

Year-end Report for AudioDev AB (publ)

January 1 – December 31, 2003

(Figures in brackets relate to the period January-December 2002)

- *Net sales increased by 29% to SEK 273.0 (212.0) million.*
- *Profit after financial items improved by 149% to SEK 54.2 (21.8) million.*
- *Profit per share amounted to SEK 2.35 (0.92)*
- *The backlog of orders was SEK 45.3 (2.4) million at the end of the year.*
- *The year has been characterised by a high demand for test equipment for recordable DVD (DVD-R/RW).*
- *The Board of Directors proposes a dividend of 2.00 (0.75) SEK per share.*

	Jan-Dec 2003	Jan-Dec 2002	Oct-Dec 2003	Oct-Dec 2002
<i>Net sales, SEK million</i>	273.0	212.0	58.4	48.4
<i>Profit after financial items, SEK million</i>	54.2	21.8	7.4	-8.2
<i>- as % of net sales</i>	19.9	10.3	12.7	-16.9
<i>Profit after tax, SEK million</i>	39.2	15.3	4.9	-5.7
<i>- as % of net sales</i>	14.4	7.2	8.4	-11.8
<i>Profit per share, SEK</i>	2.35	0.92	0.29	-0.34
<i>Backlog, SEK million</i>	45.3	2.4	45.3	2.4

About AudioDev

AudioDev is a world-leading manufacturer of test equipment for quality control of optical media such as CDs and DVDs. The parent company has its head office in Malmö, Sweden, which is the base for activities in Europe. Sales and services offices in the US, Hong Kong and Taiwan are responsible for the North American and Asian markets. In addition, AudioDev has built up a significantly important network of agents in all countries and regions. AudioDev's products are sold under the brands CATS and Go!. The products in the CATS series are regarded as the de facto industry standard for quality testing for all formats on the market. Go! is a new brand with products optimised for process control. AudioDev also offers an extensive service network, as well as customised training and independent test analyses via AudioDev's TestCenter. AudioDev's customers include Technicolor, Ritek Global Media, Microsoft, EMI, Warner, Sonopress, Pioneer, Cinram, Panasonic, MBI and CMC. AudioDev has been listed on the Stockholm Stock Exchange since September 2000.

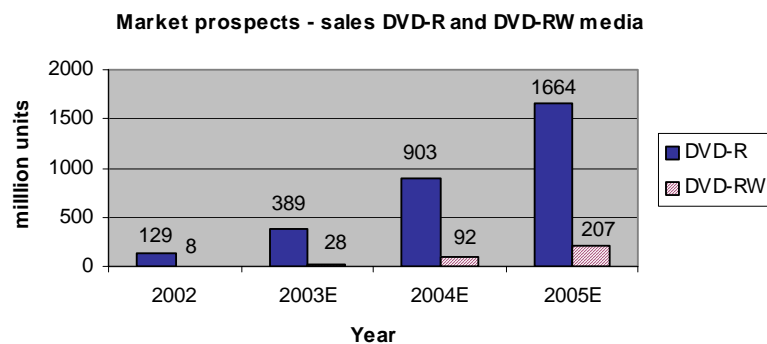
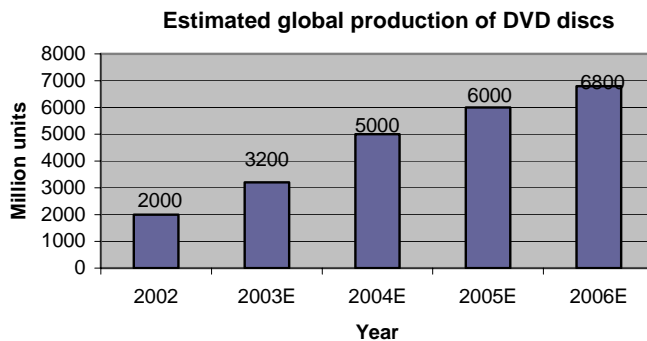
The market

The market for optical media is dominated by disc manufacturers, electronics companies manufacturing DVD and CD players and content suppliers such as film, and record companies, and manufacturers of computer games and software. The market also includes suppliers of production equipment, raw materials and packaging as well as companies manufacturing and supplying test equipment for quality assurance, among them AudioDev.

