

Interim Report for AudioDev AB

January 1 –September 30 2004

(Figures in brackets relate to the period January - September 2003)

- Net sales totalled SEK 230.1 (214.6) million, which is an increase of 7% compared to the previous year.
- Profit after financial items was SEK 48.4 (46.8) million.
- Profit for the period was SEK 35.3 (34.3) million.
- Profit per share amounted to SEK 2.11 (2.05).
- The backlog of orders was SEK 19.4 (16.7) million at the end of the period.
- Demand for test equipment for recordable DVD (DVD-R/RW) has dropped substantially over the third quarter, and as a consequence, sales and profits for the quarter were down compared to the corresponding period in 2003.

AudioDev in brief

AudioDev is a world-leading manufacturer of test equipment for quality control of optical media such as CDs and DVDs. Net sales in 2003 were SEK 273.0 million with the largest markets being in the US, Asia and Europe. The head office is based in Malmö, Sweden. AudioDev has been listed on the Stockholm Stock Exchange since September 2000.

AudioDev's products are sold under the brands CATS and Go!. The products in the CATS series are high precision analyzers for quality testing of 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, Pioneer, Cinram, Panasonic, Moser Baer India and CMC.

The Market

AudioDev's market is characterised by a cyclical investment pattern that is described in the Annual Report for 2003. Test equipment is a natural part of the production equipment for disc manufacturers, which means that AudioDev's sales are affected by the level of investment activity over the course of an individual year or quarter.

For the whole of 2003 and for the first six months of 2004, investment in test equipment for recordable media (DVD-R/RW and CD-R/RW) has been high. These media are manufactured primarily in Asia and the growth in AudioDev in 2003 and the first six months of 2004 can be attributed to sales of these analyzers. However, we have seen a clear fall in demand for these products in the third quarter. AudioDev attributes this fall to temporary overcapacity among disc manufacturers - a direct consequence of heavy investment and falling prices for the medium.

AudioDev alluded to a certain increase in demand for test equipment for pre-recorded DVDs in its semi-annual report, following an extended period of weak sales. This upward trend has ceased to continue in the third quarter and sales in this market have therefore not been able to compensate for the decline in sales for analyzers for recordable DVDs.

Operations for the first nine months 2004

New orders and backlog

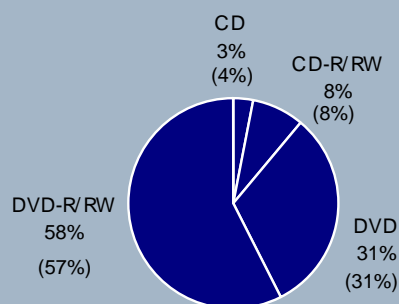
New orders for the period totalled SEK 203.9 (208.6) million and, for the first nine months of the year, are mainly made up of analyzers for recordable DVDs. The backlog of orders was SEK 19.4 (16.7) million at the end of the period.

Sales

Net sales totalled SEK 230.1 (214.6) million, which is an increase of 7% compared to the same period last year. Accumulated sales for the period are dominated by sales to Asia (62%), which is a consequence of the high proportion of sales of analyzers for

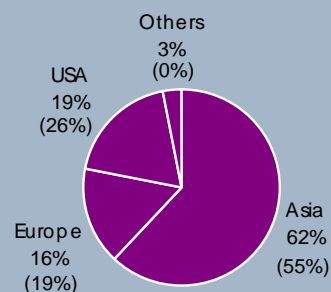
recordable DVDs over the first six months. Sales of test equipment for pre-recorded DVDs has gradually increased as a share of accumulated sales and currently stands at 31% after the first nine months (25% after six months). Pre-recorded media is principally manufactured on the American and European markets (see diagram).

Net sales per product group
(Figures in brackets relate to the same period in 2003)



January 1 – September 30,
2004

Net sales per geographical area
(Figures in brackets relate to the same period 2003)



January 1 – September 30,
2004

Profit and margins

Gross profit for the period was SEK 145.0 (128.0) million, which means a gross margin of 63.0% (59.7%). The previous year's gross profit and margins were, however, subject to an extra stock write-down of SEK 10.7 million during the first six months.

Profit after financial items was SEK 48.4 (46.8) million. Profit shares from the associated company AudioDev FarEast are included in this profit level.

The increased sales expenses in comparison to the same period for the previous year are linked to the increased commission on sales to agents and to our associated company AudioDev FarEast. The increased commission is a direct consequence of increased sales on these markets, particularly over the first six months.

