

Interim Report for AudioDev AB

January 1 –September 30 2005

(Figures in brackets relate to the period January - September 2004)

- Net sales totalled SEK 174.8 (230.1) million.
- Profit after financial items was SEK 15.8 (48.4) million.
- Profit after tax totalled SEK 10.9 (35.3) million.
- Profit per share amounted to SEK 0.65 (2.11).
- The backlog of orders was SEK 18.7 (19.4) million at the end of the period.
- AudioDev has delivered the main part of the order for analyzers for Microsoft's games platform Xbox 360 in Q3.

AudioDev in brief

AudioDev is a world-leading manufacturer of test equipment for quality control of optical media such as CDs and DVDs. The company also holds a leading position within the ongoing development of the blue laser based formats, BD and HD DVD. Net sales in 2004 were SEK 275.0 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 brand with products optimised for production 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 Cinram, CMC, Microsoft, Moser Baer India, Panasonic, Pioneer Ritek Corp. and Technicolor.

The Market

The decline experienced by the production and test equipment industry since the end of last year has to all intents and purposes continued over the interim period. The Asian market has shown clear signs that the overcapacity there has been absorbed, but this has not yet stimulated any new investment in production and test equipment for DVD-R/RW. The trade fair held in China in September demonstrated that caution and a wait-and-see policy prevailed among the major manufacturers ahead of the coming investment in the blue laser format.

Interest is extremely high in the industry for the next generation of optical media based on blue laser technology. The two formats, BD and HD DVD are currently competing to become established as the next standard. AudioDev is at the forefront of development of both formats and has established a strong position in the field. Accordingly, AudioDev is the first company to have launched an analyzer for the BD format commercially, and now has plans to launch an analyzer for the HD DVD format as well in the present year.

The initial order for BD CATS analyzers that AudioDev received in Q2 has been followed by an additional order in Q3. The blue laser format is still at an early stage, but volume sales of production and test equipment are expected to start in 2006 and then increase steadily.

AudioDev has delivered the main part of the order for analyzers for Microsoft's games platform Xbox 360 during the period.

Operations for the first nine months 2005

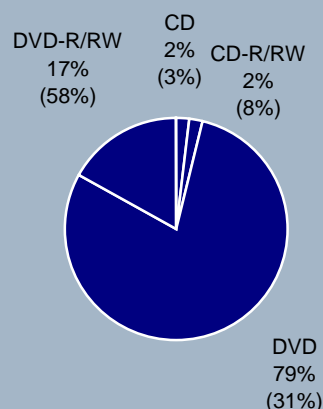
New orders and backlog

New orders for the period totalled SEK 178.8 (203.9) million. The backlog of orders was SEK 18.7 (19.4) million at the end of the period following deliveries of analyzers for Microsoft Xbox 360 being largely completed in Q3.

Sales

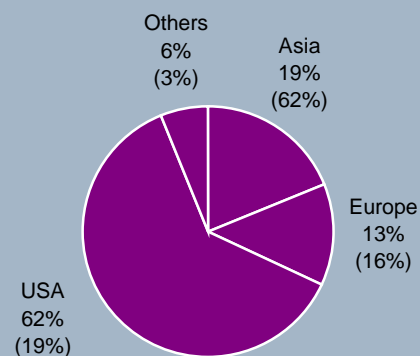
Net sales amounted to SEK 174.8 (230.1) million. Sales are mainly related to analyzers for pre-recorded DVD, of which analyzers for Xbox 360 represent the major part. DVD sales (see diagram) have also been affected positively by a payment for a programme of development on behalf of a customer. The geographic spread reflects product sales: DVD and CD are mostly produced in the US and Europe while DVD-R/RW and CD-R/RW are mostly produced in Asia.

Net sales per product group
(Figures in brackets relate to the same period in 2004)



January 1 - September 30 2005

Net sales per geographical area
(Figures in brackets relate to the same period 2004)



January 1 - September 30 2005

Profit and margins

Gross profit for the period was SEK 85.9 (145.0) million, which means a gross margin of 49.2% (63.0%). Margins for product sales remain virtually unchanged. The gross margin for the period has been affected negatively by AudioDev receiving payment from a customer for a programme of development, which did not generate any margin, and by the low volume in production over the bulk of the period.