AudioDev's largest customer group is disc manufacturers. Their need for test and production equipment is governed by consumer demand for discs, but the pattern of investment reveals an irregularity that does not fully follow consumer sales trends. The reason for this is that manufacturers tend to invest heavily in equipment when a format has just become popular, which results in a period of over capacity. This in turn means that demand for test equipment may be low even though consumer demand for the media continues to increase. However, investments increase again after a time partly due to over capacity no longer being a factor, and partly because production processes sometimes change when a format matures. This irregularity in investment patterns is typical of our industry.

Optical media trends

Even if the demand for test equipment does not exactly follow the consumer market for optical media, the trend is a key indicator for the investment needs of the industry. The diagram below illustrates the estimated growth in DVD and DVD-R/RW discs.



Source: Credit Suisse Equity Research, and
Cheuvreux smaller companies research

The DVD player is one of the fastest growing consumer electronics products ever, and the rising number of DVD players on the market is impacting positively on the demand for DVD discs (see diagram). This demand is currently being fuelled primarily by DVD-Video (DVD with film), which is now established as a popular format. However, it is likely that in the long term DVD-ROM will take over the lion's share of the games and software market from CD-ROM. Today, most computers are delivered with a DVD player and an increasing number of games and games consoles such as Microsoft's Xbox and Sony's PlayStation 2 are DVD-ROM based. It is therefore probable that DVD will continue to grow at a steady rate.

Surveys indicate that there is a continued need for investment in DVD-R/RW over the coming years. Demand for this media is growing at a tremendous rate, albeit from a low level (see diagram). The reason is a decline in prices and an increased number of sold DVD players with recording features and computers with DVD burners. DVD-R is the format most in demand. DVD-RW is a format still in the initial stages of its product life cycle.

The CD media has reached a state of maturity and has now entered a phase where investment needs are declining, the bulk of which are being met by reinvestment. However, demand for CD-R media continues to grow, as CD-R is still the primary storage medium having taken over from the floppy disc at the end of the 90s. In addition, prices for CD-R are still low in comparison to DVD-R.

AudioDev's activities 2003

This year's fourth quarter, just like the rest of the year, has been characterised by a high demand for test equipment for recordable DVD manufactured primarily in Asia. The reason for this is the heavy investment throughout the year in production equipment for the DVD-R/RW format by disc manufacturers as a result of increased demand driven by the falling price of recordable discs and players with recording features. Sales trends for AudioDev on the American market, where pre-recorded DVDs are mainly manufactured, have continued to be weak in the fourth quarter. The low willingness to invest in this market has been a noticeable factor, and the market has seen a number of consolidations among major manufacturers.

In 2003, AudioDev experienced a general increase in activity in the market for optical media. This applies principally to the development of existing and new format such as Blu-Ray Disc and HD-DVD. This trend means that higher requirements will be set for quality control and test equipment, which means that AudioDev will be gradually increasing investment in research and development. As a percentage of sales, development costs in 2003 were 16.7 (18.6) percent.

New orders and backlog

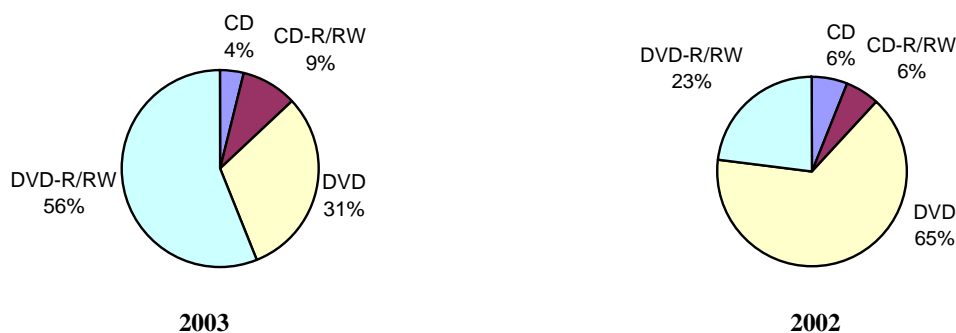
New orders for 2003 amounted to SEK 289.7 (198.5) million, which represents an increase of 45.9 percent compared to the previous year. New orders for the fourth quarter amounted to SEK 81.4 (30.5) million, which is an increase of 166.9 percent in comparison to the fourth quarter in 2003. The greater part of new orders is for analyzers for recordable DVDs.

The backlog of orders was SEK 45.3 (2.4) million at the end of the year. The high backlog of orders depends on a generally high order volume and that many orders were received in the second half of December and were not therefore dispatched to customers.

