other leading companies in this area.

Another important effect of the technology shift is that the IT and security departments in many companies are rapidly being integrated with each other. This greatly benefits Axis, since the IT departments have significant knowledge of IP networks and often have previous knowledge of Axis and its products.



Cases Group significantly increased productivity

The Spanish Cases Group, which operates a chain of bakeries and a central bread production unit in Barcelona, was looking for a system to ensure that its products were always available in stores. Its choice was a network-based surveillance system based on AXIS 2130 PTZ cameras that link together all bakeries using ADSL. What was originally conceived as a system to reduce inventories, increase product availability and reduce

travel between stores, also resulted in increased productivity.

"I could not even imagine the result that we obtained," reveals Jordi Cases, president of the Cases Group. "I was looking for a system for monitoring and control of our inventory levels as part of our marketing to customers. However, in just three months, we have also achieved an increase in productivity of over 20 percent."

During 2004, significantly increased interest for network video solution was also noted, particularly in conjunction with the security industry's larger exhibitions in Europe, Asia and the US. In pace with this increase in interest for IP-based solutions, competition is gradually increasing. The major manufacturers of analog surveillance cameras have begun to manufacture network video products, although none of them has yet to introduce a product portfolio that can match Axis' scope. Among the new competitors are both major players, such as Panasonic, Sony and JVC, and a number of smaller, often local companies that develop and sell network cameras and video servers.

Axis is successfully fending off competition and is currently recognized as the undisputed market leader. This leading position is due to several factors. Some of the most important are the company's extensive expertise in R&D, its established relationships with globally leading partners and the broad distribution and sales channels, which provide synergies with respect to availability and service. Axis can also offer the market's broadest product range, the greatest industry experience and technology recognized as leading-edge.

RAPID MARKET GROWTH

Network video solutions still account for a small portion of total sales of surveillance systems. This means that the replacement market for analog systems offer very great potential for Axis' products.

The rapid shift to network-based systems continues, with strong purchasing interest for digital solutions that replace analog systems. The market for network video solutions is expected to grow by about 30 percent annually on a global level.

In a new report from 2004, JP Freeman value the global market for network cameras and video servers at USD 5 billion for 2009. Frost & Sullivan expect that some 70 percent of all surveillance cameras sold will be IP-based by 2010.

CUSTOMER BENEFITS FROM NETWORK-BASED VIDEO

Remote accessibility: Access live video at anytime, from anywhere.

Cost-effectiveness: Save money on start-up and maintenance.

Flexibility: Put the cameras wherever you want.

Scalability: The system grows with your needs.

Integration: Possibility to integrate with other systems.

Digital quality: High quality with digital technique.

Prize for traffic surveillance in Washington

The Virginia Department of Transportation (VDOT) upgraded its analog traffic surveillance system to achieve greater cost efficiency and improved service. Its choice was based on Axis' video servers. The new system was designed in two parts, a public portion allowing citizens to get an overview of real-time traffic conditions on a website, and another part that is used by response units, such as police and fire vehicles. "We have always wanted to make video and other traffic information available to the public, but with only the analog technology that we had

previously, it was too expensive," says Jim Robinson at VDOT. "Thanks to Traffickland and Axis, however, we can now achieve this goal at a very low cost."

The installation, which covers central Washington D.C., was recently awarded the Governor's prize in the category Public Private Partnerships. The motivation for the prize cited the value created for motorists, commuters and emergency response units in the region. The website is currently registering about 400,000 visits per day.



Print

For several years, Axis has been one of the world's leading brands in print servers, which enable cost-efficient and user-friendly print functions, regardless of network environment or printer type. With the market's broadest range of external print servers, Axis can meet the requirements of both small customers and large companies and organizations.

Print servers make a printer available on the network so that it can be used by many people simultaneously. Axis print servers are independent of printer model and manufacturer and can also work in mixed environments with different computers, such as PCs, Macs, Unix and IBM mainframes. Integrated user-friendly administrative tools make it possible for IT administrators to monitor and control the printing environment using a conventional web browser.

Axis document servers facilitate the processing of paper documents in a cost-effective manner. By connecting a scanner and/or a digital copier to the network via a document server, it is much easier to digitalize paper documents and forward them directly to one or more recipients via e-mail or fax.

THE YEAR IN BRIEF

Sales in the Print product area also declined slightly in 2004. Despite this, Axis defended its position as number two in the global market for print servers.

During the year, two new print servers were introduced that are both designed for USB connection. The new products are well matched to the demands for simplicity and cost efficiency made by smaller companies and advanced home users.

MARKET TRENDS

The market for print servers is mature and thus more exposed to economic factors than a more pronounced growth market. Against this background, Axis prioritizes sales and marketing together with existing sales partners.

Although market trends in this product area are highly dependent on general trends for IT investments, other driving forces also affect the print product. One of these is the transition to USB, which has opened the way for broader use of print servers. As a result, solutions for smaller companies, departmental offices and even advanced home users show relatively good growth. In this customer group, there is demand for inexpensive and easy-to-use solutions based on USB and cordless connections. Axis continues to strengthen its offering in this segment.

Through technical leadership, a well-balanced product portfolio and a well-established distribution network, Axis has the strength to maintain its market position.

Thefts reduced at Mexico's largest electricity company



Comision Federal de Electricidad (CFE), which is Mexico's largest electricity supplier, chose Axis network video products for security surveillance of five of its plants. The network cameras were placed in and around parking lots, warehouses and other buildings to secure the company's property. CFE also uses the network camera's built-

up functionality for motion detection to report the occurrence of unexpected incidents. Axis software applications then enable CFE to monitor events and record video in incidents when motion is detected. The system quickly showed its effectiveness.

"We chose Axis products because we saw that they offered the best means

of simultaneously securing several plants with round-the-clock surveillance," says Guillermo Flores at CFE. "Our new system has already begun to pay for itself, since we see a reduction in thefts."

OEM and technology products

In addition to the products sold under the Axis brand, other parties in a large number of contexts also use Axis technology.

The central component in Axis' OEM offering is the proprietary ETRAX chip technology, which together with Axis software makes it possible to develop network-based applications quickly and cost-effectively. In addition to custom products and network solutions sold through OEM partners, Axis sells hardware and development platforms directly to third-party developers who build their own solutions based on Axis technology.

Customers are global manufacturers of printers and copiers, as well as companies that develop video products. These include several of the largest market players, such as Canon and Konica Minolta. The greatest proportion of these sales consists of print server products. Products in the video segment, however, account for an increasing share of Axis' OEM sales.

THE YEAR IN BRIEF

Axis' OEM and third-party sales as a percentage of total sales declined over the past two years, as a result of a restrained investment climate in the IT sector and that the market for print servers is mature. During 2004, OEM sales accounted for about 15 percent of total sales.

During the year, Axis signed several important contracts in the OEM segment, as well as more purely technology sales to third-party developers.

As previously anticipated, Axis' video technology is now beginning to comprise a growing share of total

sales in the OEM segment. Canon launched two new video products during the year that are based on Axis technology.

During the third quarter, the AXIS 1650 Print Server was launched together with Canon. This print server replaces the previous jointly developed product AXIS 1610, which has been sold in large volumes. The AXIS 1650 is a dedicated print server for Canon's printers and multi-function copiers for small and medium-size companies.

Within technology sales, a contract was signed during the year with Italy's ACME Systems, which has been very successful in producing solutions for network-connected gaming machines.

MARKET TRENDS

For some years, Axis has been a well established player with a strong position in the international market for network solutions. Through its long-standing relations with several of the largest global equipment manufacturers, as well as its recognized leading-edge technology, Axis has created a stable platform for continued favorable OEM sales. Axis works with open-source code and actively supports third-party development, thus providing a growing customer base for the company's technology solutions.

The core of Axis' OEM offering has historically been print server solutions. Although the market for these products is now characterized as mature, there are excellent opportunities for significant sales volumes in print server solutions.

Research and development

Axis' development work is currently focused on hardware and software for network solutions primarily within Video and Print. During the year, focus was also increased on application software for video. Within these development areas, the company has 120 R&D personnel with recognized leading-edge expertise.

Development operations are concentrated in Lund, Sweden.

During 2004, SEK 127 M, corresponding to 18 percent of Axis' total sales, was invested in research and development of the company's own hardware and software.

Increased effectiveness in casino surveillance

When Turning Stone Casino in New York began expanding its casino facility, a decision was taken to review the existing analog surveillance system. Turning Stone chose to upgrade the previous system with an IP-based surveillance solution in order to better utilize the existing network infrastructure. Axis network cameras and video servers are used in a variety of dif-

ferent applications within Turning Stone Casino. In addition to monitoring entrances, corridors, the parking garage and the restaurant areas, the cameras are used to monitor the flow of people in the heavily trafficked area. Video recording and image processing are accomplished with software from Lenel Systems International.

The system is also equipped with software for face recognition intended to detect unwelcome guests.

"We chose the Axis surveillance system because it best suited our existing network infrastructure while at the same time significantly improving surveillance capability," says Jeffrey McGowan, system engineer at Turning Stone Casino.



AXIS' LEADING CHIP TECHNOLOGY

ETRAX

The core of Axis' products is ETRAX, a proprietary ASIC (Application Specific Integrated Circuit) for connecting to fixed and wireless networks. Together with the company's own design and software platforms, the ETRAX chip provides a very flexible technology platform on which Axis' world-leading products can be developed quickly and cost-effectively.

ETRAX handles calculations, memory management and all communication with the network. The chip is small and consumes little power, making it possible to build network intelligence into even very small products.

During 2004, an updated variant of the advanced development chip ETRAX 100LX MCM was launched which in principle is complete but small Linux computer on a single chip. The new upgraded version of the chip, which includes additional memory, was received with great interest among Axis' OEM and technology customers.

ARTPEC

In addition to ETRAX, Axis has also developed its own image compression chip, ARTPEC, which has greatly contributed to Axis' dominant position in the network video market. ARTPEC is used in both Axis' network cameras and its video servers for image processing and compression.

In January 2004, Axis introduced the second-generation video chip ARTPEC-2. The introduction of ARTPEC-2 together with a new video design platform constituted an important milestone. Through these innovations, Axis further strengthened its leading position in the network video market. In addition to an enhanced capacity to customize and design new products faster at a lower cost, product performance was increased significantly. Not least due to sharply improved image quality, increased bandwidth efficiency and greater flexibility.

PROPRIETARY AND CUSTOMIZED DEVELOPMENT

The majority of those working within R&D work with the development of Axis products sold under the company's own brand, primarily network cameras, video and print servers and video application software.

Axis' R&D department also conducts custom development projects for the company's OEM customers. These development efforts are based on Axis' own ETRAX and ARTPEC chips.

During the year, a software platform, that Axis obtained through the acquisition of the Danish company Attento in 2003, was enhanced. As a result, AXIS Camera Station, an application for video surveillance, was launched during the year. To further promote the development of software applications, the partner program was expanded. Today Axis has more than 200 partner companies that develop applications based on Axis' network cameras and video servers.

RESEARCH AND COLLABORATION

Investments in research are currently entirely focused on three strategic areas:

- image analysis
- chip design on silicon and network
- communication protocols.

Within each area, long-term technology development is being conducted internally. Research takes place primarily through industrial participation in various national and local research programs. Axis also has excellent relations with several research groups at the Lund Institute of Technology, the Royal Institute of Technology, Chalmers University of Technology and Linköping Technical University.

PATENT

Axis pursues an active patent strategy to protect investments in core technology and intellectual capital. During the year, eight new patents were granted, of which most related to image processing. Over the years, Axis has obtained a total of 41 patents.



Network video provides efficient intensive care

America's VISICU is specialized in efficient intensive care. The foundation for VISICU's successful offering is eICU, an intensive care system that has won prizes. The system, which is based on Axis' video servers and audio modules, enables doctors and nurses to communicate with care providers and patients from a remote monitoring center called an eICU facility. With eICU technology, one or two intensive care specialists and five nurses can provide care for more than 200 patients simultaneously, even though the

patients are in different hospitals spread out over a wide region.

"Axis technology makes it possible for doctors and nurses to interact in real time with care providers and patients at their location," says VISICU's CEO Frank Sample. "The excellent video quality enables a doctor to observe a patient's breathing pattern and to conduct details examinations. The eICU system is so successful that mortality in patients in this type of monitoring center has decreased by as much as 27 percent."

The global Axis

More than 95 percent of Axis' sales are outside Sweden. The company is represented globally through its own offices in 16 countries and through partnerships with distributors, resellers, systems integrators and OEM partners in an additional 70 countries. With this indirect business model, Axis achieves a geographical scope and reaches a significantly greater number of users than would be possible through direct sales to end users.

Axis conducts an extensive education program called the Axis Channel Partner Program that is focused on building close relations with value-added resellers, security system installers and systems integrators, who are closest to end users in the professional segment where growth of network video solutions is most rapid. Knowledge of Axis' products is assured through an ambitious training program, Axis Academy, which results in end users receiving the best conceivable help.

Today there are more than 2,000 active and qualified partners in the Axis Channel Partner Program. The increase in the number of partners reflects clear recognition of Axis technology, as well as the increasing importance of IP-based video systems for such application areas as security surveillance and remote monitoring.

During 2004, Axis deepened its relations with global partners, such as Honeywell, Securitas, Ingram Micro, Anixter and Lenel. These partnerships give Axis a uniquely strong position in the market and provide excellent prerequisites for continued growth.

SALES TRENDS IN 2004

Growth during the year remained strongly positive in all regions. Overall, the Video product area grew by 33 percent, compared with the preceding year. Measured in local currency, growth was considerably stronger, averaging 40 percent in Europe and the US.

Other product areas were adversely affected by a mature market with generally lower demand.

EMEA

The EMEA region (Europe, Middle East and Africa) still accounts for the major portion of Axis' total sales or 51 percent during 2004, compared with 49 percent in 2003. The most important driving force for the rapid growth in sales in

Europe was also the shift in progress from analog to digital video solutions. A noticeably higher rate of investment in several Eastern European countries also contributed positively to sales.