Profit for the period was SEK 35.3 (34.3) million. The profit margin for the period was 15.3% (16.0%).

Financial position

Liquid assets amounted to SEK 212.9 (214.7 at the end of 2003) million as of September 30, 2004. During the period the majority of the Group's liquid assets were held in commercial papers and in a money market fund based on treasury discount notes and corresponding securities. Yield on the above was SEK 3.5 million and is included in the net financial income. On the accounting day, the Group's short-term investments were SEK 179.9 (185.0 at the end of 2003) million. Group financial costs amounted to SEK 0.0 (0.1) million for the period.

Equity/assets ratio at September 30, 2004 was 87.1% compared to 86.6% at the end of 2003. Group shareholders' equity amounted to SEK 311.5 (309.6 at the end of 2003) million at the end of the period.

Cash flow

The Group reports a positive cash flow from current operations amounting to SEK 28.0 (57.5) million for the period. The tying up of operating capital has increased by SEK 5.4 million. During the period SEK 33.4 million has been distributed in the form of dividends to shareholders. A dividend of SEK 6.4 million has also been paid to AudioDev AB from the 50% owned associated company AudioDev FarEast during the period.

Group gross investments in tangible assets have been made at SEK 3.0 (2.0) million for the period. Investments are mainly related to computer and measuring equipment.

Personnel

The average number of employees for the period January-September was 121 (102). Volume growth during the first half-year and increased investment in market and product development has resulted in the number of personnel increasing, compared to last year.

Parent company

Net sales for the parent company totalled SEK 222.4 (201.5) million. Profit after financial items was SEK 46.0 (39.7) million. Investments in tangible fixed assets totalled SEK 2.6 (1.9) million. Disposable liquid assets amounted to SEK 208.9 (188.0) million.

Developments during the third quarter

New orders

New orders totalled SEK 42.6 (69.5) million for the third quarter. This downturn is due to reduced demand for analyzers for recordable DVDs. AudioDev's assessment is that this decline in demand is the result of temporary overcapacity at disc manufacturers, which is a consequence of an extended period of heavy investment and falling prices for the medium.

Sales

Net sales totalled SEK 51.6 (77.9) million. This can be explained by a drop in sales of analyzers for recordable DVDs to Asia. Sales of analysers for pre-recorded DVDs have not been able to make up for this shortfall in Asia.

Profit and margins

Gross profit for the third quarter was SEK 30.4 (47.2) million, which means a gross margin of 58.9% (60.6%).

Profit after financial items was SEK 2.3 (25.8) million. Profit shares from the associated company AudioDev FarEast are included in this profit level.

Profit for the period was SEK 1.2 (19.5) million. The profit margin for the period was 2.4% (25.0%).

Accounting principles

The interim report has been prepared in accordance with the Swedish Financial Accounting Standards Council recommendation, RR 20 Interim reporting. The accounting principles and methods of calculation used are the same as those in the last annual report.

Other

Peter Ragnarsson resigned as CEO at AudioDev AB on August 31. Thomas Vonheim was appointed as acting CEO as a result of the resignation. Vonheim has been a Board Member of AudioDev since 1999. He has a sound background and long experience from prominent positions in international engineering companies such as ABB and Alfa Laval, and is well-versed in all commercial matters involving AudioDev through his Board duties. Recruitment of a new CEO is in progress.

Future reports

- February 16, 2005
Year End Report 2004

This interim report has not been examined by the company's auditors.

Malmö, 18 October, 2004
AudioDev AB (publ)

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Income statement (TSEK)