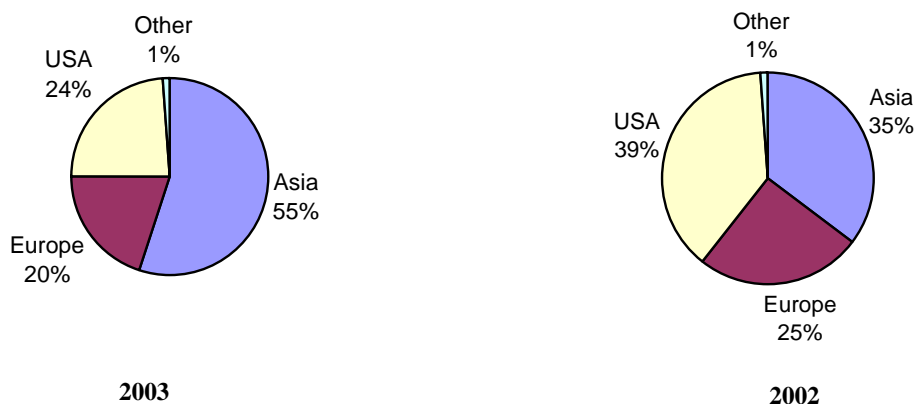
Net sales

Net sales for the period January-December totalled SEK 273.0 (212.0) million, which is an increase of 29 percent compared to 2002. Net sales for the fourth quarter were SEK 58.4 (48.4) million. The bulk of these sales is for analyzers for recordable DVDs. Sales of test equipment for pre-recorded DVDs have dropped in comparison to 2002, which means that this share of sales has declined from 65 percent in 2002 to 31 percent in 2003 (see diagram). Sales of test equipment for CDs have reduced somewhat in comparison to 2002 on a percentage basis, while sales of CD-Rs have increased in comparison to the previous year. This is due to new CD-R manufacturers filling the capacity vacuum that has arisen due to many established manufacturers converting from CD-R to DVD-R manufacturing. The reduction in sales of test equipment for CDs is a natural consequence of this format having reached a state of maturity where minimal new investment is being made. The distribution of AudioDev's geographical markets is closely linked to the development of the various formats (see *AudioDev's activities 2003*).

Net sales per product group



Net sales per geographical market



Profit and margins

Profit after financial items improved for the year by 149 percent when compared to 2002 and totalled SEK 54.2 (21.8) million. Profit after tax was SEK 39.2 (15.3) million. Profit margins increased for the year by 7.2 percentage points from 7.2 percent to 14.4 percent.

The 50% owned associated company AudioDev FarEast, that began its operations January 1, 2003, has contributed with a profit share of SEK 11.7 million to the Group, of which a SEK 3.6 million dividend has been paid to AudioDev AB for the year.

Inventory write-downs totalling SEK 12.9 (10.0) million have been made for the year, which have impacted on the profit for the year. Write downs have been made following an assessment that currently written off components are no longer usable and thereby have no value.

Profit after financial items amounted to SEK 7.4 (-8.2) million for the period October-December, and profit after tax was SEK 4.9 (-5.7) million.

Since the spring of 2003, the group now mainly invoices in EUR. Changing from USD was implemented to enable a more stable structure for future currency risk. Invoicing to the American subsidiary will continue in USD and these receivables have been secured in USD with forward contracts. As of December 31, 2003 the future flow equivalent to USD 2 million had been hedged against Swedish Kronor at an average rate of SEK 8.85. Consideration has been taken to this in the balance sheet. The hedging portfolio matches the receivables from the American subsidiary at the end of the year.

The decline in the value of the dollar, particularly over the first half of the year prior to the change of invoicing currency taking effect, has affected the company and exchange rate differences relating to operations have affected operating profit. However, the company's forward foreign-exchange contracts have reduced the accounting effects and the operating profit has been positively influenced by SEK 8.2 (7.5) million. Net financial income has been positively influenced by 2.1 (3.1) million SEK, equivalent to the difference between the forward rate and the spot rate that has accrued over the duration of the forward contracts.

Investments

Group gross investments in tangible assets have been made at SEK 5.5 (5.3) million for the year. Investments are mainly related to computer and measuring equipment.