During the year, Axis signed a number of important contracts with both partners and new customers. Among partners, new and strengthened agreements were signed with such leading distributors as Ingram Micro, Tech Data and Anixter. In June, a strategically important partnership agreement was also signed with Securitas, which will gradually begin offering its global customer base network video solutions. Increased sales were noted in all established customer segments, with the fastest growth occurring in Education and Retail. Great interest was also noted among telecom companies, such as Telefónica, which sees solutions containing real-time video as attractive added value services for customers in networks with ample bandwidth capacity.

In the Print product area, Axis defended its position through active marketing adapted to a mature market.

AMERICAS

Sales in the Americas region continued to show strong growth. Despite the negative effect of the lower USD exchange rate, the Americas accounted for 30 percent of Axis' total sales during the year, compared with 28 percent in 2003. The most important driving force for the rapid growth in the region were major successes in the Video product area, which accounted for the major share of Axis' sales in the region during the year. In the US, the trend was clear that the traditional security companies showed an increasing and accelerating interest for network video solutions. At the major national security exhibition ASIS in Dallas in September, the focus was on the shift now in progress from analog to digital solutions. The exhibit marked a clear breakthrough for IP-based video solutions in several respects.

The Americas sales organization continued to further strengthen the sales and distribution channels with great success during the year. The number of resellers and systems integrators linked to Axis doubled during 2004. At year end, the company had more than 1,200 active partners in this region.



Increased security on trains in Perth

The Western Australia Public Transport Authority in Perth took a decision to commission development of an advanced surveillance system to enhance security for Transperth's passengers. The assignment went to Honeywell, which designed a system based on Axis video servers. The system consists of cameras that register activity in all train carriages, video surveillance of platforms, buttons for emergency calls and improved lighting in the stations. Cameras along the railway lines send live video around the clock to a central monitoring station.

"With an advanced surveillance and alarm system linked to a common monitoring central, we can immediately take action when incidents occur. The system also facilitates prosecution, since the high image quality of both still images and video allows recorded material to be used as evidence in court cases. As we see it, a world-class railway system needs a security system of the same caliber," says Alannah MacTiernan, minister in Western Australia's federal government.

Axis was able to report successes in all established customer segments in the Americas region. Successes in the Education segment continued, and several important contracts were signed in this segment, including one with the Frisco School District in Texas. Axis video solutions are currently installed in several hundred US schools and universities. During the year, Axis supplied video products to several prestigious installations within the framework of the US Homeland Security initiative.

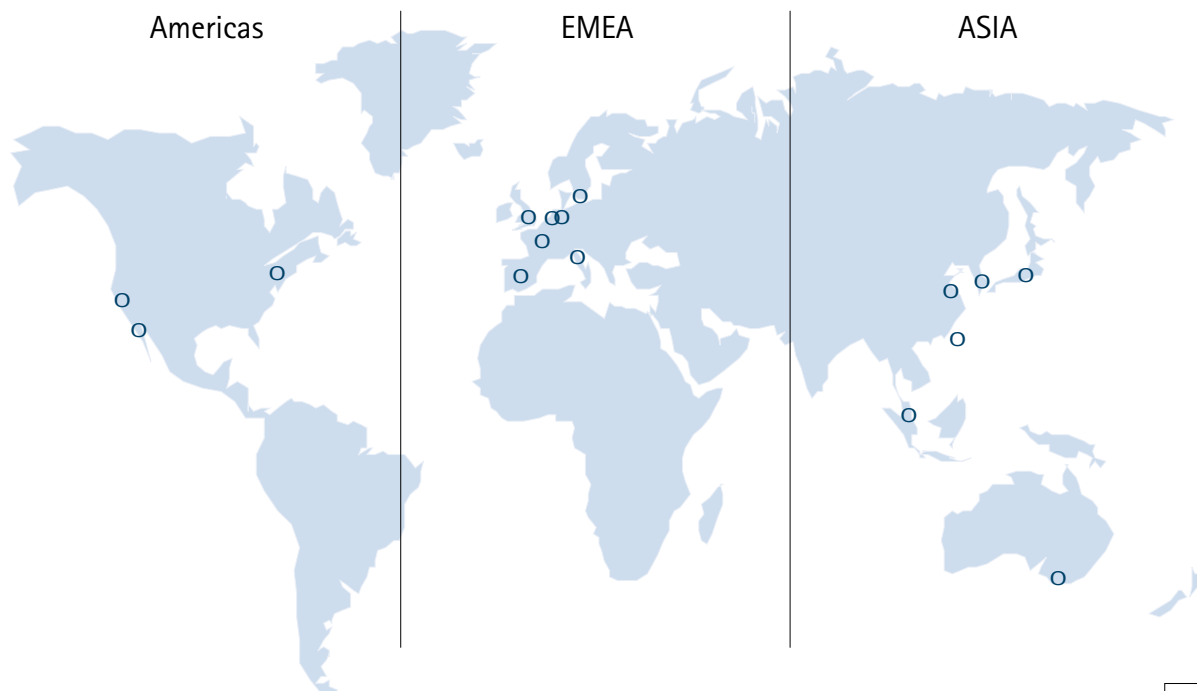
ASIA

This region accounted for 19 percent of Axis total sales, compared with 23 percent during 2003. The Asia region as a whole comprises a sharply diversified market with great economic and cultural differences between the different countries. Common to the region, however, is a rapidly increasing interest for network-based video and a trend towards increased demand for total solutions, particularly for larger professional installations. Asia is also the market region in which Axis has been exposed to the greatest low-price competition from local players in the video segment. Despite

tough local competition, Axis was able to report growth in Australia and New Zealand, which are markets that are included in Axis definition of the Asia region.

Within other product segments, Axis successfully defended its positions.

A significant share of Axis' sales in the Asia region derive from Japan, where the company's OEM contracts with several of the largest electronics companies result in strategically important partnerships. OEM sales declined somewhat during the year, however, due to the general maturity of the print market, which resulted in customers purchasing smaller volumes and developing a greater share of network solutions in-house. The Japanese economy showed favorable growth in 2004 following slightly more than a decade of recession. The improved economic conditions contributed to stabilization and an increase in demand for video solutions. After a late start, the explosive growth of broadband also continued. This development, in combination with the fact that Japan is the world's next largest exporter, means that Japan will continue to receive high priority in Axis' global strategy.





Human resources and competence

Axis market-leading position and strong innovative ability are in large part based on the company's ability to attract and retain competent and committed employees. For a global company such as Axis, it is also important to ensure cultural diversity and an internationally viable workforce.

Axis works with a number of common values and guidelines that in combination with its overall business goals provide the foundation for an attractive working environment that creates the prerequisites for profitable growth. The common guidelines encourage all employees to think creatively and innovatively. At the same time, the company's values should instill respect for each others' differences and promote a positive development in which everyone is encouraged to ask questions, take initiatives, to always strive forward and to deliver results on time.

Another important objective for personnel work within Axis is to create a favorable balance that ensures both growth and quality. In pace with the company's growth, the organization must also be enhanced to be able to more efficiently meet increasing demands.

Diversity is a significant part of Axis' business culture that promotes both creativity and understanding for the problems and opportunities facing global customers. At the head office in Lund alone, there are employees with origins in some 20 different countries.

CONTINUED DEVELOPMENT

Axis encourages internal mobility within the organization as far as possible and prioritizes internal recruitment over external.

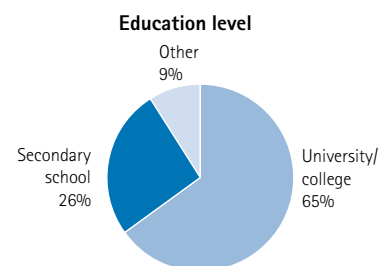
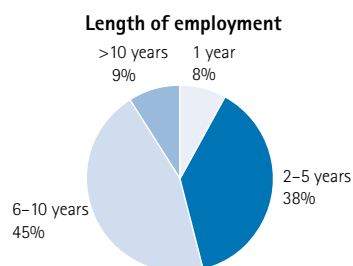
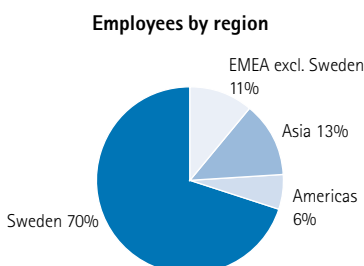
To ensure a high level of competence in future recruitment and to be an attractive choice for new graduates, a partnership has been maintained for many years with the Lund Institute of Technology. Axis offers about ten thesis positions each year, and Axis employees teach certain university courses. Each year, the company also presents the coveted Axis Award for the best thesis project.

SOUND WORKING ENVIRONMENT RESULTS IN LOW ABSENCE

Axis places great emphasis on providing a sound working environment for employees. An important factor in limiting absence due to illness is to offer easily available fitness alternatives, which include access to a training facility and fitness subsidies. The company also places considerable emphasis on the psychosocial working environment, in part by working actively to shape and stimulate Axis' already strong Core Values.

During the year, absence due to illness in Sweden was low at 2.4 percent. Among women, the figure was 3.2 percent, while it was 2.2 percent for men. In the age group from 0–29, it was 3.8 percent, 2.1 percent for ages 30 – 49 and 1.8 percent for ages 50 – 65.

Employee turnover in the Group was 12.8 percent (6.4%). The increase was primarily a result of the re-organization that was initiated during the autumn of 2003 but which did not achieve full effect until the beginning of 2004. Disregarding the re-organization, the employee turnover rate was 7.7 percent. The average age of employees was 36 years.





Environmental policy

Axis shall as far as possible limit the impact of its operations and products on the environment. In line with this, the company works with an overall environmental policy that is intended to ensure that the company provides products and solutions in an efficient and environmentally friendly manner.

All operations must be conducted with the lowest possible environmental impact so that energy consumption is minimized, opportunities are provided for recycling and legal obligations, environmental laws and other requirements are naturally respected.

BROAD ENVIRONMENTAL COMMITMENT

Axis' goal is to maintain and strengthen its deep environmental responsibility among its employees and to ensure that employees are trained and motivated so that Axis' environmental policy is applied in daily work.

Environmental considerations are an integrated part of each new project, which means, for example, that each new product development project does not use any substances that are harmful to the environment according to the forthcoming EU directives. Even in existing product series, environmentally hazardous substances, such as cadmium and flame-proofing materials are replaced by more environmentally compatible alternatives.

Axis provides customers, suppliers, shareholders, employees, authorities and the public with clear environmental information about the company's products, services and operations. Axis promotes and supports customers and partners in the choice of environmentally friendly products.

DELIVERIES AND TRANSPORTS

Axis also engages in a continuous and constructive dialogue with suppliers and sub-suppliers to reduce or eliminate unfavorable environmental effects of materials used in the manufacturing process. One of Axis' requirements is that suppliers and sub-suppliers are aware of environmental legislation and current regulations and can show that they are followed. Axis demands that suppliers specify the raw materials contained in products supplied to the company.

Axis also strives to use environmentally certified transporters as far as possible. Transports are the portion of the logistics process that has the greatest impact on the environment.

CUSTOMERS

In Japan, leading companies, such as Canon, have decided to remove environmentally damaging substances, such as lead, from their products, Canon has authorized Axis as a Green Supplier with expertise in lead-free production.

ENVIRONMENTAL WORK IN 2004

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

- The first completely lead-free product was produced in a pilot project.
- Work was begun to ensure that all new product development projects meet the requirements for Restriction of Hazardous Substances (RoHS) that take effect on July 1, 2006.
- A project was begun intended to transition all existing products so that they meet the requirements of both RoHS and WEEE (Waste of Electric and Electronic Equipment). This work will continue during 2005.
- Work to replace packaging with more environmentally friendly alternatives was completed during the year.



Opportunities and risks

OPPORTUNITIES

Axis' growth potential is related to the shift from analog surveillance systems to network video solutions. In addition, there are opportunities related to new application areas and new customer segments in Video, such as in education, retail and the manufacturing industry.

As the established market leader in network video solutions, Axis is well positioned to exploit the growth opportunities arising from both the technology shift and new application areas.

RISKS

In addition to the operational risks associated with macroeconomic trends, Axis is exposed to risks associated with the technology shift and Axis' position in a relatively young market. The expected growth primarily in network video will result in increased competition from resource-strong companies in CCTV that are increasingly eager to establish themselves or increase investments in this area. These companies include Bosch, General Electrics, Panasonic, Sony and Pelco.

STRENGTHS

Axis' primary strength is the company's technological and market leadership in network solutions and products with the Video segment. The combination of long experience of proprietary network technology and a global network of distributors and strategic partners provides Axis with a strong foundation for continued growth.

To maintain and strengthen its leading position, Axis works continuously to develop its technology, to penetrate new customer segments and to expand in new markets.

RISK MANAGEMENT

Operational risks

The commercial risks to which the business is exposed include credit risks from sales, political risks, supplier risks and property and damage risks. Credit risks from operational flows are handled at the local level. The Group's credit policy provides the framework for managing these risks. Political risks are primarily associ-

ated with local regulations regarding camera surveillance. Currently there are no known changes regarding legal restrictions in this area. Risks in the legal area are handled by Axis' specialists in collaboration with external lawyers and advisors.

Intangible risks

Exposure to intangible risks in patents, IT and human capital are handled by Axis' specialists in collaboration with external lawyers and advisors. To date, a few disputes regarding patent intrusion have been discussed, and during the year, Axis, along with 27 other companies, were the subject of a claim regarding intrusion. This has not yet resulted in any consequences for Axis, however.

FINANCIAL RISKS

Axis' finance policy specifies how responsibility for financial risks is delegated within the Group, what financial risks the Group is prepared to take and the guidelines for how they shall be limited. The Treasury function within Axis AB has the main responsibility for the Group's financial activities and compliance with the finance policy. Treasury operates as an in-house bank within the Group and its task is to ensure that the Group has credit facilities, that subsidiaries have sufficient operating liquidity and the currency risks are minimized from the Group's viewpoint. The Treasury function does not have its own risk mandate. All currency hedging with the Group is carried out through Treasury.

