

# Year-end Report for AudioDev AB

January 1 – December 31 2005

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

- Net sales totalled SEK 217.8 (274.8) million.
- Profit after financial items was SEK 19.8 (41.0) million.
- Profit after tax totalled SEK 12.6 (30.6) million.
- Profit per share amounted to SEK 0.76 (1.83).
- The backlog of orders was SEK 12.1 (14.7) million at the end of the year.
- The Board of Directors proposes a dividend of 2.42 (2.20) SEK per share.
- New analyzers launched for the BD and HD DVD blue laser formats and the first orders for BD CATS have been placed.

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## 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 2005 were SEK 218 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 market for production and test equipment for the optical media industry has remained weak in 2005 following the robust expansion in manufacturing in 2003 and the first half of 2004. An upturn in activities in AudioDev's market is not expected until the second quarter of 2006 at the earliest.

The demand for optical media has continued to grow over the year. In January 2006, the independent marketing company Understanding & Solutions revised up its forecast for demand for optical media in 2006.

The pace of technical development continues to be brisk and interest, in general, is extremely high in the industry for the next generation of optical media based on blue laser technology. The launch of blue laser formats on the market is at an early stage, and volume sales of production and test equipment are expected to start in 2006 and then increase steadily.

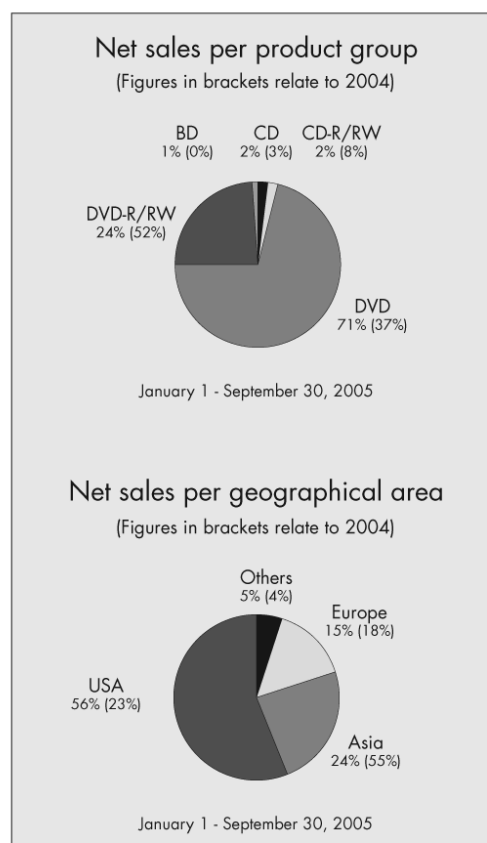
AudioDev has consolidated its position in 2005 as the world's leading supplier of signal test equipment for optical media, which has been helped by the delivery of a major order for analyzers for Microsoft's new Xbox 360 games platform. Furthermore, AudioDev is at the forefront in the development of test equipment for the blue laser formats and is the first company in 2005 to have launched analyzers for both the competing formats; BD and HD DVD. The company has received its first order for BD CATS analyzers and a number of enquiries are in the pipeline.

The past year has seen AudioDev launch an initiative aimed at building up operations in aftersales for the company's products by increasing the level of service, training and tests provided. The assessment is that this will have a positive impact on the company's profitability in the long term, while contributing to reducing the effects on sales caused by the cyclical investment patterns of disc manufacturers.

AudioDev's aim is to exploit its strong financial position to acquire companies that offer technological or marketing synergies. The purpose of this is to develop and expand operations to ensure sales become less cyclical. 2005 has seen AudioDev evaluate a few potential candidates for acquisition

without any deal being struck, but the company is continuing its search for suitable candidates over the current year.

## Operations during 2005



## New orders and backlog

New orders for 2005 totalled SEK 215.2 (244.0) million. The backlog of orders was SEK 12.1 (14.7) million at the end of the year following the completion of deliveries of analyzers for Microsoft Xbox 360.

## Sales

Net sales amounted to SEK 217.8 (274.8) million. Sales are mainly related to analyzers for pre-recorded DVD, of which analyzers for Xbox 360 represent a large 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.

## Profit and margins

Gross profit for the year was SEK 107.9 (160.2) million, which means a gross margin of 49.6% (58.3%). Margins for product sales remain virtually unchanged. The gross margin for the year 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 year.