The decreased sales expenses in comparison to the same period for the previous year depends on the decreased commission on sales to agents and the associated company AudioDev FarEast. The decreased R&D expenses are partly related to the abovementioned income for development initiatives on behalf of a customer.

Profit after financial items was SEK 15.8 (48.4) million. Profit shares from the associated company AudioDev FarEast are included in this profit level.

Profit after tax for the period was SEK 10.9 (35.3) million. The profit margin for the period was 6.2% (15.3%).

Financial position

Liquid assets amounted to SEK 146.3 (199.5 at the end of 2004) million as of September 30, 2005. During the period the majority of the Group's liquid assets were held in commercial papers and corresponding securities. Yield on the above was SEK 3.0 (3.5) million and is included in the net financial income. On the accounting day, the Group's short-term investments were SEK 101.1 (180.8 at the end of 2004) million. Group financial costs amounted to SEK 0.0 (0.0) million for the period.

Equity/assets ratio at September 30, 2004 was 83.7% compared to 87.7% at the end of 2004. Group shareholders' equity amounted to SEK 281.2 (306.5 at the end of 2004) million at the end of the period.

Cash flow

The Group reports a negative cash flow from current operations amounting to SEK -18.2 (28.0) million for the period. The tying up of operating capital has increased by SEK 26.3 million primarily due to the increased accounts receivable in connection with the above-mentioned order for Xbox 360. During the period SEK 36.8 million has been distributed in the form of dividends to shareholders.

Group gross investments in tangible assets have been made at SEK 1.9 (3.0) 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 114 (121). The reduction stems from the fact that temporary appointments have not been renewed and some posts have not been refilled after normal departures. As of 30 September the company had 108 (126) full-time employees.

Parent company

Net sales for the parent company totalled SEK 167.2 (222.4) million. Profit after financial items was SEK 18.9 (46.0) million. Investments in tangible fixed assets totalled SEK 1.7 (2.6) million. Disposable liquid assets amounted to SEK 143.5 (197.4 at the end of 2004) million.

Developments during the third quarter

New orders

New orders totalled SEK 33.7 (42.6) million for the third quarter.

Sales

Net sales totalled SEK 88.2 (51.6) million. Sales mainly relate to analyzers for pre-recorded DVD, and the above mentioned Xbox order.

Profit and margins

Gross profit for the third quarter was SEK 50.2 (30.4) million, which means a gross margin of 56.9 % (58.9%).

Profit after financial items was SEK 22.8 (2.3) million. Profit shares from the associated company AudioDev FarEast are included in this profit level. The increase in administration expenses compared to the same period last year can be attributed to non-recurring costs.

Profit after tax for the period was SEK 16.7 (1.2) million. The profit margin for the period was 18.0% (2.4%).

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. New rules introduced by IAS/IFRS have required no modifications to AudioDev's financial reports to date. The Group has no benefit-related pensions and no pension commitments with Alecta. IAS 39, Financial Instruments, currently has no bearing on the accounting.

Future reports

- February 17, 2006
Year End Report 2005

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

Malmö, 19 October, 2005
AudioDev AB (publ)

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Income statement (TSEK)

	July-Sep 2005	July-Sep 2004	Jan -Sep 2005	Jan-Sep 2004	Full Year 2004	12 Months rolling
Net sales	88,245	51,569	174,802	230,144	274,836	219,494
Cost of sold goods	-38,071	-21,207	-88,883	-85,117	-114,645	-118,411
Gross profit	50,174	30,362	85,919	145,027	160,191	101,083
Selling expenses	-11,179	-13,251	-31,727	-49,330	-60,281	-42,678
Research & Development expenses	-10,542	-13,439	-30,139	-44,414	-52,784	-38,509
Administration expenses	-5,528	-3,781	-13,427	-15,912	-19,981	-17,496
Other operating earnings/expenses	-1,429	110	1,366	794	-600	-28
Operating profit	21,497	2	11,992	36,166	26,545	2,372
Profit from shares in associated companies	552	1,126	796	8,608	9,974	2,162
Net interest	748	1,176	2,974	3,582	4,696	4,088
Profit after financial items	22,797	2,304	15,763	48,356	41,215	8,622
Estimated tax	-6,134	-1,091	-4,878	-13,079	-10,561	-2,360
Income for the period	16,663	1,213	10,885	35,277	30,654	6,263
Profit per share, SEK	1.00	0.07	0.65	2.11	1.83	0.37
Profit per share, after dilution, SEK	1.00	0.07	0.65	2.08	1.81	0.37
Average no. of shares before dilution, thousands	16,716	16,716	16,716	16,716	16,716	16,716
Average no. of shares after dilution, thousands	16,716	16,986	16,716	16,986	16,975	16,772