The financial risks are divided into the following groups:

- *Currency risks* Risk that currency movements have a negative effect on Group earnings.
- *Interest-rate risk* Risk that market interest rate fluctuations impact adversely on Group earnings.
- *Financing risk* Risk that loan facilities cannot be renewed and, consequently, affect the Group's liquidity readiness.
- *Counterparty risk* Risk that the Group's financial counterparties cannot fulfill their obligation and as a result affect the Group earnings negatively.



CURRENCY RISK

The Axis Group has a strong international character and a large percentage of sales and purchases are in currencies other than SEK. Changes in exchange rates affect the company's profits in several ways, but mainly through sales and purchases taking place in different currencies, the translation of foreign subsidiaries income statements and balance sheets and investments in currencies other than SEK. The Axis Group is mainly exposed to fluctuations in the SEK rate to USD, EUR and JPY. The Treasury function is responsible for the Group's net exposure being hedged.

Axis' finance policy specifies how currency risk shall be minimized. Axis has divided currency risk into two main groups:

- *Transaction risk* Transaction risk means the risk that currency movements in the net cash flow in foreign currencies affect the Group earnings negatively.
- *Translation risk* Translation risk means that currency movements in the Group's net investment in subsidiaries affect the Group earnings negatively.

TRANSACTION RISK

In accordance with the finance policy, transaction risk shall be minimized through currency hedging of the next 12 months of expected net cash flow. Currency hedging of the next two months shall be within the interval 60-100 percent of the exposure and for the following 3-12 months within the interval 0-50 percent. The finance policy states that a change in a currency in relation to SEK of 5 percent must not affect earnings in an amount of more than SEK 0.5 M. Historical currency rate flows are reviewed monthly.

TRANSLATION RISK

Exchange-rate movements in investments in subsidiaries also affect the Axis Group's earnings. To minimize the risk of negative earnings effects, the finance policy states that 80-100 percent of the exposure shall be hedged. During 2004, net investments in subsidiaries in Japan and the US were hedged.

INTEREST-RATE RISK

The finance policy stipulates that Treasury must minimize interest expense to the greatest possibility extent. Short-term financing may be assumed from a maximum average of fixed-interest term of six months. In

accordance with the finance policy, the Treasury function may use interest-rate derivatives to ensure that interest fluctuates a maximum of 2 percentage points on credit facilities during one year. The interest-rate risk for 2004 was marginal since the credit facilities were not used during the entire year.

FINANCING RISK

The finance policy states that Treasury shall ensure that the Group always has credit facilities with several banks and that these may not mature in the same quarter. At any given time, Axis shall have access to 10 percent of sales in liquid funds or unutilized credit facilities. On December 31, 2004, Axis had SEK 121 M in liquid funds plus unutilized credit facilities totaling SEK 80 M, compared with SEK 103 M and SEK 80 M on December 31, 2003.

Surplus liquidity is placed in fixed-income securities with a maximum maturity of two years and average term of a maximum of six months. On December 31, 2004, SEK 60 M was placed in fixed-income securities with an average term of 1.3 months, compared with SEK 69 M and 2.1 months on December 31, 2003.

COUNTERPARTY RISK

Management of counterparty risks is controlled by the finance policy, which stipulates that the minimum long rating shall be Moody's A or Standard & Poor's A. The short rating shall be Moody's P-1 or Standard & Poor's K-1, alternatively A-1.

SENSITIVITY ANALYSIS

The table below provides an indication of the effect of the most important factors on Axis' earnings for the 2004 fiscal year. In addition to currency effects, the factors considered to have the greatest effect on earnings are purchase prices and personnel costs.

Factor	Change, %	Effect on operating profit, SEK M
Currency, SEK/EUR	+/-5	+/-11
Currency, SEK/USD	+/-5	+/-1
Purchase prices	+/-5	+/-12
Personnel costs	+/-5	+/-10



The Axis share

Axis was listed on the O-List of the Stockholm Stock Exchange on June 27, 2000. A round lot consists of 500 shares. During 2004, a total of 19,645,344 Axis shares were traded, corresponding to an average sales of 77,650 shares per trading day. Trading in the share took place on all trading days. The turnover rate during the year was 28.5 percent, to be compared with the average of 82 percent for the entire O-List.

The final quoted price on December 30, 2004 was SEK 18. The highest price of SEK 19.90 was noted on February 9, 2004. The lowest price of SEK 11.80 occurred on August 17, 2004. During the year, the share rose from SEK 17 to SEK 18, corresponding to an increase of 5.9 percent. During 2004, the SIX General Index rose by 17 percent. The Affärsvärldens IT industry index rose by 7 percent.

As of January 2005, the Axis share is included on O-List's Attract 40.

MARKET CAPITALIZATION

Axis had a market value of SEK 1,240 M as of December 30, 2004, which was an increase of 6 percent during the year.

SHARE CAPITAL

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

Development of share capital

Year	Number of shares	Par value (SEK)	Share capital (SEK)
1984	500	100.00	50,000
1985	5,040	100.00	504,000
1987	5,640	100.00	564,000
1997	564,000	1.00	564,000
1999	56,400,000	0.01	564,000
2000	68,900,000	0.01	689,000
2001	68,900,000	0.01	689,000
2002	68,900,000	0.01	689,000
2003	68,900,000	0.01	689,000
2004	68,900,000	0.01	689,000

OWNERSHIP STRUCTURE

The number of shareholders at year-end was 9,091 (9,803). The proportion of foreign owners was 4.7 percent (2.7).

The table below shows Axis' ownership structure as of December 30, 2004.

Owner	No. of shares	Share of capital and votes, %
Mikael Karlsson, privately and through company (LMK Industri AB)	15,645,764	22.7
G. Kallstrom Et Co AB (part of Skanditek Group)	13,539,765	19.7
Martin Gren, through company (Grens specialisten AB)	7,557,471	11.0
Fourth AP Fund	3,320,700	4.8
SIF	2,421,500	3.5
Others	26,414,800	38.3
Total	68,900,000	100.0

Ownership structure December 30, 2004

Size classes	Number of owners	Number of shares	Percentage of shares	Percentage of votes	Market value SEK 000s
1-500	5,516	1,286,588	1.8	1.8	23,163
501-1000	1,648	1,500,157	2.2	2.2	27,003
1,001-10,000	1,762	5,790,076	8.4	8.4	104,221
10,001-50,000	113	2,406,949	3.5	3.5	43,325
50,001-100,000	18	1,365,725	2.0	2.0	24,583
100,001-	34	56,550,505	82.1	82.1	1,017,909
Total	9,091	68,900,000	100	100	1,240,204

Per-share data

	2004	2003
Profit after financial items, SEK per share	0.83	0.12
Cash flow, SEK per share	0.26	-0.39
Equity, SEK per share	4.93	4.36
Share price on closing date, SEK	18.00	17.00
Share price/equity, % per share	365	390
Dividend	-	0.15
P/E ratio	33	neg.
P/S ratio	1.8	1.9
Number of shares outstanding (000s)	68,900	68,900
Average number of shares (000s)	68,900	68,900



DIVIDEND AND DIVIDEND POLICY

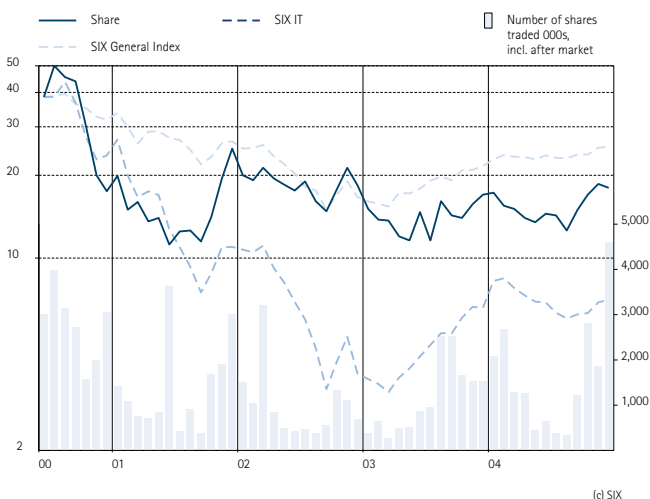
Axis' dividend policy is to provide a dividend amounting to one third of profit for the year after tax, taking into account the company's equity ratio goal. The Board proposes an ordinary dividend of SEK 0.20 per share for fiscal year 2004 and an extraordinary dividend of SEK 0.30 considering the company's strong financial position.

WARRANTS

Since 1999, Axis has had an outstanding warrants program open to all employees and intended to encourage long-term commitment to ensuring a profitable business. The terms, number of warrants and the dilution that would result from full exercise of the warrants are shown in the table below. See also Note 21 on page 36 for further information.

Recipient	Maturity date	Exercise price	No. of warrants	No. of shares	Dilution, %
Personnel in Europe and Asia	05-09-30	54.00	1,128,000	1,128,000	1.60
Personnel in Europe and Asia	05-09-30	63.00	172,250	172,250	0.30
Personnel in Europe and Asia	06-10-02	18.00	221,600	221,600	0.30
Personnel in Europe and Asia	07-10-02	26.00	104,200	104,200	0.15
Personnel in USA	10-09-30	48.00	172,250	172,250	0.30
Personnel in USA	06-10-02	18.00	89,000	89,000	0.10
Personnel in USA	07-10-02	26.00	64,000	64,000	0.09
Total			1,951,300	1,951,300	2.84

Share price trend



Analysts who regularly follow Axis

Company	Name
Enskilda Securities	Lars Sveder
Handelsbanken Capital Markets	Jonas Eixmann
Kaupthing Bank	Mikael Laséen
REDEYE	Urban Ekelund
E. Öhman J:or Fondkommission	Susanna Westman

OPERATIONS

Axis develops products that increase the value of network solutions. The company is an innovative market leader in network video and print servers. Axis' products and solutions are primarily used in applications for security surveillance, remote monitoring and document management. The products are based on internally developed integrated circuits, which are also sold via third-party developers. The company operates globally through offices in 16 countries and in cooperation with distributors, systems integrators and OEM partners in some 70 countries. Markets outside Sweden account for more than 95 percent of its sales. Axis was founded in 1984 and is listed on the O-list of the Stockholm Stock Exchange.

SIGNIFICANT EVENTS

During the year, Axis further consolidated its leading position in the international network video market, particularly through a significantly expanded product range involving a new generation of network cameras and video servers. A total of 20 new video products based on the new internally developed image compression chip, ARTPEC-2, were launched during the year. In 2004 the new technology attracted a great deal of attention in international security trade fairs, where interest in Axis' new products was extremely keen.

Stagnation in the Print product area increased in 2004. Despite this, Axis defended its position as No. 2 in the global market for print servers. Two new print servers adapted for USB connections were introduced. The new products address demands for simplicity and cost-efficiency from small companies and sophisticated home users.

Cooperation with Honeywell was expanded and Axis was appointed strategic supplier of networked video products. In May, the company received a significant order from Honeywell for video servers for a surveillance system for the railroad network in Western Australia. In June, Axis entered into global cooperation with Securitas, which is of major strategic significance. Under this cooperation, the Securitas Systems Division will offer Axis network video products to its global customer base which has to date primarily used analog surveillance technology. During the second half of the year, Axis carried out a substantial training program for Securitas.

Axis has signed several strategic customer contracts indicating a clear acknowledgement of Axis as well as of the increasing significance of network video systems. A number of major orders were received in all customer segments – for example, for school areas in the US and industrial surveillance in Mexico. An

attractive deal with US-based VISICU, which sells network-based systems for remote intensive care, was presented in November.

RESEARCH AND DEVELOPMENT

During 2004, 18 percent of the company's consolidated sales was invested in research and development hardware and software. Costs for research and development did not change significantly compared with the preceding year and amounted to SEK 115 M (112). Capitalized development expenses for the year amounted to SEK 12 M (15). The capitalization principle is described in Note 1 to the financial accounts.

The core component of Axis' products is ETRAX, an application specific chip for connections to fixed and wireless networks. The chip is found in all of the company's products and, combined with Axis' software platforms, represents a highly flexible technological base for rapid and cost-efficient development of world-class products. In 2004, an advanced version of the ETRAX 100LX MCM chip was launched, with a memory module containing sufficient memory to store the entire Linux operating system. This makes ETRAX a Linux computer in a single chip. The second-generation ARTPEC-2 video chip was launched in January.

The introduction of ARTPEC-2, together with a new video-design platform, constitutes a key milestone for Axis.

An active patent strategy is being implemented to protect Axis' investments in core technology and intellectual capital. During the year, eight new patents were granted, mostly within Video. At year-end 2004, the company's portfolio of patents contained 41 patents. Exposure to intellectual risk related to patents is handled by in-house specialists in consultation with external lawyers and advisers. A small number of disputes regarding patent infringements have been discussed to date, but none have resulted in any sanctions against Axis.

Research at Axis currently focuses entirely on three strategic areas: image analysis, chip design on silicon and networks and communications protocols. Technological development focusing on the long term is conducted internally within all areas. Research mainly takes the form of an industrial involvement in various national and local research programs.

FINANCING AND CASH FLOW

On December 31, 2004, funds at the company's disposal totaled SEK 201 M, including liquid funds of SEK 121 M and unutilized credit commitments of SEK 80 M. The company is thus financially strong going into 2005. Cash flow from current operations was SEK 30 M (negative: 2).

Net investments for the year amounted to SEK 15 M (28), while total cash flow was SEK 18 M (negative: 27).

INVESTMENTS

Investments in tangible assets amounted to SEK 4 M (4) and investments in intangible assets totalled SEK 12 M (24). According to the consolidated cash-flow statement, net investments for the year amounted to SEK 15 M (28).

OWNERSHIP STRUCTURE

At the end of the fiscal year, share capital in Axis AB was SEK 689,000, divided among 68,900,000 shares with a par value of SEK 0.01. All shares are of the same share class. After full exercise of outstanding warrants, the dilution effect is 2.84 percent. Axis AB had 9,092 shareholders at the end of the fiscal year. At the same date, the five largest shareholders accounted for 62 percent of both the votes and the capital.