Financial position and liquidity

Liquid assets amounted to SEK 214.7 (144.9) million as of 31 December 2003. During the period the majority of the group's liquid assets were held in a money market fund based on treasury discount notes and corresponding securities and commercial papers. Yield on the above was SEK 4.7 million and is included in the net financial income. The net financial income also includes accrued Interest income from forward contracts of SEK 2.1 million. On the accounting date, the Group's short-term investments were SEK 185.0 (106.0) million. Group financial costs amounted to SEK 0.6 (1.3) million for the period.

Equity/assets ratio at December 31, 2003 amounted to 86.6 percent compared to 88.4 percent at the end of 2002. Group shareholders' equity amounted to SEK 309.6 (282.2) million at the end of the year.

Cash flow

The Group showed a positive cash flow from current operations of SEK 80.9 (0.6) million for 2003. Capital accumulation in working capital has dropped by SEK 41 million. This decline in working capital is principally made up of lower inventories and accounts receivable.

Cash flow from current operations for the period October-December amounted to SEK 23.4 (4.8) million.

Personnel

The average number of employees for the period January 1 - December 31, 2003 was 105 (102). AudioDev has increased investment in product development, sales and marketing in the year, which is why the net number of personnel has increased by 10 full-time positions at the end of the year.

The parent company

Net sales for the parent company totalled SEK 255.3 (201.5) million. Profit after financial items was SEK 44.1 (24.1) million. Investments in tangible fixed assets totalled SEK 5.4 (4.0) million. Disposable liquid assets amounted to SEK 211.5 (132.1) million.

During the year, the third of a total of four option schemes matured (see more in the annual report for 2002). A total of 16,500 new shares have been subscribed from this at a rate of SEK 42,50 each in the fourth quarter.

Shareholders' meeting

The Annual General Meeting will be held on Wednesday, April 28, 2004, at 4.30pm in AudioDev's offices, Kabingatan 9, Malmö.

As the Annual General Meeting 2003 decided not to establish a special nomination committee at AudioDev, these matters will be dealt with instead by AudioDev's principal owner, Jan Barchan, in consultation with the five other major owners. Proposals and viewpoints from shareholders with respect to the composition of the Board can be submitted in writing to Jan Barchan, AudioDev AB, Kabingatan 9, SE 212 39 Malmö, Sweden in good time ahead of the AGM in 2004.

Dividend

The board has decided to present a proposal at the AGM for a raised dividend of SEK 2.00 (0.75) per share for 2003, totalling SEK 33.4 (12.5) million, which corresponds to about 85 percent of profit after tax. In its semi-annual report, AudioDev's Board announced that AudioDev had established a new dividend policy. This points to the above proposal for a dividend to the Annual General Meeting 2004, and states the ambition of being able to increase the dividend by an average of 10 percent per year over the coming five years, while taking into account the relevant equity/assets ratio target of 40 percent.

Future reports 2004

March/April	Annual report 2003
April 28	Interim report January – March 2004 & Annual General Meeting
July 15	Interim report January - June 2004.
October 18	Interim report January - September 2004.
February 2005	Accounting report 2004

Miscellaneous

The accounting report and annual report have been drawn up in accordance with the Annual Accounts Act and in accordance with recommendations and declarations from the Auditing Council.

The same key ratio definitions and accounting principles are applied as those in the annual report for 2002.

This Year-End Report has not been examined by the company's auditors.

Malmö, February 13, 2004
AudioDev AB (publ.)

Peter Ragnarsson
Chief Executive Officer and Group Chief Executive

For more information, please contact:

Peter Ragnarsson, Chief Executive Officer
Tel: +46 40 690 49 00
e-mail: peter.ragnarsson@audiodev.com

Anna Thelander, Chief Financial Officer
Tel: +46 40 690 49 42
Mobile: +46 709 694920
e-mail: anna.thelander@audiodev.com

Marielle Noble, Investor Relations
Tel: +46 40 690 49 05
Mobile: +46 709 694980
e-mail: marielle.noble@audiodev.com