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. Around SEK 1.8 million of the reduced administration costs refer to non-recurrent payments. The 'Other operating earnings/expenses' item includes the impact of currency fluctuations on operations.

Profit after financial items was SEK 19.8 (41.0) million. Profit shares from the associated company AudioDev FarEast are included in this profit level.

Profit after tax for the year was SEK 12.6 (30.6) million. The profit margin was 5.8% (11.2%).

## Financial position

Liquid assets amounted to SEK 232.1 (199.5) million as of December 31, 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 3.7 (4.7) million and is included in the net financial income. On the accounting day, the Group's short-term investments were SEK 169.5 (180.8) million. Group financial costs amounted to SEK 0.1 (0.0) million for the year.

Equity/assets ratio at December 31, 2005 was 85.4% compared to 87.7% at the end of 2004. Group shareholders' equity amounted to SEK 285.0 (306.5) million at the end of the period.

## Cash flow

The Group reports a positive cash flow from current operations amounting to SEK 68.6 (11.8) million for the year. The tying up of operating capital has decreased by SEK 51.7 million primarily due to reduced inventories and accounts receivable. During the year 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 4.9 (4.1) million for the year. Investments are mainly related to computer and measuring equipment.

In December 2005, the Board decided to secure part of the flow to EUR under a forward contract in 2006. As of December 31, 2005 part of the future flow equivalent to EUR 10 million had been hedged against Swedish Kronor at an average rate of SEK 9.39.

## Personnel

The average number of employees for the year was 113 (123). 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 31 December the company had 107 (123) full-time employees.

## Parent company

Net sales for the parent company totalled SEK 206.0 (264.6) million. Profit after financial items was SEK 23.7 (40.4) million. Investments in tangible fixed assets totalled SEK 4.8 (3.7) million. Disposable liquid assets amounted to SEK 228.9 (197.4) million.

## Developments during the fourth quarter

### New orders

New orders totalled SEK 36.4 (40.0) million for the fourth quarter.

## Sales

Net sales totalled SEK 43.0 (44.7) million.

## Profit and margins

Gross profit for the fourth quarter was SEK 22.0 (15.2) million, which means a gross margin of 51.2% (33.9%).

Profit after financial items was SEK 4.1 (-7.1) million. Profit shares from the associated company AudioDev FarEast are included in this profit level.

Around SEK 1.8 million of the reduced administration costs refer to non-recurrent payments. The 'Other operating earnings/expenses' item includes the impact of currency fluctuations on operations.

Profit after tax for the period was SEK 1.8 (-4.6) million. The profit margin for the period was 4.1% (-10.3%).

## Accounting principles

This accounting report has been prepared in accordance with the Swedish Financial Accounting Standards Council recommendation, RR 20 Interim reporting. The new IFRS/IAS regulations have not had any major effect on AudioDev's financial reporting. The Group has no defined-benefit pensions and no pension obligations at Alecta. IAS 39, Financial Instruments has not had any noticeable effect on the accounts to date.

## Annual General Meeting and dividend

The Annual General Meeting will be held on Wednesday, April 26, 2006, at 4.30 pm in AudioDev's offices, Kabingatan 9, Malmö.

The Annual General Meeting 2005 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 view-points 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 2006.

The Annual Report for 2005 is scheduled for publication in the first week of April. It will be available on AudioDev's website and sent to shareholders on request.

The board has decided to present a proposal at the AGM for a dividend of SEK 2.42 (2.00) per share for 2005. The proposed record date for entitlement to receive dividends is Tuesday, May 3.

## Future reports

- April 26, 2006  
Interim report Jan – March  
AGM 2005
- July 14, 2006  
Interim Report Jan-June
- October 19, 2006  
Interim report Jan-September
- February , 2007  
Year End Report 2006

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

Malmö, 17 February, 2005  
AudioDev AB (publ)

**Christer Sjöström**  
CEO & Group Chief Executive

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## Income statement (TSEK)