	No. of shares	Proportion of capital and votes, %
M. Karlsson, privately and through company (LMK Industri AB)	15,645,764	22.7
G Kallstrom & Co AB (part of the Skanditek Group)	13,539,765	19.7
M. Gren, through company (Grenspecialisten AB)	7,557,471	11.0
The Fourth AP Pension Fund	3,320,700	4.8
SIF	2,421,500	3.5
Other	26,414,800	38.3
	68,900,000	100.0

FINANCIAL PERFORMANCE AND POSITION

Sales during the year amounted to SEK 691 M (624), an increase of 11 percent compared with 2003. Currency effects had a negative impact of SEK 36 M on earnings. The Video product area grew by 33 percent, from SEK 356 M to SEK 474 M, while the Print product area declined by 23 percent to SEK 169 M. The gross margin was strengthened, from 49.3 percent in the first quarter to 53.0 percent in the fourth quarter, through the introduction of the new generation of video products. The accumulated gross margin for the full year amounted to 52.0 percent.

The Group's operating profit amounted to SEK 48 M (1), an improvement of SEK 47 M compared with 2003. The operating margin rose from 0.2 percent in 2003 to 7.0 percent in 2004. Currency effects had a negative effect of SEK 1 M on operating profit.

Profit after financial items totaled SEK 57 M (8), representing an improvement of SEK 49 M compared with the preceding year.

CONDENSED INCOME STATEMENT, SEK 000s

	Q1, 04	Q2, 04	Q3, 04	Q4, 04	Total
Net sales	152,069	167,574	172,498	199,340	691,481
Gross profit	74,915	86,585	92,368	105,646	359,514
Gross margin, %	49.3%	51.7%	53.5%	53.0%	52.0%
Operating profit/loss	-5,942	7,885	17,637	28,792	48,372
Operating margin, %	-3.9%	4.7%	10.2%	14.4%	7.0%
Profit/loss after financial items	-1,644	9,001	18,597	31,115	57,069
Profit margin, %	-1.1%	5.4%	10.8%	15.6%	8.3%

KEY RATIOS FOR THE GROUP

	2004	2003	2002	2001	2000
	8 months				
Net sales, SEK M	691	624	670	696	494
Profit/loss after financial items, SEK M	57	8	51	-150	-171
Total assets, SEK M	470	434	430	489	616
Equity/assets, %	72%	69%	73%	56%	64%
Return on total capital, %	13%	2%	12%	-19%	-34%
Return on equity, %	13%	2%	13%	-46%	-84%
Earnings per share before dilution, SEK	0.54	-0.04	0.52	-1.31	-2.60
Earnings per share after dilution, SEK ¹⁾	0.54	-0.04	0.52	-1.31	-2.60
No. of shares before dilution, average, thousands	68,900	68,900	68,900	68,900	65,775
No. of shares after dilution, average, thousands	68,900	68,900	68,985	68,900	65,775
No. of employees at year-end	346	362	344	324	581

¹⁾ No dilution effect when earnings are negative. See Note 28 for definitions.

FORMAL WORK PLAN FOR THE BOARD OF DIRECTORS

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

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

The Nomination Committee consists of representative of the three largest owners – Mikael Karlsson (LMK Industri AB), Patrik Tigerschiöld (Skanditek Industrieförvaltnings AB) and Martin Gren (AB Grenspecialisten). Meetings are called by Mikael Karlsson,

who is also the Chairman of the Board and the largest shareholder.

Contacts between the Board of Directors and the auditors took place through audit meetings between the Chairman of the Board and the auditors. Additionally, the auditors participated in two of the company's Board meetings during the year.

TRANSITION TO INTERNATIONAL REPORTING STANDARDS

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

The Swedish Financial Accounting Standards Council has gradually adapted to IFRS. However, a number of differences remain between the Swedish Financial Accounting Standards Council's recommendations and IFRS. The number of differences is growing as a result of changes currently being implemented in IFRS. Not all IFRS that are to be applied in 2005 are yet available in their definitive form. Developments are being constantly monitored and adjustments to the new regulations are gradually being made. Based on what is known at present, the main difference between the Group's current accounting principles and IFRS will relate to the reporting of financial instruments and the translation of subsidiaries' results. More instruments will be reported at their net realizable (fair) value and requirements regarding hedge accounting will be tightened. Subsidiaries' results will be translated in accordance with the current method instead of the MIM method. A bridge between January 1, 2004 opening balance as calculated in accordance with the recommendations of the Swedish Financial Accounting Standards Council and as calculated pursuant to IFRS, including comments on and key differences between the Swedish principles and the 2005 IFRS principles as they pertain to 2004, is presented under a special heading in Note 1 to the financial statements.

FINANCIAL RISKS

The Group's international operations involve several financial market risks, which are dealt with in accordance with policies established by the board. The overall aim is that the Group's financial function provide

ongoing financing to Group companies and manage financial risks so that their effects on Group results are minimized. The Group is exposed primarily to financing, currency and credit risks. Interest risk is deemed to be negligible. For further information, see Note 1 to the financial accounts.

OUTLOOK FOR 2005

Axis believes the video market will continue to grow and develop at a fast pace, which logically will present Axis with good growth opportunities. The principal driving force behind this market force continues to be the transition from analog to digital solutions. The market for print-server solutions must be regarded as mature, which limits expectations in the Print product area and will adversely impact OEM sales. Despite this, the conditions for achieving greater growth and further profitability improvement are considered favorable.

Given this background, the goal for the next three to five years is an average annual total growth of about 20 percent for the Group. At the same time, Axis shall achieve its profitability targets. Given the current market trend, the company's goal is to achieve a 10-percent profit margin in the years ahead. The equity/assets ratio shall at no time be lower than 50 percent.

PARENT COMPANY

The Parent Company's operations are primarily focused on Group administration. The Parent Company has no employees. Sales to Group companies were insignificant. There were no purchases from Group companies. The Parent Company reported a profit after financial items of SEK 60 M (7).

PROPOSED DISTRIBUTION OF EARNINGS IN PARENT COMPANY

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

Profit brought forward	SEK 46,280,186
Profit for the year	SEK 45,396,731
Total	SEK 91,676,917

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

Dividend of SEK 0.50 to be distributed to shareholders	SEK 34,450,000
Profit carried forward	SEK 57,226,917
Total	SEK 91,676,917

Consolidated unrestricted equity amounted to SEK 71 M. No transfers from consolidated unrestricted equity to restricted equity are proposed.

INCOME STATEMENTS

SEK 000s	Note	GROUP			PARENT COMPANY	
		Jan. 1, 04– Dec. 31, 04	Jan. 1, 03– Dec. 31, 03	Jan. 1, 02– Dec. 31, 02	Jan. 1, 04– Dec. 31, 04	Jan. 1, 03– Dec. 31, 03
Net sales	2	691,481	623,637	670,277	4,978	3,488
Cost of goods and services sold		-331,968	-301,906	-286,270	-	-
Gross profit		359,514	321,731	384,007	4,978	3,488
Selling costs		-152,025	-165,062	-177,522	-	-
Administrative expenses		-42,277	-44,766	-56,334	-7,497	-6,894
Research and development expenses		-114,787	-111,982	-117,847	-	-
Other operating income	5	-	1,221	7,354	-	-
Other operating expenses	5	-2,053	-	-	-	-
Net operating profit/loss	3, 4, 12	48,372	1,142	39,658	-2,519	-3,406
Result from financial investments						
Interest income and similar income items	6				55,887	-19,413
Interest expense and similar expense items	7	9,457	7,832	14,018	16,046	45,735
Räntekostnader och liknande resultatposter	8	-760	-649	-2,240	-9,053	-15,755
Profit/loss after financial items		57,069	8,324	51,436	60,361	7,161
Change in tax equalization reserve		-	-	-	5,036	14,403
Tax	11	-19,732	-10,900	-15,581	-20,000	-8,751
NET PROFIT/LOSS FOR THE YEAR		37,337	-2,576	35,855	45,397	12,813
Earnings per share before dilution, SEK		0.54	-0.04	0.52		
Earnings per share after dilution, SEK		0.54	-0.04	0.52		
Number of shares before dilution, average, thousands		68,900	68,900	68,900		
Number of shares after dilution, average, thousands		68,900	68,900	68,985		
Proposed dividend, SEK		0.50	-	0.15		

BALANCE SHEETS

	Note	GROUP			PARENT COMPANY	
		Dec. 31, 04	Dec. 31, 03	Dec. 31, 02	Dec. 31, 04	Dec. 31, 03
ASSETS, 000s						
Fixed assets						
Intangible fixed assets						
Capitalized expenses for development work	13	32,614	20,324	5,658	–	–
Rights	14	5,983	9,131	782	–	157
Other intangible fixed assets	15	11	102	460	–	–
Total intangible fixed assets		38,608	29,557	6,900	–	157
Tangible fixed assets						
Machinery and equipment	16	7,276	11,159	14,999	–	–
Total tangible fixed assets		7,276	11,159	14,999	–	–
Financial fixed assets						
Equity in subsidiaries	17	–	–	–	742	742
Other securities held as fixed assets	18	–	–	–	–	–
Shares in tenant owners' association	19	676	676	676	–	–
Deferred tax receivables	20	69,302	87,423	97,480	63,807	83,807
Long-term receivables		2,068	2,970	2,379	–	–
Total financial assets		72,046	91,069	100,535	64,549	84,549
Total fixed assets		117,930	131,785	122,434	64,549	84,706
Current assets						
Inventories						
Goods for resale		85,788	67,074	57,994	–	–
Total inventories		85,788	67,074	57,994	–	–
Receivable						
Receivable from Group companies		–	–	–	284,056	302,739
Accounts receivable – trade		107,032	94,078	88,385	–	–
Tax receivables		4,663	4,966	2,307	–	–
Other receivables		11,697	10,539	8,836	2,120	10
Prepaid expenses and accrued income	22	21,407	22,151	20,571	7,166	4,503
Total receivables		144,799	131,734	120,099	293,342	307,252
Cash and bank deposits						
Cash and bank deposits		121,023	102,978	129,956	37,792	–
Total cash and bank deposits		121,023	102,978	129,956	37,792	–
Total current assets		351,610	301,786	308,049	331,134	307,252
TOTAL ASSETS		469,540	433,571	430,483	395,683	391,958

CHANGE IN CONSOLIDATED EQUITY

	Share capital	Restricted reserves	Non-restricted reserves	Total equity
Equity, December 31, 2001	689	333,937	–61,612	273,014
Transfers between restricted and non-restricted equity	–	5,412	–5,412	–
Profit/loss for the year	–	–	35,855	35,855
Share premium upon issuance of debt instruments with attached warrants	–	925	–	925
Exchange-rate change on warrants held by the Company ¹⁾	–	–196	–	–196
Vesting of stock options in Axis Inc. in the US ²⁾	–	2,934	–	2,934
Reduction of premium fund	–	–58,973	58,973	–
Equity, December 31, 2002	689	284,039	27,804	312,532
Transfers between restricted and non-restricted equity	–	–19,335	19,335	–
Profit/loss for the year	–	–	–2,576	–2,576
Dividend	–	–	–10,335	–10,335
Exchange-rate change on warrants held by the Company ¹⁾	–	43	–	43
Vesting of stock options in Axis Inc. in the US ²⁾	–	661	–	661
Equity, December 31, 2003	689	265,408	34,227	300,324
Transfers between restricted and non-restricted equity	–	55	–55	–
Profit/loss for the year	–	–	37,337	37,337
Recovered VAT on issuance costs	–	1,748	–	1,748
Exchange-rate change on warrants held by the Company ¹⁾	–	18	–	18
Vesting of stock options in Axis Inc. in the US ²⁾	–	132	–	132
Other adjustments	–	–	–172	–172
Equity, December 31, 2004	689	267,361	71,337	339,387

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

2) Pertains to stock options acquired for further sale to employees in the US subsidiary, Axis Inc. Stock options are expensed continually in pace with their being earned by the personnel.

	Note	GROUP			PARENT COMPANY	
		Dec. 31, 04	Dec. 31, 03	Dec. 31, 02	Dec. 31, 04	Dec. 31, 03
EQUITY AND LIABILITIES, 000s						
Equity	21					
Restricted equity						
Share capital		689	689	689	689	689
Statutory reserve		-	-	-	1,024	1,024
Premium reserve		-	-	-	293,301	291,552
Restricted reserves		267,361	265,408	284,039	-	-
Total restricted equity		268,050	266,097	284,728	295,014	293,265
Non-restricted equity						
Non-restricted reserves		34,000	36,803	-8,051	-	-
Total assets		-	-	-	46,280	33,467
Profit/loss for the year		37,337	-2,576	35,855	45,397	12,813
Total non-restricted equity		71,337	34,227	27,804	91,677	46,280
Total equity		339,387	300,324	312,532	386,691	339,546
Untaxed reserves						
Tax allocation reserve	24	-	-	-	-	5,036
Total untaxed reserves		-	-	-	-	5,036
Provisions						
Provisions	23	5,960	7,081	3,826	-	-
Total provisions		5,960	7,081	3,826	-	-
Liabilities						
Long-term liabilities	25					
Liabilities to credit institutions		6,375	10,200	-	-	-
Total long-term liabilities		6,375	10,200	-	-	-
Current liabilities						
Group account		-	-	-	-	37,933
Liabilities to Group companies		-	-	-	8,306	8,306
Accounts payable – trade		56,498	60,442	50,342	-	-
Other liabilities		6,473	5,083	5,280	-	-
Accrued expenses and deferred income	26	54,847	50,441	58,503	686	1,137
Total current liabilities		117,818	115,966	114,125	8,992	47,376
Total liabilities		124,193	126,166	114,125	8,992	47,376
TOTAL EQUITY AND LIABILITIES		469,540	433,571	430,483	395,683	391,958
MEMORANDUM ITEMS						
Pledged assets		NONE	NONE	NONE	NONE	NONE
Contingent liabilities	27	NONE	NONE	NONE	7,513	3,585

CHANGE IN THE PARENT COMPANY'S EQUITY

	Share capital	Statutory reserve	Premium reserve	Total assets	Net profit or loss	Total equity
Equity, December 31, 2002	689	1,024	291,552	-	43,802	337,067
Transfer of net profit/loss for the year	-	-	-	43,802	-43,802	-
Dividend	-	-	-	-10,335	-	-10,335
Net profit/loss for the year	-	-	-	-	12,813	12,813
Equity, December 31, 2003	689	1,024	291,552	33,467	12,813	339,546
Transfer of net profit/loss for the year	-	-	-	12,813	-12,813	-
Restituted VAT on issuance costs	-	-	1,748	-	-	1,748
Net profit/loss for the year	-	-	-	-	45,397	45,397
Equity, December 31, 2004	689	1,024	293,301	46,280	45,397	386,691

As in the preceding year, the company's shareholders' equity consists of 68,900,000 shares of the same class, each having a par value of SEK 0.01.