Income Statement (MSEK)	Group Oct-Dec 2003	Group Oct-Dec 2002	Group Jan-Dec 2003	Group Jan-Dec 2002
Net sales	58.4	48.4	273.0	212.0
Operating expenses	-54.4	-58.5	-232.9	-191.9
Profit/Loss before depreciation	4.0	-10.1	40.1	20.1
Depreciation	-1.4	-1.7	-4.3	-5.0
Operating profit	2.6	-11.8	35.8	15.1
Profit share from associated companies	3.0		11.7	
Net financial items	1.8	3.6	6.7	6.7
Profit after financial and similar items	7.4	-8.2	54.2	21.8
Tax for the period	-2.5	2.5	-15.0	-6.5
Profit for the period	4.9	-5.7	39.2	15.3
Average no. of shares, thousands	16 705	16 700	16 702	16 482
Average no. of shares after full dilution, thousands	17 160	17 322	17 281	17 317
Profit per share, SEK	0.29	-0.34	2.35	0.92
Profit per share after full dilution, SEK	0.29	-0.33	2.31	0.88
Shareholders' equity per share, SEK	18.53	16.90	18.52	17.12
Shareholders' equity per share after full dilution, SEK	18.04	16.29	18.23	16.30

Balance sheet (MSEK)	31/12/03	31/12/02
-----------------------------	-----------------	-----------------

Assets

Intangible assets	0.4	0.8
Tangible assets	11.4	11.2
Financial assets	7.0	2.1
Liquid assets	214.7	144.9
Other current assets	123.9	160.4
Total assets	357.4	319.4

Shareholders' equity and liabilities

Shareholders' equity	309.6	282.2
Non-interest bearing liabilities and allocations	47.8	37.2
Total liabilities and shareholders' equity	357.4	319.4

Specification of Group equity

	Share capital	Restricted reserves	Non-restricted s'holders' eqty	Total
Opening balance at January 1, 2003	8.4	211.3	62.5	282.2
New shares emission according to incentive programme		0.7		0.7
Reduction of the share premium reserve		-150.0	150.0	
Dividend paid			-12.5	-12.5
Transfer between restricted and non-restricted equity due to changes in untaxed reserves		6.3	-6.3	
Transfer between restricted and non-restricted equity due to associated company accounts		7.9	-7.9	
Exchange rate difference		-1.0	1.0	
Profit for the period			39.2	39.2
Closing balance at Sep 30, 2003	8.4	75.2	226.0	309.6

Cash flow analysis (MSEK)	Group Oct-Dec 2003	Group Oct-Dec 2002	Group Jan-Dec 2003	Group Jan-Dec 2002
Operating profit	2.6	-11.8	35.8	15.1
Adjustments for items not included in the cash flow etc.	3.4	1.7	6.3	5.0
Net financial items excl. assoc. company share	1.8	3.6	6.7	6.7
Tax paid	1.4	0.1	-8.9	-10.8
Changes in working capital	14.2	11.2	41.0	-15.4
Cash flow from current activities	23.4	4.8	80.9	0.6
Net investments in fixed assets	-3.0	-1.5	-5.0	-5.0
Cash flow from investments	-3.0	-1.5	-5.0	-5.0
Changes in long-term receivables	1.4	-2.1	2.1	-2.1
Dividend from assoc. Company	1.9		3.6	
New issues, share options	0.7		0.7	4.3
Paid dividends			-12.5	-12.4
Exchange rate difference	-0.9			0.1
Cash flow from financial activities	3.1	-2.1	-6.1	-10.1
Cash flow for the period	23.5	1.2	69.8	-14.5
Liquid assets at the beginning of the period	191.2	143.7	144.9	159.4
Liquid assets at the end of the period	214.7	144.9	214.7	144.9

Key ratios	Group Oct-Dec 2003	Group Oct-Dec 2002	Group Jan-Dec 2003	Group Jan-Dec 2002
Operating margin, %	4.5	-24.4	13.1	7.1
Profit margin, %	8.4	-11.8	14.4	7.2
Rate of return on capital employed, %	2.6	-2.8	18.3	8.3
Rate of return on shareholders' equity, %	1.6	-2.0	13.3	5.5
Equity/assets ratio,%	86.6	88.4	86.6	88.4
No. of employees, average	112	102	105	102
Net sales per employee, KSEK	521	475	2 600	2 078
Operating profit per employee, KSEK	23	-116	341	148

Definitions

Operating margin:

Operating profit as percentage of net sales.

Profit margin:

Profit for the period as percentage of net sales.

Rate of return on capital employed:

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

Rate of return on shareholders' equity:

Income for period divided by average shareholder equity.

Equity/assets ratio:

Shareholders' equity as percentage of balance sheet total

Sales per employee:

Net sales for period divided by average no. of employees for year

Operating profit per employee:

Operating profit divided by average no. of employees for year