	Oct-Dec 2005	Oct-Dec 2004	Full Year 2005	Full Year 2004
Net sales	42 986	44 692	217 788	274 836
Cost of sold goods	-20 983	-29 528	-109 866	-114 645
<b>Gross profit</b>	<b>22 003</b>	<b>15 164</b>	<b>107 922</b>	<b>160 191</b>
Selling expenses	-10 184	-10 951	-41 911	-60 281
Research & Development expenses	-11 206	-8 370	-41 345	-52 784
Administration expenses	-1 978	-4 069	-15 405	-19 981
Other operating earnings/expenses	4 594	-1 394	5 960	-600
<b>Operating profit</b>	<b>3 229</b>	<b>-9 620</b>	<b>15 221</b>	<b>26 545</b>
Profit from shares in associated companies	109	1 366	905	9 775
Net interest	726	1 114	3 700	4 696
<b>Profit after financial items</b>	<b>4 064</b>	<b>-7 140</b>	<b>19 826</b>	<b>41 016</b>
Estimated tax	-2 305	2 518	-7 183	-10 362
<b>Income for the period</b>	<b>1 759</b>	<b>-4 622</b>	<b>12 643</b>	<b>30 654</b>
Profit per share, SEK	0.11	-0.28	0.76	1.83
Profit per share, after dilution, SEK	0.10	-0.27	0.76	1.81
Average no. of shares before dilution, thousands	16 716	16 716	16 716	16 716
Average no. of shares after dilution, thousands	17 087	16 939	16 742	16 975

## Balance sheet (TSEK)

	31/12/05	31/12/04
Assets	14 352	16 986
Inventories	51 643	72 524
Receivables from customers	25 425	48 168
Other receivables	10 147	12 294
Liquid funds	232 127	199 506
<b>Total assets</b>	<b>333 694</b>	<b>349 478</b>
Shareholders' equity	285 014	306 543
Provisions	12 736	14 659
Short term receivables	35 944	28 276
<b>Total shareholders' equity &amp; receivables</b>	<b>333 694</b>	<b>349 478</b>

## Cash flow analysis (TSEK)

	Oct-Dec 2005	Oct-Dec 2004	Full Year 2005	Full Year 2004
Cash flow from ongoing operations before change in operating capital	8 769	-7 675	16 829	25 756
Change in operating capital	78 041	-8 574	51 737	-13 986
Cash flow from ongoing operations	86 810	-16 249	68 566	11 770
Cash flow from investment operations	-2 910	-665	-4 808	-3 619
Cash flow from financing operations	1 916	3 553	-31 137	-23 378
<b>Cash flow for the period</b>	<b>85 816</b>	<b>-13 361</b>	<b>32 621</b>	<b>-15 227</b>
Liquid funds on the opening date	146 311	212 867	199 506	214 733
Liquid funds on the closing date	232 127	199 506	232 127	199 506

## Specification of Group equity (TSEK)

	Share capital	Contributed funds	Other reserves	Accrued funds	Total share- holders' equity
<b>Opening balance at January 1, 2005</b>	<b>8 358</b>	<b>34 801</b>	<b>1 037</b>	<b>262 347</b>	<b>306 543</b>
Dividend				-36 776	-36 776
Unrealised profit derivative			238		238
Exchange rate difference when recalculating overseas operations			1 829		1 829
Options programmes		509			509
Price differences, income for the year				28	28
Income for the year				12 643	12 643
<b>Closing balance at December 31, 2005</b>	<b>8 358</b>	<b>35 310</b>	<b>3 104</b>	<b>238 242</b>	<b>285 014</b>

## Key ratios

	Oct-Dec 2005	Oct.-Dec 2004	Full Year 2005	Full Year 2004
Net Sales Growth (%)	-3.8%	-23.5%	-20.8%	0.7%
Gross Margin (%)	51.2%	33.9%	49.6%	58.3%
Operating Margin (%)	7.5%	-21.5%	7.0%	9.7%
Margin after financial items (%)*	9.5%	-16.0%	9.1%	14.9%
Profit Margin (%)	4.1%	-10.3%	5.8%	11.2%
Depreciation (MSEK)	-1.0	-1.1	-3.9	-4.6
Shareholders' equity (MSEK)	285.0	306.5	285.0	306.5
Capital employed (MSEK)	285.0	306.5	285.0	306.5
Total assets (MSEK)	333.7	349.5	333.7	349.5
Rate of return on capital employed (%)	1.4%	-2.3%	6.7%	13.4%
Rate of return on shareholders' equity (%)	0.6%	-1.5%	4.3%	9.9%
Equity/asset ratio (%)	85.4%	87.7%	85.4%	87.7%
Capital turnover rate (multiple)	0.2	0.1	0.7	0.9
Number of employees (average for the period)	108	125	113	123
Net sales per employee (TSEK)	398	358	1 927	2 234
Operating profit per employee (TSEK)	30	-77	135	216

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