

August 30, 2000

## Axis AB (publ) Interim Report May - July 2000

### General business information

Axis' vision is to increase the user-value of networks by enabling network connectivity any place, any time and in any way. Axis' business concept is to make it easy and affordable for users to connect all types of electronic equipment to networks for efficient and extended access to different services, resources and units.

In 1998 Axis initiated a fourth development phase, in line with the company's basic vision for IP-based network connectivity. As a result, considerable expensed investments have been made during the quarter in both of the new Divisions, Mobile

### Internet and Technology.

The company's business concept is fundamentally based on the ever-growing volume of data communication stemming from peoples' desire to access information whenever they want, wherever they are. The ultimate driving force behind this is the need to communicate and the desire to have access to everything.

By customizing functionality, it is possible to design small and powerful products for connection and control of units in a network. In line with this trend, Axis' products are based on a common platform, Axis ThinServer technology, which consists of the fundamental building blocks for connecting equipment to a data network and making the equipment accessible via a web interface. This makes the network more intelligent.

Axis is organized into five Divisions focusing on product development and related business development, a well-developed sales and logistics organisation and support functions for research and core technology.

The Document, Camera and Storage Divisions develop and market hardware and software solutions that support communication between a large number of different operating systems and protocols, for different types of peripheral equipment, e.g. printers, scanners, cameras and storage media, to IP-based data networks.

The Mobile Internet Division develops products and system solutions that enable wireless broadband access to local networks and to the Internet.

The Technology Division markets Axis' Linux-based technology platform to external clients and is responsible for supplying technology internally to the other Axis Divisions.

At the AGM on 30 August, the board proposed to increase the number of board members to seven. The principal owners have nominated Dr. Östen Mäkitalo as the new board member. This move further demonstrates Axis' ambitions with regard to wireless communication and Mobile Internet and confirms Axis 3G's supplementary strategy. Östen Mäkitalo is the man behind a large number of technical advances, such as NMT and GSM.

### Turnover

So far this year, the European IT market targeting large corporations has been weaker than expected, particularly in the UK, Germany and France. The weak European market has negatively affected sales of print servers and CD servers (see below). During the quarter, a strategic drive has been undertaken to strengthen Axis' European presence. As a result, Axis has entered contracts with seven new major distributors.

Axis' American sales have shown a positive development following the problems with distribution channels that negatively affected sales during the second half of the previous financial year. Axis' investments in the Japanese market organization continue to generate growth. The other Asian markets are also showing strong growth. During the quarter, Axis has undertaken some restructuring of Asian operations in order to further strengthen the company's competitiveness in the region.

#### Document Division

During the quarter, Axis strengthened its co-operation with Canon on the development of integrated print servers for Canon's laser printers and multi-functional products. The alliance means that Axis will become one of Canon's largest global suppliers of network solutions. Building Axis' solutions into Canon's products is the latest result of several years' co-operation between the two companies. Axis has supplied external print servers for Canon printers for almost three years. In June, a prototype of the AXIS 5800 Mobile Print Server, the first mobile print solution ever to use Bluetooth(TM) wireless technology, was demonstrated at the International Bluetooth Congress (IBC) in Monte Carlo. Axis 5800 Mobile is an external print server that will enable the usage of Bluetooth to generate printouts from mobile phones or laptops on a normal printer. Other mobile print solutions are expected to be launched later this year and during the first six months of 2001.

Axis' mobile printing solutions have attracted a great deal of interest. In order to strengthen its leading position, the company has decided to double its investments in mobile printing this year.

However, the successes in the OEM area and the other growth areas within the Document Division have not fully compensated for a weak external print server market.

#### Camera Division

Turnover for the Camera Division increased during the period by 133 per cent to SEK 41.0 million. (17.6). The strong sales growth shows that the Camera Division represents a growing portion of Axis' turnover, as forecast. Growth in sales is positive for all product areas within the Camera Division, both for Network Cameras and Video Servers.

Axis has initiated an alliance with Sensormatic Electronic Corporation to develop new surveillance opportunities for IP-based networks. The two companies are working together on a browser-based Video Server that can deliver video images and alarms over Ethernet, Internet and the regular telephone network. The cooperation combines Axis' strength in network products with Sensormatic's expertise in video management.

The events during the past quarter have further strengthened Axis' position as a world-leader in the network camera segment.

#### Storage Division

The Storage Division has been negatively affected during the quarter by the current weak demand in the European IT market that targets large corporations. Sales of CD/DVD servers have fallen by SEK 22,8 million compared with the corresponding period last year. Major efforts have been made in the CD area to try to make the distribution channels invest in a large number of small-scale

solutions instead of only a few, large-scale varieties. These efforts are now starting to produce results and it is estimated that they will lead to an increase in server sales in the long-term. After a slow period, the market in England has shown a recovery.

With regard to hard-disk servers, an improvement can be noted in Europe, and work in the last quarter has focused on contracting a number of major partners.

#### Mobile Internet Division

Mobile Internet is a new Division within Axis that aims to create prerequisites for new wireless broadband services in local unlicensed mobile systems as an alternative and supplement to cellular systems such as GSM, GPRS and 3G. During the period, a new business center in Stockholm has been set up.