	July-Sep 2004	July-Sep 2003	Jan -Sep 2004	Jan-Sep 2003	Full Year 2003	12 Months rolling
Net sales	51,569	77,880	230,144	214,595	272,984	288,533
Cost of sold goods	-21,207	-30,648	-85,117	-86,550	-109,003	-107,570
Gross profit	30,362	47,232	145,027	128,045	163,981	180,963
Selling expenses	-13,251	-14,143	-49,330	-41,254	-54,225	-62,301
Research & Development expenses	-13,439	-9,624	-44,414	-32,315	-45,593	-57,692
Administration expenses	-3,781	-5,338	-15,912	-13,413	-18,361	-20,860
Other operating earnings/expenses	110	2,265	794	-7,832	-9,966	-1,340
Operating profit	2	20,393	36,166	33,232	35,837	38,771
Profit from shares in associated companies	1,126	3,399	8,608	8,675	11,708	11,641
Net interest	1,176	2,060	3,582	4,943	6,694	5,333
Profit after financial items	2,304	25,852	48,356	46,850	54,239	55,745
Estimated tax	-1,091	-6,369	-13,079	-12,522	-15,000	-15,557
Income for the period	1,213	19,483	35,277	34,328	39,239	40,188
Profit per share, SEK	0.07	1.17	2.11	2.05	2.35	2.40
Profit per share, after dilution, SEK	0.07	1.13	2.08	1.98	2.31	2.36
Average no. of shares before dilution, thousands	16,716	16,700	16,716	16,700	16,702	16,713
Average no. of shares after dilution, thousands	16,986	17,322	16,986	17,322	17,281	17,029

Balance sheet (TSEK)

	30/09/04	30/09/03	31/12/03
Assets	19,459	17,634	18,854
Inventories	77,387	63,753	68,023
Receivables from customers	39,061	61,369	44,225
Other receivables	9,005	21,677	11,620
Liquid funds	212,867	191,212	214,733
Total assets	357,779	355,645	357,455
Shareholders' equity	311,513	304,888	309,640
Provisions	12,416	9,884	12,423
Short term receivables	33,850	40,873	35,392
Total shareholders' equity & receivables	357,779	355,645	357,455

Cash flow analysis (TSEK)

	July-Sep 2004	July-Sep 2003	Jan -Sep 2004	Jan-Sep 2003	Full Year 2003	12 Months rolling
Cash flow from ongoing operations before change in operating capital	-154	19,165	33,431	30,770	39,976	42,637
Change in operating capital	19,412	4,557	-5,412	26,799	40,960	8,749
Cash flow from ongoing operations	19,258	23,722	28,019	57,569	80,936	51,386
Cash flow from investment operations	-1,314	-1,078	-2,954	-2,018	-5,073	-6,009
Cash flow from financing operations	2,820	2,158	-26,931	-9,247	-6,038	-23,722
Cash flow for the period	20,764	24,802	-1,866	46,304	69,825	21,655
Liquid funds on the opening date	192,103	166,410	214,733	144,908	144,908	191,212
Liquid funds on the closing date	212,867	191,212	212,867	191,212	214,733	212,867

Specification of Group equity (TSEK)

	Share capital	Restricted reserves	Non- restricted s-holders' equity	Total s-holders' equity
Opening balance at January 1, 2004	8,358	75,366	225,916	309,640
Dividend			-33,433	-33,433
Transfer between restricted and non-restricted equity due to associated company accounts		1,831	-1,831	0
Exchange rate difference		4	25	29
Profit for the period			35,277	35,277
Closing balance at 30 September 2004	8,358	77,201	225,954	311,513

Key ratios

	July-Sep 2004	July-Sep 2003	Jan -Sep 2004	Jan-Sep 2003	Full Year 2003
Net Sales Growth (%)	-33.8%	36.9%	7.2%	31.2%	28.8%
Gross Margin (%)	58.9%	60.6%	63.0%	59.7%	60.1%
Operating Margin (%)	0.0%	26.2%	15.7%	15.5%	13.1%
Margin after financial items (%)*	4.5%	33.2%	21.0%	21.8%	19.9%
Profit Margin (%)	2.4%	25.0%	15.3%	16.0%	14.4%
Depreciation (MSEK)	1.2	1.0	3.5	2.9	4.3
Shareholders' equity (MSEK)	311.5	304.9	311.5	304.9	309.6
Capital employed (MSEK)	311.5	304.9	311.5	304.9	309.6
Total assets (MSEK)	357.8	355.6	357.8	355.6	357.5
Rate of return on capital employed (%)	0.7%	8.9%	15.6%	16.1%	18.3%
Rate of return on shareholders' equity (%)	0.4%	6.6%	11.4%	11.7%	13.3%
Equity/asset ratio (%)	87.1%	85.7%	87.1%	85.7%	86.6%
Capital turnover rate (multiple)	0.2	0.3	0.7	0.7	0.9
Number of employees (average for the period)	122	101	121	102	105
Net sales per employee (TSEK)	423	771	1,902	2,104	2,600
Operating profit per employee (TSEK)	0	202	299	325	341

* Profit after financial items as a percentage of net sales.