The company's legal form is that of a public limited company. The country of registration is Sweden and the registered office of the company is in Lund, which is also its principal operating site.

At the Annual General Meeting on April 19, a dividend of SEK 0.50 per share for 2004 will be proposed. No dividend was distributed for 2003.

CASH-FLOW STATEMENTS

SEK 000s	Note	GROUP			PARENT COMPANY	
		Jan. 1, 04– Dec. 31, 04	Jan. 1, 03– Dec. 31, 03	Jan. 1, 02– Dec. 31, 02	Jan. 1, 04– Dec. 31, 04	Jan. 1, 03– Dec. 31, 03
Current operations						
Operating profit/loss before financial items		48,372	1,142	39,658	-2,519	-3,406
Depreciation and amortization	12	10,501	9,054	13,712	156	626
Other items not affecting liquidity		-272	4,525	-7,204	-	-
		58,601	14,721	46,166	-2,363	-2,780
Financial income received	9	2,663	5,317	6,600	2,842	7,098-
Group contribution received		-	-	-	59,743	-
Financial expense paid	10	-1,076	-688	-2,758	-749	-559
Group contribution paid		-	-	-	-3,856	-19,413
Adjustment for Group contributions not affecting cash flow		-	-	-	-75,300	27,862
Tax paid		-1 307	-4 071	-4 189	-	-
		280	558	-347	-17,320	14,988
Change in inventories		-18,714	-9,080	-11,366	-	-
Change in accounts receivable		-12,954	-5,693	17,954	-	-
Change in other current receivables		1,334	-4,228	-10,197	91,002	-115,485
Change in accounts payable – trade		-3,945	10,101	-32,603	-	-
Change in other current operating liabilities		5,241	-8,219	-2,794	-178	-44
		-29,038	-17,119	-39,006	90,824	-115,529
Cash flow from current operations		29,843	-1,840	6,813	71,141	-103,321
Investing activities						
Investments in intangible fixed assets		-12,290	-23,640	-5 692	-	-
Investments in tangible fixed assets		-3,619	-4,204	-9,572	-	-
Sale of tangible fixed assets		240	-26	-575	-	-
Investments in other financial fixed assets		902	-592	435	-	-
		-14,767	-28,462	-15,404	-	-
Cash flow from investing activities		-14,767	-28,462	-15,404	-	-
Financing activities						
Share premium upon issue of debt instruments		-	-	925	-	-
Dividends paid		-	-10,335	-	-	-10,335
Change in long-term liabilities		-3,400	10,200	-50,000	-	-
Exchange rate differences		6,369	3,459	6,849	4,584	23,403
		2,969	3,324	-42,226	4,584	13,068
Cash flow from financing activities		2,969	3,324	-42,226	4,584	13,068
Cash flow for the year		18,045	-26,978	-50,817	75,725	-90,253
Liquid funds at the beginning of the year		102,978	129,956	180,773	-37,933	52,320
Change in liquid funds		18,045	-26,978	-50,817	75,725	-90,253
Liquid funds at the end of the year		121,023	102,978	129,956	37,792	-37,933

Note 1 Accounting principles

The annual report and consolidated financial statements were prepared in accordance with the Swedish Annual Accounts Act and the recommendations and opinions of the Swedish Financial Accounting Standards Council. The accounting principles are unchanged from the preceding year. Recommendations issued by the Swedish Financial Accounting Standards Council, and which came into effect as of 2004 have not entailed any changes in accounting principles.

Consolidated financial statements

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

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

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

Companies acquired during the year are included in the consolidated financial statements as of the date they are acquired. Companies sold during the year are included in the consolidated financial statements until the date of sale. All companies included in the consolidated accounts apply the same accounting principles. No acquisitions or divestments took place in 2004.

Translation of foreign subsidiaries

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

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

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

Foreign currency

Current receivables and liabilities in foreign currency are translated at the year-end rate. Exchange rate differences are included in other operating revenues or operating expenses. Transactions in foreign currency are translated using the exchange rate on the transaction date. Accounting for hedging is applied to hedging of future currency flows. The net profit or loss from hedging transactions is reported in the income statement for the same period as the underlying flows, that is, when the hedging instrument expires.

Inventories

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

Receivables

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

Research and development expenditures

Axis' technology is based on in-house developed ASIC (Application Specific Integrated Circuit) platforms, which constitute the core in Axis products.

As of fiscal year 2002, the development of new platforms is capitalized during the development period and depreciated over the expected economic lifetime. Network applications based on these platforms, such as network cameras and print servers, are considered as adaptations of the core product. Adaptations of the platforms for various network applications are not capitalized. Expenses for research are charged against income as they occur. Up until the fiscal year 2001, all expenditures relating to research and development were charged against income as they occurred.

Income recognition

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

Tangible and intangible fixed assets

Tangible and intangible fixed assets are reported at the acquisition cost less depreciation and amortization according to plan. There are no pledges or commitments on future investments.

In cases in which the reported value of an asset exceeds its estimated recovery value, the asset is immediately written down to its recovery value.

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

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

Income taxes

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

Deferred tax receivables and deferred tax liabilities with the same tax authorities are reported as a net amount in the balance sheet.

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

The early application of Recommendation 9, Income Tax, as of December 31, 2000 only affected the consolidated accounts. As of December 31, 2001, the Parent Company's accounts are also affected.

Untaxed reserves are reported in the Parent Company due to their link to taxes.

Cash-flow statement

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

as well as current investments. All items included in liquid funds can be converted to cash relatively quickly.

Leasing

Leasing fees for rented equipment are normally expensed during the rental period. The Group does not currently have any significant financial leasing agreements, meaning that all of the Group's leasing agreements are considered as operational for accounting purposes. The Group's operational leasing agreements amount to insignificant amounts and pertain primarily to a minor number of office machines.

Provisions

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

Segment reporting

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

Axis is active in different geographical areas, providing products within a specific economic environment, which varies from the risk and return applying to units active in other economic environments.

Loan costs

All loan costs are expensed as they arise.

Share-based payments

The Axis Group has outstanding option programs for its employees in Europe, the US and Asia. For the programs designed for employees in Europe and Asia, warrants, priced at market rates, have been transferred to the employees. The proceeds of these transfers have been deposited in the premium reserve. In conjunction with financial reports, still-untransferred warrants have been eliminated against restricted consolidated shareholders' equity. For the programs designed for employees in the US, American stock options corresponding to the actual value of the warrants are written off as they are transferred to the employees during the warrant period. When warrants are acquired by employees, the proceeds are entered against restricted equity. At future exercise of the options, share capital will increase with each newly issued share's par value and the related premium is transferred to the share premium reserve.

Financial instruments

The Group's international operations give rise to a number of financial market risks that are handled in line with the policies established by the Board. The overall objective is that the Group's finance function continually provides financing to Group companies and handles financial risks so that the effects on the Group's earnings is minimized. The group is primarily exposed to financing, currency, and liquidity and credit risks. Total credit granted amounted at year-end 2004 to SEK 80 M distributed among two contracts. The credit agreements expire on May 31, 2006 and February 27, 2006, respectively. Interest risk is regarded as insignificant. Interest risk refers to the risk that changes in interest rates affects the Group's net financial items.

Finance risk arises when, at any given time, there are difficulties in obtaining financing. To minimize the costs of the Group's borrowing and financing, the finance function should provide credit flows that cover Group requirements for working credits. The average maturity of outstanding loans and credits must always be an average six months with a maximum maturity for individual credits up to one year. The Group's credit facilities must never expire during the same quarter. All borrowing is done in consultation with the Parent Company's finance function.

The Group's currency risk consists, in part, of transaction risk that arises in conjunction with purchases and sales in foreign currencies and, in part, of trans-

lation risk, which is attributable to short-term net assets in foreign subsidiaries in accordance with the MIM method. The Group's policy is to hedge at least 80 percent of the translation risk, as defined below. As regards the hedging of the Group's cash flow, see definition below, 50 percent is hedged for the coming 3–12 months. Currency futures are used primarily. Currency swaps and currency options are used to a limited extent.

The Group's credit policy has clear guidelines governing the provision of credit to customers and when collateral is required. The Group management is of the opinion that there is no major concentration of credit risk in relation to any particular customer, counter-party or geographic region. For investment of liquid assets, only financial instruments with a Moody's rating of P1 or K1, or Standard & Poor's A1, are used.

Financial derivatives are reported initially at their acquisition value on the balance sheet. Subsequently, the instrument is calculated at the prevailing market value on subsequent closing dates. The method for reporting results arising depends on the character of the expected net flow. When a derivative instrument is taken up, it has the character either of a reported working asset or working liability (market value hedging) or hedging of a planned transaction or a definitive undertaking (cash flow hedging).

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

Changes in market value of derivatives categorized as cash flow hedging are not reported in the income statement or balance sheet. Deferred hedge accounting is applied, which means that the result is reported in the income statement when a derivative is within the period for market value hedging. The time period for cash flow hedging is 12 months and refers to the net flow in the currencies that are qualified in accordance with the Group's finance policy. The effect on shareholders' equity of signed but not reported futures contracts amounts to SEK 1,844 M.

The market value of currency futures, currency swaps and currency options is calculated using the prevailing spot and future prices on the closing date. The table below shows a compilation of cash flow hedges as of December 31, 2004. Market value hedges are included in consolidated earnings.

There are no significant differences between book values and fair values.

Currency	Translation hedging			Cash-flow hedging		
	Exposure	Total derivatives	Hedged portion	Exposure	Total derivatives	Hedged portion
EUR	5,440	5,000	92%	21,158	7,000	33%
JPY	194,00	160,000	82%	192,508	60,000	31%
USD	-	-	-	1,590	-	0%

Transition to IFRS

As of 2005, the company's financial reporting will comply with the accounting principles stipulated by IFRS. While the recommendations of the Swedish Financial Accounting Standards Council have been gradually adapted to comply with IFRS, a number of differences remain that have an effect on the company's accounts. The differences pertain primarily to the reporting of financial instruments and translation of foreign subsidiaries.

To evaluate the effects of the transition to IAS and subsequently to IFRS, a project group was set up in 2002 under the direction of the Group Controller and supported by the company's auditors. Identified key effects have been reported on an ongoing basis to Group Management and the Board. The company's financial manual and reporting routines have been adapted on a continuous basis to meet the changed regulatory system. Axis will report in accordance with IFRS requirements for the first time in conjunction with the interim report for the first quarter of 2005. Information concerning the opening balance for 2004, adjusted to comply with IFRS, is presented below. In the 2005 interim reports, the figures will be adjusted in accordance with IFRS. Accounting in accordance with IFRS will be effected through the establishment of an opening balance in accordance with IFRS as per January 1, 2004. IFRS is subject to ongoing review and approval by the EU, so further changes may still occur. The following table illustrates the essential differences between the current accounting principles in accordance with the recommendations of the Swedish Financial Reporting Stan-

Effects of application of IFRS

	Closing balance 2003	Recalculation of subsidiaries, IAS 21	IFRS opening balance 2004	Closing balance 2004	Recalculation of subsidiaries, IAS 21	IFRS closing balance 2004
Fixed assets	131,785	712	132,497	117,930	457	118,387
Inventories	67,074		67,074	85,788		85,788
Accounts receivable	94,078		94,078	107,032		107,032
Other receivables	37,656		37,656	37,767		37,767
Liquid funds	102,978		102,978	121,023		121,023
Total	433,571	712	434,283	469,540	457	469,997
Shareholders' equity	300,324	712	301,036	339,387	457	339,844
Provisions	7,081		7,081	6,830		6,830
Long-term liabilities	10,200		10,200	6,375		6,375
Current liabilities	115,966		115,966	116,948		116,948
Total	433,571	712	434,283	469,540	457	469,997

dards Council and the IFRS principles that will be applied as of 2005, and how they would have affected the company's position if they had been applied in the 2004 Year-end report. The translation differences according to the MIM method amount to SEK 6,794 tkr for 2004 and are the only identifiable difference that impacts the 2004 income statement.

The introduction of IAS 39, "Financial instruments," will result in cash-flow hedging being regularly reported on the income statements and balance sheets. Prior to the introduction of IAS 39, "Deferral hedge accounting" was applied, the result being that net profit/loss was reported in the income statement when the derivative had fallen within the period for market-value hedgings. The period for cash-flow hedging is between months 3–12, and refers, up to and including 2004, to net flows denominated in the currencies that qualify under the Group's financial policy. In 2005, Axis will cease to hedge net flows and instead hedge defined shares of gross flows in the particular currencies. Most significant current hedge accounting activities will qualify for hedge accounting under IAS 39. Axis intends to practice hedge accounting in the future. IAS 39 will be applied as of January 1, 2005. Effects on the opening balance relating to IAS 39 will be reported in the 2005 interim reports.

The introduction of Effects of changes in foreign exchange rates (IAS 21) will result in Axis moving from having earlier applied the MIM method to applying the current method in translating the financial statements of its foreign subsidiaries. The translation difference arising from the MIM method, combined with the outcome from hedging of net investments in the subsidiaries, is reported in the income statement under Profit/loss from financial investments. The most significant consequence of the shift to the current method is that the translation difference, combined with the outcome from hedging of net investments in the subsidiaries, is reported directly in shareholders' equity instead of via the income statement. Accumulated translation differences will be reported separately as of January 1, 2004.