Bluetooth Access Point from Axis received a great deal of interest when it was presented in the spring and early summer at Network+Interop in Las Vegas, Network+Interop in Tokyo and at the International Bluetooth Congress (IBC) in Monte Carlo. At the congress in Monte Carlo, an alliance was entered between Axis and the American company Socket Communications Inc. in order to be able to offer total solutions for fast and wireless connections to LAN and Internet using, among other things, Bluetooth Access Point from Axis.

Axis has become an Associated Member of the Bluetooth Special Interest Group (SIG) and has been elected to take part in three technology development working groups: Extended Service Discovery, Printing Profile and Personal Area Network (PAN).

To strengthen its position within wireless network solutions and Mobile Internet, Axis AB has invested another USD 1.5 million in the American technology company nBand Communications Inc. Thus, Axis remains the largest industrial owner in nBand, with 10,9 per cent of the share capital. With the investment in nBand and a local presence in Silicon Valley, the company has excellent insight into developments in wireless communications on the American market. At the same time, the American venture capital company VantagePoint Venture Partners also invested in nBand.

#### Technology Division

The Technology Division is another new Division, focusing on the external marketing of Axis' ThinServer circuit technology for network connectivity for all types of electronic equipment.

In July 2000, Axis launched a development card, Axis Developer Board, that functions as a platform for efficient, fast and flexible development of integrated network systems. The card enables developers to rapidly test new applications without having to design their own hardware, thus minimizing time-to-market.

The open source code for Axis' Linux solutions is available on Axis' home page. The launch has attracted much international interest among Linux developers and the Axis' home page where the source code is available is often visited several hundred times per day. Axis is now further developing its Linux technology and is intensifying its co-operation with strategic partners such as the American software manufacturer Red Hat.

#### Netch Technologies

Netch Technologies, in which Axis has a 50 per cent shareholding, was consolidated from the financial year 1999/00. Netch's business concept is to use Internet technology to supply market-leading expertise, products and system solutions for transaction-based and interactive communicative markets that are individually adapted. The company has continued its development

of mobile services and technology platforms, and has, during the quarter, in co-operation with Axis intensified its efforts in the business and technical development of system solutions and mobile commerce applications for local, unlicensed mobile systems based on Bluetooth. Sales for Netch during the quarter amounted to SEK 18.6 million (SEK 13.8 million). Loss after financial items, which was affected by significantly increased development and establishment costs, amounted to SEK -14.9 million (SEK 0,6 million). Since the turn of the year 1999/2000, the number of employees has more than doubled, and is at the moment approximately 170.

During the quarter, the new mobile service Cab2Me for the taxi industry was presented at the "Taxi 2000" trade fair in Malmö. Cab2Me has been started on the initiative of Netch Technologies, which has also delivered the technical solution. Furthermore, Netch's technology platform Netch/the\_key/ has been used for the portal Fanglobe.com, where different artists are given the opportunity to communicate with their fans.

#### Earnings

During the period, the group made an operating loss of SEK 60.2 million (profit of SEK 1.6 million). As expected, the group made an operating loss for the period. Investments in research and development, as well as businessdevelopment in growth areas such as wireless network connectivity (Mobile Internet and Mobile Print) and image and video management via LAN/Internet (Camera), amounted to SEK 53.2 million during the period. The number of employees in Axis AB amounted to 487 at the end of the period.

#### Cash flow and financial position

The group's cash flow during the period amounted to SEK 250.8 million (SEK 0.9). Net investments during the quarter amounted to SEK 21.2 million. After the new capital issue in connection with the listing of Axis, the group's liquid assets amount to SEK 263.3 million. Funds generated from the new capital issue have been invested in interest-bearing securities with a K1 rating.

#### Shareholders' equity

After the new capital issue of 12 500 000 shares in connection with the listing of Axis, the total number of shares on July 31, 2000, was 68 900 000. The new capital issue, which was undertaken at SEK 38 per share, provided the company with SEK 448 million after deductions for issue costs. The equity/assets ratio on July 31 was 69 per cent.

#### Incentive program

On May 3, 2000, an extraordinary general meeting approved the Axis board of directors' decision to offer employees in the Axis group a total of 1 128 000 warrants. An issue of warrants and a transfer to employees have been implemented during the period.

#### Financial targets

Axis' growth target for the next five years (the current financial year being the first year) is to increase sales by an average of 30 per cent per year, and to achieve a pre-tax margin of 10-15 per cent in three years' time. A further goal stipulated by Axis is that the equity/assets ratio should not normally fall below 50 per cent.

#### Financial year

The Axis board of directors has proposed to the AGM on 30 August 2000 that the financial year is changed to coincide with the calendar year. If the AGM adopts the proposal of the board, the current financial year will be shortened to cover May 1, 2000, to December 31, 2000.

Next financial report

The report for the six-month period May 1, 2000, to October 31, 2000, will be published on November 29, 2000.

Lund, August 30, 2000

The Board of Directors

This interim report has not been subject to examination by the company's accountants.

The full report including tables can be downloaded from the enclosed link.

[Interim Report May - July 2000](#)

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