Balance sheet (TSEK)

	30/09/05	30/09/04	31/12/04
Assets	12,949	19,459	16,986
Inventories	61,895	77,387	72,524
Receivables from customers	99,874	39,061	48,168
Other receivables	14,909	9,005	12,294
Liquid funds	146,311	212,867	199,506
Total assets	335,938	357,779	349,478
Shareholders' equity	281,166	311,513	306,543
Provisions	14,625	12,416	14,659
Short term receivables	40,147	33,850	28,276
Total shareholders' equity & receivables	335,938	357,779	349,478

Cash flow analysis (TSEK)

	July-Sep 2005	July-Sep 2004	Jan -Sep 2005	Jan-Sep 2004	Full Year 2004	12 Months rolling
Cash flow from ongoing operations before change in operating capital	20,235	-154	8,060	33,431	25,756	385
Change in operating capital	-34,073	19,412	-26,304	-5,412	-13,986	-34,878
Cash flow from ongoing operations	-13,838	19,258	-18,244	28,019	11,770	-34,493
Cash flow from investment operations	-361	-1314	-1,898	-2,954	-3,619	-2,563
Cash flow from financing operations	1,444	2,820	-33,053	-26,931	-23,378	-29,500
Cash flow for the period	-12,755	20,764	-53,195	-1,866	-15,227	-66,556
Liquid funds on the opening date	159,066	192,103	199,506	214,733	214,733	212,867
Liquid funds on the closing date	146,311	212,867	146,311	212,867	199,506	146,311

Specification of Group equity (TSEK)

	Share capital	Restricted reserves	Non- restricted s-holders' equity	Total s-holders' equity
Opening balance at January 1, 2005	8,358	80,571	217,614	306,543
Dividend			-36,776	-36,776
Transfer between restricted and non-restricted equity due to associated company accounts		-2,451	2,451	0
Exchange rate difference		58	457	515
Profit for the period			10,884	10,884
Closing balance at 30 September 2005	8,358	78,178	194,630	281,166

Key ratios

	July-Sep 2005	July-Sep 2004	Jan -Sep 2005	Jan-Sep 2004	Full Year 2004
Net Sales Growth (%)	71.1%	-33.8%	-24.0%	7.2%	0.7%
Gross Margin (%)	56.9%	58.9%	49.2%	63.0%	58.3%
Operating Margin (%)	24.4%	0.0%	6.9%	15.7%	9.7%
Margin after financial items (%)*	25.8%	4.5%	9.0%	21.0%	15.0%
Profit Margin (%)	18.9%	2.4%	6.2%	15.3%	11.2%
Depreciation (MSEK)	-0.9	-1.2	-2.9	-3.5	-4.6
Shareholders' equity (MSEK)	281.2	311.5	281.2	311.5	306.5
Capital employed (MSEK)	281.2	311.5	281.2	311.5	306.5
Total assets (MSEK)	335.9	357.8	335.9	357.8	349.5
Rate of return on capital employed (%)	8.4%	0.7%	5.4%	15.6%	13.4%
Rate of return on shareholders' equity (%)	6.1%	0.4%	3.7%	11.4%	9.9%
Equity/asset ratio (%)	83.7%	87.1%	83.7%	87.1%	87.7%
Capital turnover rate (multiple)	0.3	0.2	0.6	0.7	0.9
Number of employees (average for the period)	114	122	114	121	123
Net sales per employee (TSEK)	774	423	1,533	1,902	2,234
Operating profit per employee (TSEK)	189	0	105	299	216

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