Note 2 Information about product areas and geographical market

Net sales are distributed by product areas as follows	2004	Group 2003	2002
Video	474,076	356,228	301,476
Print	169,049	219,586	277,934
Scan	11,562	10,354	13,082
Store	9,687	18,366	32,104
Access	3,938	2,053	5,795
Other	23,169	17,050	39,886
Total	691,481	623,637	670,277

Net sales are distributed by geographical market as follows	2004	Group 2003	2002
EMEA (Europe, including Middle East and Africa)	350,137	308,339	315,903
Asia	134,733	142,893	174,194
North and South America	206,611	172,405	180,180
Total	691,481	623,637	670,277

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

Group	Assets			Investments		
	2004	2003	2002	2004	2003	2002
EMEA (Europe, including Middle East and Africa)	179,620	124,644	160,431	13,427	27,435	14,911
Asia	63,278	61,587	77,058	1,332	736	174
North and South America	97,851	72,484	74,981	8	291	319
Total	340,749	258,715	312,470	14,767	28,462	15,404

Note 3 Personnel

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

	Women			Men			Total		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Parent Company	-	-	-	-	-	-	-	-	-
Denmark	-	-	-	2	0	-	2	-	-
France	4	4	4	7	7	7	11	11	11
Japan	8	10	9	9	10	11	17	20	20
Netherlands	1	1	1	3	3	3	4	4	4
Singapore and Asia Pacific	12	12	10	16	17	15	28	29	25
Spain and Italy	3	2	2	8	7	5	11	9	7
United Kingdom	1	1	1	4	4	3	5	5	4
Sweden	54	55	47	183	191	184	237	246	231
Germany	2	3	2	5	7	6	7	10	8
US	8	7	7	13	15	17	21	22	24
Group total	93	95	83	250	261	251	343	356	334

Salaries and other remuneration amounted to:

	Bord Et President			Others			Total		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Parent Company	-	-	-	-	-	-	-	-	-
Denmark	-	-	-	920	73	-	920	73	-
France	-	-	-	6,265	7,113	6,227	6,265	7,113	6,227
Japan	-	-	-	8,947	10,989	14,767	8,947	10,989	14,767
Netherlands	-	-	-	2,077	1,797	1,859	2,077	1,797	1,859
Singapore and Asia Pacific	-	-	-	7,798	7,416	8,291	7,798	7,416	8,291
Spain and Italy	-	-	-	4,442	2,977	2,424	4,442	2,977	2,424
United Kingdom	-	-	-	4,175	3,954	3,869	4,175	3,954	3,869
Sweden	3,198	3,859	3,652	93,699	91,810	96,332	96,560	95,669	99,984
Germany	-	-	-	4,592	6,232	4,504	4,592	6,232	4,504
US	-	-	-	15,854	17,472	20,644	15,854	17,472	20,644
Group total	3,198	3,859	3,652	148,769	149,833	158,917	151,630	153,692	162,569

Wages, salaries and other remuneration to the Board of Directors and the President were paid through the subsidiary Axis Communications AB. All Board members and the President are men, as was the case in the preceding year.

	Salaries and remuneration			Employer's contributions			(of which, pension costs)		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Parent Company	-	-	-	-	-	-	-	-	-
Subsidiaries	151,630	153,692	162,569	57,732	60,919	55,062	16,230	17,419	12,487
Group total	151,630	153,692	162,569	57,732	60,919	55,062	16,230	17,419	12,487

Remuneration to Board	Group		
	2004	2003	2002
Board fees	600	600	500
	600	600	500

Remuneration to senior executives and close associates

The Chairman of the Board of Directors and its members receive remuneration in accordance with the Annual General Meeting's decisions. Of the remuneration so established, SEK 300,000 is paid to the Chairman of the Board and SEK 100,000 to each of the Board members who are not employees of the Axis Group. Board members who are employees of the Axis Group receive no remuneration for Board work. No special remuneration is received for committee work.

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

The division between basic salary and bonus should be in relation to the executive's responsibility and authority. For the President, the bonus is a maximum of SEK 5,000,000. For other senior executives, bonus is at most SEK 1,500,000 per person. The bonus to the President and senior executives is based entirely on financial targets of the group. An operating margin of 25 percent and growth of 45 percent is required for maximum bonus. The 2004 budget year was charged with a bonus of SEK 337,000 to the President and SEK 335,000 to the other senior executives.

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

	Basic salary/ fees	Bonus	Other benefits	Pension costs	Other re- muneration	Total
Chairman of the Board	674	-	1	-	-	675
President	1,658	337	-	478	-	2,473
Other senior executives ¹⁾	6,015	355	-	1,115	-	7,485
Employed Board member	603	2	-	128	-	733
	8,950	694	1	1,721	-	11,366

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

The bonus reported in 2005 in the table above refers to the bonus for 2004. No bonus was paid in 2004 to the President or the senior executives. Refer also below for how the bonus is calculated.

Other Benefits and Other Remuneration are received on the same grounds as for other employees.

Retirement age for the President is 65. The pension premium shall amount to 35 percent of the pensionable salary up to 28.5 base insurance amounts. A 25-percent premium is payable for salaries higher than 28.5 base insurance amounts.

Other senior executives are subject to the ITP agreement, which involves a retirement age of 65.

On February 12, 2003, the Chairman of the Board of Directors, who was employed by the Company up until October 31, 2002, signed an agreement that gives Axis the right to buy on current account consulting services from LMK Industri AB, which is owned by him. Fees for fiscal 2004 amount to SEK 374,000 and are reported under the heading Basic salary/fees in the above table. SEK 99,000 remains to be paid and is reported among accrued costs. Pricing is done at agreed hourly rates corresponding to the prevailing consulting fees for similar services.

Holdings of financial instruments

	From the period prior to 2004 No. of warrants	Expire during 2004 No. of warrants	Acquisition price	Value
Chairman of the Board of Directors	-	-	-	-
President	11,000	-10,000	-25,000	-
Other senior executives	95,000	-33,000	-82,500	-
	106,000	-43,000	-107,500	-

During 2004, neither the President nor other senior executives acquired warrants in Axis AB.

Pensions

The Axis Group has pension commitments classified as both defined-benefits schemes and defined-contribution schemes. In the Swedish units, all pension commitments, part from those that refer to the President, are classified as defined-benefits. In the foreign units, pension commitments are classified as fixed-fee.

Pension commitments for salaries employees in Sweden are secured through insurance provided by SPP. According to an opinion expressed by the urgent issues committee of the Swedish Financial Accounting Standards Council, URA 42, this is a defined-benefits scheme that encompasses several employees. For the 2004 fiscal year, the company has not had access to such information that would enable it to present this scheme as a defined-benefits plan. The ITP pension scheme, which is secured through SPP insurance, is therefore presented as a defined-contribution plan. The year's fees for pension plans purchased from SPP amount to SEK 13 M (14).

SPP's surplus may be distributed among the policyholders and/or the insured. At year-end 2004, SPP's surplus amounted, in the form of the collective consolidation level, to 111 percent. The collective consolidation level consists of the market value of SPP's assets as a percentage of its insurance commitments calculated in accordance with SPP's actuarial premises, which do not comply with RR29.

	2004	Group 2003	2002
Cost of defined-contribution plans	16,230	17,419	12,487
Cost of special salary tax	3,250	3,594	2,740
	19,480	21,013	15,227

Severance pay

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

Between the company and four of the other senior executives a mutual period of notice of three months applies. For the fifth senior executive, a period of six months' notice of termination applies regardless of whether the termination is requested by the company or by the senior executive. If employment is terminated at the company's request, salary is paid during the termination period. This amount is not reduced against other income. If the senior executive terminates employment, salary is paid during the termination period.

Committee and decision process

The Compensation Committee provided the Board of Directors with recommendations during the year regarding the principles for remuneration to senior executives. The recommendations comprised the proportions between fixed salary and bonuses and the magnitude of possible salary increases. In addition, the Compensation Committee proposed criteria for assessment of bonus results, etc. The Board of Directors discussed the Compensation Committee's proposals and made decisions based on the Committee's recommendations.

Remuneration to the President for the 2004 fiscal year was approved by the Board of Directors based on the Compensation Committee's recommendations.

Remuneration to other senior executives was determined by the President after consulting the Compensation Committee.

Note 4 Audit fees

	2004	2003	2002
Audit fees paid to Öhrlings PricewaterhouseCoopers	500	535	525
Other fees paid to Öhrlings PricewaterhouseCoopers	346	419	453
Audit fees paid to other auditors	564	515	859
Total	1,410	1,469	1,837

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

Note 5 Other operating revenues and other operating expenses

	2004	Group 2003	2002
Exchange rate differences	-2,053	1,221	7,354
Total	-2,053	1,221	7,354

Exchange-rate effects affected net profit/loss by a total of SEK 6,205,000 (2,573,000) before tax.

Note 6 Result from shares in Group companies

	Parent Company	
	2004	2004
Group contribution received	59,743	-
Write-down of shares in subsidiaries (pertains to Group contributions paid and shareholder contributions)	-3,856	-19,413
	55,887	-19,413

Note 7 Interest income and similar income items

	Group			Parent Company	
	2004	2003	2002	2004	2003
Interest income	2,241	4,372	7,169	2,118	4,268
Interest income from Group companies	-	-	-	302	2,830
Liquidation proceeds	422	-	-	422	-
Exchange rate differences	6,794	3,460	6,849	13,204	38,637
Total	9,457	7,832	14,018	16,046	45,735

Note 8 Interest expense and similar expense items

	Group			Parent Company	
	2004	2003	2002	2004	2003
Interest expense	-413	-379	-1,234	-159	-240
Interest expense to Group companies	-	-	-	-	-33
Exchange rate differences	-	-	-	-8,620	-15,234
Other financial expenses	-347	-270	-1,006	-274	-248
Total	-760	-649	-2,240	-9,053	-15,755

Note 9 Financial income received

	Group			Parent Company	
	2004	2003	2002	2004	2003
Interest income	2,241	5,317	6,600	2,118	4,268
Interest income from Group companies	-	-	-	302	2,830
Liquidation proceeds received for shares written down	422	-	-	422	-
Total	2,663	5,317	6,600	2,842	7,098

Note 10 Financial expenses incurred

	Group			Parent Company	
	2004	2003	2002	2004	2003
Interest expenses	-729	-418	-1,752	-475	-278
Interest expense to Group companies	-	-	-	-	-33
Other financial expenses	-347	-270	-1,006	-274	-248
Total	-1,076	-688	-2,758	-749	-559

Note 11 Tax

	Group			Parent Company	
	2004	2003	2002	2004	2003
Current tax	-1,610	-1,412	-2,069	-	-
Deferred tax	-18,121	-9,488	-13,512	-20,000	-8,751
Total	-19,731	-10,900	-15,581	-20,000	-8,751

Reported profit before tax	57,069	8,324	51,436	65,397	21,564
Plus:					
Taxable temporary differences	10,758	14,704	11,375	-	-
Less:					
Costs of warrants program	-	-	-	-	-210
Taxable profit/loss	67,827	23,028	62,811	65,397	21,354
Estimated tax	-18,992	-6,448	-17,587	-18,311	-5,979

	Group			Parent Company	
	2004	2003	2002	2004	2003
Estimated tax	-18,992	-6,448	-17,587	-18,311	-5,979
Deferred tax income relating to temporary differences	-2,586	-4,854	2,752	-	-
Deferred tax income relating to untaxed reserves	1,852	4,117	2,873	-	-
Deferred tax effect relating to intra-Group adjustments and changes in Group structure	-179	-497	-1,311	-	-
Non-deductible costs	-1,096	-319	-1,504	-1,689	-542
Non-deductible income	44	27	4	-	-
Tax effect relating to difference in tax legislation	-	-2,230	-	-	-2,230
Deferred tax effect relating to differences in tax rates	1,225	-696	-807	-	-
Total tax for the year	-19,732	-10,900	-15,581	-20,000	-8,751

Note 12 Distribution of depreciation

	Group			Parent Company	
	2004	2003	2002	2004	2003
Cost of goods and services sold	1,222	1,102	856	-	-
Selling expenses	1,692	1,768	4,344	-	-
Administrative expenses	1,359	1,018	1,359	156	626
R&D expenditures	6,228	5,166	7,153	-	-
	10,501	9,054	13,712	156	626

Note 13 Capitalized expenses for development work

	Group		
	2004	2003	2002
Acquisition value, beginning of year	20,324	5,658	-
Acquisitions for the year	12,290	14,666	5,658
Scheduled residual value, end of year	32,614	20,324	5,658

Of the total capitalized expenditure for development work, SEK 30,071,000 was utilized internally, and of that amount SEK 12,126,000 in 2004. Depreciation and amortization are expected to begin in 2005.

Note 14 Rights

	Group			Parent Company	
	2004	2003	2002	2004	2003
Acquisition value, beginning of year	12,100	3,126	3,126	3,126	3,126
Acquisitions for the year	-	8,974	-	-	-
Acquisition value, end of year	12,100	12,100	3,126	3,126	3,126
Accumulated scheduled amortization, beginning of year	-2,969	-2,344	-1,719	-2,969	-2,344
Scheduled amortization for the year	-3,148	-625	-625	-157	-625
Accumulated scheduled amortization, end of year	-6,117	-2,969	-2,344	-3,126	-2,969
Scheduled residual value, end of the year	5,983	9,131	782	-	157

The item refers to rights to names and software rights

Note 15 Other intangible fixed assets

	Group		
	2004	2003	2002
Acquisition value, beginning of year	7,686	7,686	7,652
Acquisitions during the year	-	-	34
Acquisition value, end of year	7,686	7,686	7,686
Accumulated scheduled amortization, beginning of year	-7,584	-7,226	-5,922
Scheduled amortization for the year	-	-358	-1,304
Accumulated scheduled amortization, end of year	-7,584	-7,584	-7,226
Accumulated write-downs, beginning of the year	-	-	-
Write-downs during the year	-91	-	-
Accumulated write-downs during the year, end of the year	-91	-	-
Planned residual value, end of the year	11	102	460

The item refers mainly to software.

Note 16 Equipment

	Group		
	2004	2003	2002
Acquisition value, at beginning of year	75,278	71,147	66,459
Acquisitions during the year	3,619	4,204	9,572
Sales and scrapping for the year	-2,040	-73	-4,884
Acquisition value, end of year	76,857	75,278	71,147
Accumulated scheduled depreciation, beginning of year	-64,119	-56,148	-48,218
Scheduled depreciation for the year	-7,262	-8,071	-11,783
Sales and scrapping for the year	1,798	100	3,853
Accumulated scheduled depreciation, end of year	-69,583	-64,119	-56,148
Planned residual value, end of the year	7,274	11,159	14,999

Note 17 Shares in subsidiaries

Shares owned by Parent Company	Reg. office	Corp. Reg. No	% of voting rights and shares	No. of shares	Par value	Book value Dec. 31, 04	Dec. 31, 03
Axis Communications AB	Lund	556253-6143	100%	1,600	160	342	342
Gren Et Karlsson Firmware AB	Lund	556304-6209	100%	500	100	50	50
Axis Technologies AB	Lund	556485-0765	100%	500	100	50	50
Axis Alfa AB	Lund	556599-4547	100%	500	100	100	100
Axis Beta AB	Lund	556599-4588	100%	500	100	100	100
Axis Gamma AB	Lund	556599-4562	100%	1,000	100	100	100
						742	742

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

Note 18 Other securities held as fixed assets

	% of capital	No. of shares	Book value Group			Book value Parent company	
			Dec. 31, 04	Dec. 31, 03	Dec. 31, 02	Dec. 31, 04	Dec. 31, 03
Aptilo Networks	2%	711,700	-	-	-	-	-
Poobah Inc	2%	6,300	-	-	-	-	-
Total			-	-	-	-	-

Note 19 Shares in tenant owners' association

	Group		
	2004	2003	2002
Acquisition value at beginning and end of year	676	676	676

Note 20 Deferred tax receivables

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

	Group			Parent Company	
	2004	2003	2002	2004	2003
Deferred tax receivables					
Tangible and intangible fixed assets	878	437	352	-	-
Financial fixed assets	9,091	9,211	11,441	9,091	9,211
Inventories	2,381	1,924	5,435	-	-
Other provisions	-	140	1,088	-	-
Accumulated loss carry-forwards ²⁾	56,567	77,293	84,382	54,716	74,596
Other items	749	141	224	-	-
	69,666	89,146	102,922	63,807	83,807
Deferred tax liabilities					
Tax equalization reserve	-	1,410	5,442	-	-
Tangible and intangible fixed assets	364	313	-	-	-
	364	1,723	5,442	-	-
Net deferred tax assets	69,302	87,423	97,480	63,807	83,807

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

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

Note 21 Share-related payments

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

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

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

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

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

Cont. Note 21

Recipients	Maturity date	Subscription price	Aquisition price	Proceeds received	Number of warrants	Number of shares	Number of redeemed	Dilution
Personnel in Europe and Asia	05-09-30	54.00	6.68	5,812,936	1,128,000	1,128,000	-	1.60%
Personnel in Europe and Asia	05-09-30	63.00	9.00	374,400	172,250	172,250	-	0.30%
Personnel in Europe and Asia	06-10-02	18.00	4.33	959,528	221,600	221,600	-	0.30%
Personnel in Europe and Asia	07-10-02	26.00	5.50	573,100	104,200	104,200	-	0.15%
Personnel in the United States	10-09-30	48.00	15.50	2,669,875	172,250	172,250	-	0.30%
Personnel in the United States	06-10-02	18.00	4.30	382,700	89,000	89,000	-	0.10%
Personnel in the United States	07-10-02	26.00	5.50	352,000	64,000	64,000	-	0.09%
				11,124,539	1,951,300	1,951,300	-	2.84%

The proceeds paid to the Parent Company total SEK 12,500,000. No warrants have been redeemed during the 2004 fiscal year or earlier. Proceeds paid are eliminated against consolidated equity. Thus, the consolidated balance sheet and income statement are unaffected.

Note 22 Prepaid expenses and accrued income

	Group			Parent Company	
	2004	2003	2002	2004	2003
Prepaid operating expenses	13,547	17,229	16,671	-	-
Prepaid financial costs and accrued income	7,860	4,922	3,900	7,166	4,503
	21,407	22,151	20,571	7,166	4,503

Note 23 Provisions

	Group		
	2004	2003	2002
Restructuring reserve ¹⁾	-	500	3,664
Anticipated supplementary purchase payment for software rights ²⁾	5,635	6,505	-
Other provisions	325	76	162
	5,960	7,081	3,826

¹⁾ The item pertains to rental leases and was settled during the 2004 fiscal year. No new provisions were made during 2004.

²⁾ The item will be settled on a continual basis from 2005 through the 2006 fiscal year.

	Group		
	2004	2003	2002
Balance, beginning of year	7,081	3,826	16,125
Provisions for the year	249	6,505	-
Provisions utilized during the year	-1,370	-3,250	-12,299
Balance, end of year	5,960	7,081	3,826

Note 24 Tax equalization reserves

	Parent Company	
	2004	2003
Tax allocation reserve, 1999 tax year	-	2,767
Tax allocation reserve, 2000 tax year	-	2,268
	-	5,036

Note 25 Long-term liabilities

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

Note 26 Accrued expenses and prepaid income

	Group			Parent Company	
	2004	2003	2002	2004	2003
Accrued payroll expense	20,707	19,240	18,000	-	-
Accrued employer's contributions	11,973	12,649	11,666	-	-
Other accrued expenses	22,167	18,552	28,837	686	1,137
	54,847	50,441	58,503	686	1,137

Note 27 Contingent liabilities

	Parent Company	
	2004	2003
Contingent liabilities on behalf of other Group companies	7,513	3,585
	7,513	3,585

Note 28 Definitions

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

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

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

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

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

The Parent Company's income statement and balance sheet and the consolidated income statement and balance sheet will be established at the Annual General Meeting on April 19, 2005.

Lund, February 8, 2005

Mikael Karlsson
Chairman

Ray Mauritsson
President

Patrik Tigerschiöld

Martin Gren

Nils Rydbeck

Lars-Erik Nilsson

Our audit report was submitted on February 8, 2005.

Öhrlings PricewaterhouseCoopers AB

Anders Lundin
Authorized Public Accountant
Auditor-in-charge

Dan Andersson
Authorized Public Accountant

To the general meeting of the shareholders of Axis AB (publ)
Corporate Identity Number 556241-1065

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the president of Axis AB (publ) for the year 2004. These accounts and the administration of the company are the responsibility of the board of directors and the president, as is the assurance that the annual accounts have been prepared in accordance with the Annual Accounts Act. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

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

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

We recommend to the general meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit for the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the president be discharged from liability for the financial year.

Lund, February 8, 2005
Öhrlings PricewaterhouseCoopers AB

Anders Lundin
Authorized Public Accountant
Auditor in charge

Dan Andersson
Authorized Public Accountant

Quarterly data

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Full year
Invoiced sales by product group (SEK 000s)	2003	2003	2003	2003	2004	2004	2004	2004	2004
Video	78,849	84,522	88,040	104,817	96,744	115,193	117,576	144,563	474,076
Print	60,796	57,795	54,063	46,932	43,053	45,832	39,010	41,154	169,049
Scan	3,042	2,047	2,232	3,033	1,871	935	5,824	2,932	11,562
Store	5,512	3,415	5,154	4,285	3,025	1,936	2,243	2,483	9,687
Access	338	573	850	292	3,428	265	163	82	3,938
Övrigt	4,014	4,536	4,424	4,076	3,948	3,413	7,682	8,126	23,169
Total	152,551	152,888	154,763	163,435	152,069	167,574	172,498	199,340	691,481

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Full year
Invoiced sales by region (SEK 000s)	2003	2003	2003	2003	2004	2004	2004	2004	2004
EMEA	72,859	75,577	74,378	85,525	78,058	81,019	83,022	105,130	347,229
Americas	42,137	41,198	45,592	43,478	39,713	55,127	56,530	58,149	209,519
Asia	37,555	36,113	34,793	34,432	34,298	31,428	32,946	36,061	134,733
Total	152,551	152,888	154,763	163,435	152,069	167,574	172,498	199,340	691,481

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Full year
Income statement (SEK 000s)	2003	2003	2003	2003	2004	2004	2004	2004	2004
Net sales	152,551	152,888	154,763	163,435	152,069	167,574	172,498	199,340	691,481
Gross profit/loss	81,949	80,783	79,068	79,930	74,915	86,585	92,368	105,646	359,514
Gross margin	53.7%	52.8%	51.1%	48.9%	49.3%	51.7%	53.5%	53.0%	52.0%
Net operating profit/loss	555	-4,290	813	4,064	-5,942	7,885	17,637	28,792	48,372
Operating margin	0.4%	2.8%	0.5%	2.5%	-3.9%	4.7%	10.2%	14.4%	7.0%
Net profit/loss after financial items	2,656	-657	458	5,867	-1,644	9,001	18,597	31,115	57,069

Multi-year summary

Income statements, SEK 000s	1996/1997	1997/1998	1998/1999	1999/2000	2000, 8 months	2001	2002	2003	2004
Net sales	393,659	521,715	559,789	695,183	493,651	696,333	670,277	623,637	691,481
of which, Netch ¹	-	-	-	60,703	42,844	20,479	-	-	-
Costs of goods and services sold	-194,582	-245,825	-238,835	-323,429	-283,356	-340,754	-286,270	-301,906	-331,968
Gross profit	199,077	275,890	320,954	371,754	210,295	355,579	384,007	321,731	359,514
of which, Netch	-	-	-	23,108	-18,109	-5,903	-	-	-
Selling costs	-110,512	-174,305	-184,212	-239,229	-186,648	-212,011	-177,522	-165,062	-152,025
Administrative expenses	-24,338	-29,446	-36,950	-62,812	-53,483	-66,262	-56,334	-44,766	-42,277
Research and development expenses	-49,538	-76,709	-93,657	-144,585	-133,065	-151,052	-117,847	-111,982	-114,787
Items affecting comparability	-	25,959	-	-	-	-33,296	-	-	-
Other interest income	14,111	-	-	-	-	-	7,354	1,221	-
Other interest expense	-	-3,233	-1,163	-7,358	-2,139	-6,922	-	-	-2,053
Result from participations in associated companies	-	-2,865	2,115	-	15	158	-	-	-
Operating profit/loss	28,800	15,291	7,087	-82,230	-165,025	-113,806	39,658	1,142	48,372
of which, Netch	-	-	-	-11,534	-56,877	-30,521	-	-	-
Net financial items	-701	-4,117	-6,274	19,901	-5,710	-35,687	11,778	7,183	8,697
Profit/loss after financial items	28,099	11,174	813	-62,329	-170,735	-149,493	51,436	8,324	57,069
of which, Netch	-	-	-	-12,409	-58,638	-31,691	-	-	-
Tax for the period	-11,660	-1,700	-2,859	18,942	35,790	48,445	-15,581	-10,900	-19,732
Minority share in profit/loss for the period	-	-	-	-8,281	27,091	10,941	-	-	-
Net profit/loss for the year	16,439	9,474	-2,046	-51,668	-107,854	-90,107	35,855	-2,576	37,337

Balance sheets, SEK 000s	Apr. 30, 97	Apr. 30, 98	Apr. 30, 99	Apr. 30, 00	Dec. 31, 00	Dec. 31, 01	Dec. 31, 02	Dec. 31, 03	Dec. 31, 04
Fixed assets	36,109	32,636	37,218	79,420	148,651	136,611	122,434	132,532	117,930
Inventories	49,369	81,522	77,587	69,887	60,119	46,628	57,944	67,074	85,788
Accounts receivable – trade	87,075	102,390	102,277	131,996	137,960	106,339	88,385	94,078	107,032
Other receivables	13,813	17,506	31,427	34,522	73,247	18,828	31,714	36,909	37,767
Liquid funds	40,509	10,203	-	12,419	195,993	180,773	129,956	102,978	121,023
Total	226,875	244,257	248,509	328,244	615,970	489,179	430,483	433,571	469,540
Equity	79,092	87,056	85,010	27,140	379,739	273,014	312,532	300,324	339,387
Minority interests	-	-	-	9,905	12,125	-	-	-	-
Provisions	14,376	12,646	11,342	549	3,707	16,125	3,826	7,081	6,830
Long-term liabilities	53,587	67,495	79,713	162,822	51,363	50,000	-	10,200	6,375
Current liabilities	79,820	77,060	72,444	127,828	169,036	150,040	114,125	115,966	116,948
Total	226,875	244,257	248,509	328,244	615,970	489,179	430,483	433,571	469,540

Cash-flow statements, SEK 000s ²	1997/1998	1998/1999	1999/2000	2000, 8 months	2001	2002	2003	2004
Cash flow from current operations before change in working capital	2,664	5,932	-79,978	-107,706	-80,502	45,819	15,279	58,881
Change in working capital	-53,921	-14,493	30,270	-6,287	54,922	-39,006	-17,119	-29,038
Cash flow from current operations	-51,257	-8,561	-49,708	-113,993	-25,537	6,813	-1,840	29,843
Cash flow from investing activities	14,351	-12,985	-15,232	-38,465	-12,460	-15,404	-28,462	-14,767
Cash flow from financing activities	6,870	10,875	77,827	336,032	22,820	-42,226	3,324	2,969
Cash flow for the period	-30,306	-10,671	12,887	183,574	-15,220	-50,817	-26,978	18,045
Liquid funds at beginning of the period	40,509	10,203	-468	12,419	195,993	180,773	129,956	102,978
Liquid funds at end of period	10,203	-468	12,419	195,993	180,773	129,956	102,978	121,023

Operating cash flow, SEK 000s	1996/1997	1997/1998	1998/1999	1999/2000	2000, 8 months	2001	2002	2003	2004
Profit/loss after financial items	28,099	11,174	813	-62,329	-170,735	-149,493	51,436	8,324	57,069
Depreciation	5,267	7,233	8,110	13,030	13,344	19,382	13,712	9,054	10,501
Tax	-16,714	-5,658	-3,870	-1,726	-797	-2,311	-4,189	-4,071	-1,307
Total	16,652	12,749	5,053	-51,025	-158,188	-132,422	60,959	13,307	66,263
Change in working capital	-9,722	-53,921	-14,493	30,270	-6,287	54,922	-39,006	-17,119	-29,038
Net investments	-5,849	-17,814	-11,831	-29,634	-38,465	-12,460	-15,404	-28,462	-14,767
Operating cash flow	1,081	-58,986	-21,271	-50,389	-202,940	-89,960	6,549	-32,274	22,458

¹ During the second quarter of 2001, Axis completed a restructuring that included the sale of its 59-percent holding in Netch Technologies.

² Figures for 1996/1997 not available.

Key ratios

Key ratios						2000,				
	1996/1997	1997/1998	1998/1999	1999/2000	8 months ¹	2001	2002	2003	2004	
Net sales growth (%)	20.2	32.5	7.3	24.2	2.6	-1.62	-0.8	-7.0	10.9	
Gross margin (%)	50.6	52.9	57.3	53.5	42.6	51.1	57.3	51.6	52.0	
Operating margin (%)	7.3	2.9	1.3	-11.8	-33.4	-16.3	5.9	0.2	7.0	
Profit margin (%)	7.1	2.1	0.1	-9.0	-34.6	-21.5	7.7	1.3	8.3	
Depreciation (SEK M)	5.0	7.2	8.1	13.0	20.0	19.4	13.7	9.1	10.5	
Equity (SEK M)	79	87	85	27	380	273	313	300	339	
Capital employed (SEK M)	133	155	165	200	447	339	311	315	352	
Interest-bearing liabilities (SEK M)	54	67	80	163	51	50	-	10	6	
Net interest-bearing liabilities (SEK M)	13	57	80	150	-145	-131	-130	-93	-115	
Total assets (SEK M)	227	244	249	328	616	489	430	434	470	
Return on capital employed (%)	30.3	18.3	5.3	-28.8	-74.0	-26.8	16.5	2.9	37.5	
Return on total equity (%)	17.6	11.2	3.4	-18.2	-50.7	-19.1	11.7	2.1	27.7	
Return on shareholders' equity (%)	21.7	11.4	0.9	-111.3	-125.8	-45.8	12.6	2.0	28.0	
Interest coverage ratio (multiple)	5.5	1.7	1.1	-5.4	-14.3	-2.4	24.0	13.8	173.9	
Net debt/equity ratio (multiple)	0.2	0.7	0.9	5.6	-0.4	-0.5	-0.4	-0.3	-0.3	
Equity/assets ratio (%)	34.9	35.6	34.2	11.3	63.7	55.8	72.8	69.3	72.3	
Share of risk-bearing capital (%)	41.2	40.8	38.8	11.3	63.7	57.4	73.9	69.9	72.4	
Capital turnover rate (multiple)	3.5	3.6	3.5	3.8	2.3	1.8	2.1	2.0	2.4	
Number of employees (average for period)	165	243	313	445	540	439	334	356	346	
Sales per employee (SEK M)	2.4	2.1	1.8	1.6	1.4	1.6	2.0	1.8	2.3	
Operating profit per employee (SEK M)	0.2	0.1	0.0	-0.2	-0.5	-0.3	0.1	0.0	0.3	

Per-share data						2000,				
	1996/1997	1997/1998	1998/1999	1999/2000	8 months ¹	2001	2002	2003	2004	
Profit/loss after financial items, SEK	0.24	0.14	-0.03	-1.10	-3.89	-2.17	0.75	0.12	0.83	
Cash flow, SEK					4.19	-0.22	-0.74	-0.39	0.26	
Equity, SEK	1.40	1.54	1.51	0.20	5.50	3.96	4.53	4.36	4.93	
Share price at year-end	-	-	-	-	17.50	25.00	18.40	17.00	18.00	
Share price/shareholders' equity, %	-	-	-	-	318	631	406	390	365	
Dividend	0.04	-	-	-	-	-	-	0.15	-	
Price/earnings ratio (P/E)		-	-	-	-	-	35	-	33	
Market value/sales (P/S)		-	-	-	1.6	2.5	1.9	1.9	1.8	
Total number of shares outstanding (000s)	56,400	56,400	56,400	56,400	68,900	68,900	68,900	68,900	68,900	
Average number of shares (000s)	56,400	56,400	56,400	56,400	65,775	68,900	68,900	68,900	68,900	

¹ Where applicable, key ratios adjusted for 12 months.

² Compared with pro forma for 2000.

DEFINITIONS

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

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

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

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

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

Gross margin Gross profit as a percentage of net sales.

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

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

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

Operating margin Operating profit as a percentage of sales.

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

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

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

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

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

Earnings per share Profit for the period after net financial items divided by the average number of shares (adjusted to 12 months for 2000).

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

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

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

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

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

Board of Directors and Auditors



MIKAEL KARLSSON



PATRIK TIGERSCHIÖLD



MARTIN GREN



NILS RYDBECK



LARS-ERIK NILSSON

MIKAEL KARLSSON

Born 1962. Chairman of the Board of Directors. President of LMK Industri AB. Vice chairman of the Institute for Economic Research at Lund University. Board member of Beijer Electronics AB, Björkliden Fjällby AB, Decuma AB, G&L Beijer AB, Beijer Industriteknik AB, SEB in Lund, Teligent AB, Visionalis AB, Southern Sweden Chamber of Commerce and Industry and Öresund Science Region. Member of the Royal Academy of Engineering Sciences and the advisory committee for the Lund School of Economics. Member of the Board since 1984. President 1984–1999. Chairman since 2000. Shares in Axis: 15,645,764¹⁾. Warrants in Axis: 0.

PATRIK TIGERSCHIÖLD

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

MARTIN GREN

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

NILS RYDBECK

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

LARS-ERIK NILSSON

Born: 1943. Chairman of Decuma AB, IT Hantverkarna and Informationsförlaget Heimdahls AB. Board member of Banqit AB, Consellar AB, Luvit AB, Technology Nexus AB and Teligent AB. Board member since 2003. Shares in Axis: 7,000. Warrants in Axis: 0.

¹⁾ Privately and through LMK Industri AB.

²⁾ Through AB Grenspecialisten.

AUDITORS

Öhrlings PricewaterhouseCoopers

Senior auditor

Anders Lundin, born 1956

Authorized Public Accountant

Assigned to Axis since 1996.

Dan Andersson, born 1956

Authorized Public Accountant

Assigned to Axis since 2001.

Shareholdings as of December 31, 2004

Senior executives



RAY MAURITSSON



FREDRIK SJÖSTRAND



ANDERS LAURIN



JOHAN LEMBRE



BODIL SONESSON



PER ÄDELROTH

RAY MAURITSSON

Born 1962. President and Chief Executive Officer. Employed in Axis since 1995. Shares in Axis: 19,000. Warrants in Axis: 11,000.

FREDRIK SJÖSTRAND

Born 1969. Chief Financial Officer, as of May 2004. Employed in Axis since 1998. Shares in Axis: 10,800. Warrants in Axis: 22,000.

ANDERS LAURIN

Born 1960. Executive Vice President, Corporate Strategy. Employed in Axis since 1997. Shares in Axis: 10,850. Warrants in Axis: 41,000.

JOHAN LEMBRE

Born 1966. Vice President, Product Management. Employed in Axis since 1999. Shares in Axis: 2,750. Warrants in Axis: 6,000.

BODIL SONESSON

Born 1968. Vice President, Sales and Marketing. Employed in Axis since 1996. Shares in Axis: 2,750. Warrants in Axis: 6,000.

PER ÄDELROTH

Born 1966. Vice President, Operations, as of April 2004. Employed in Axis since 1994. Shares in Axis: 17,250. Warrants in Axis: 16,000.

Shareholdings as of December 31, 2004.

Corporate governance

THE SWEDISH CODE OF CORPORATE GOVERNANCE

The Swedish Code of Corporate Governance was published on December 16, 2004. Based on self-governance in accordance with the principle of “comply or explain,” the code mainly addresses the Annual General Meeting’s, Board’s and executive management’s organization and work forms as well as coordination between these bodies. It includes rules about the composition of the Board and appointing auditors, the Board’s responsibility for internal control, the process for determining remuneration to executive management and information about corporate governance. Axis AB intends to apply the code as of July 1, 2005 when it is expected to be incorporated in the rules of the Stockholm Stock Exchange.

ANNUAL GENERAL MEETING

The Annual General Meeting in Axis AB (pub) is the highest governing body in the Company and also the forum through which shareholder can exercise their influence over the Company. The Annual General Meeting was held in Lund, Sweden on May 13, 2004. The Annual General Meeting re-elected the Board of Directors. The Annual General Meeting also decided that no dividend would be paid for the 2003 fiscal year.

THE BOARD OF DIRECTORS

During the time between the Annual General Meetings, the Board of Directors of Axis AB (publ) is the highest governing body in the Company. The Board of Directors’ duties are regulated in the Swedish Companies Act and in the Articles of Association. In addition, the Board of Directors’ work is governed by the working

procedure that the Board of Directors approves each year. This working procedure also regulates the division of work between the Board of Directors, its Chairman and the President and describes financial reporting routines for the President.

The Board of Directors devoted an important part of its work during the year to a deepening of the strategy in the growth product area Video, as well as an analysis of the strategy for the mature product area Print.

During the year, the Board of Directors closely monitored the earnings trend and addressed issues regarding management’s composition and the Group’s accounting and finance functions against the background of the departure of the CFO and vice president of Axis during the spring. Other important decision points were investments in technology, organizational changes and IT strategies.

During the time between the Annual General Meeting and the date of publication of this Annual Report, the Board of Directors held seven meetings in addition to the statutory meeting.

At the statutory meeting on May 13, 2004, the Board of Directors re-elected Mikael Karlsson as Chairman. The Chairman follows business development and is responsible to ensure that the other members of the Board of Directors received the information required to enable them to conduct the work of the Board of Directors in accordance with the Swedish Companies Act and with retained quality.

In addition, the Chairman of the Board of Directors plus an additional Board member participated in certain projects focused on strategy, business and product development.

Since the Board of Directors only consists of five members, it was decided not to establish an Audit Committee. Instead, these issues are handled by the Board of Directors in its entirety, meaning that the Board continuously monitors the Company's financial position. To guarantee information requirements, the Company's auditors report to the Board of Directors on two occasions during the fiscal year at which time they present their assessment and their observations from reports, accounting records and business processes. Furthermore, the Chairman holds an additional meeting and maintains regular contact with the auditors.

PRESIDENT AND MANAGEMENT

The President leads operations in accordance with the Board of Directors' guidelines and instructions. The President informs the Board of Directors and the Chairman continuously regarding the Company and the Group's financial position and development. Group management, which comprises 6 persons, held 13 formal and a large number of informal meetings during the year.

AUDITORS

Axis' auditors are elected by the Annual General Meeting for a period of four years. The Company's auditors are the authorized accounting company Öhrlings PricewaterhouseCoopers AB with Anders Lundin as lead auditor. Öhrlings PricewaterhouseCoopers AB has held the position of auditor in Axis since 1996.

COMPOSITION OF THE BOARD OF DIRECTORS

Axis' nomination committee consists of representatives for the three largest owners, Mikael Karlsson (LMK Industri AB), Patrik Tigerschiöld (Skanditek Industrieförvaltning AB) and Martin Gren (AB Grenspecialisten). Mikael Karlsson, who is also the Company's Chairman, is the convener. Proposals and comments regarding the composition of the Board of Directors may be submitted to the Chairman of the Board under the address Mikael Karlsson, Axis AB, Emdalavägen 14, SE-223 69 Lund or by phone to +46-46-27218 01.

Glossary

ASIC Application Specific Integrated Circuit. A circuit designed for a specific application rather than a circuit for more general functions, such as a microprocessor. The use of ASIC as components of electronics products can improve performance, reduce power consumption, enhance safety and lower costs.

CCTV Closed Circuit Television. A private video system inside a building or facility for visual surveillance of a location, for security or industrial purposes.

IP Internet Protocol. A communications transport protocol used for transmitting data over the Internet. See also TCP/IP.

Linux Linux is an open-source operating system within the Unix family. Due to its stability and accessibility, Linux has become popular in the open source world and among commercial applications.

MCM Multi-chip module. Several chips combined in a single encapsulation.

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

OEM Original Equipment Manufacturer. Designation of a company that manufactures equipment that is subsequently marketed and sold by other companies under their own names.

Print server A thin server that connects a printer to a network and enables the users to share the printer. May be a separate box or a card inserted in the printer.

Protocol A set of formal rules that describe how data is to be transmitted over a network. Low-level protocols define electrical and physical standards, while high-level protocols relate to data formatting. TCP and IP are examples of high-level protocols.

Server A computer or software application that provides services to other computers that are connected to it in a network. the most common example is a file manager that has a local hard drive and manages requests from clients to read and write files to the drive.

TCP/IP Transmission Control Protocol over Internet Protocol. The TCP/IP protocol defines how data can be securely transmitted between networks. TCP/IP is the most widespread communications standard and it is the foundation of Internet functioning.

USB Universal Serial Bus. External data bus for data transmission.

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

Invitation to the Annual General Meeting

The Annual General Meeting will be held at Edison Park on Emdalavägen 14 in Lund on Tuesday, April 19, 2005 at 5:00 p.m.

Shareholders who want to participate in the Annual General Meeting must be registered in the share book held by VPC AB not later than April 8, 2005. Shareholders who have their shares registered by trustees must ensure, in good time, that the bank or asset manager that manages the shares carries out temporary owner registration, or voting rights registration, a few bank days prior to April 8, 2005. Participants must register with Axis AB not later than 4:00 p.m. on Wednesday, April 13, 2005.

To register, participants must provide their name, personal ID number or corporate registration number, address and telephone number. Shareholders wishing to participate by proxy must send in their proxy authorization prior to the meeting. Shareholders must indicate the number of assistants they plan to bring with them to the meeting when they register.

Registration may be done

- in writing to Axis AB, attn. Åsa Haapasaari, Emdalavägen 14, SE- 223 69 Lund, Sweden
- by telephone to the Head Office of Axis AB, Tel. No. +46-46-272 18 00, or
- by e-mail to bolagsstamma@axis.com

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