

# Year-end Report for AudioDev AB

January 1 – December 31, 2006

(Figures in brackets relate to January-December 2005)

- Net sales amounted to SEK 104.6 (217.8) million.
- Profit/loss after financial items was SEK -52.3 (19.8) million.
- Profit/loss for the year was SEK -36.8 (12.6) million.
- Profit/loss per share was SEK -2.20 (0.76).
- The backlog of orders totalled SEK 5.8 (12.1) million at the end of the year.
- After the close of the report, AudioDev has acquired STEAG ETA-Optik GmbH from HamaTech AG. ETA-Optik develops and supplies qualified test and measuring equipment for optical media and other applications.
- In the light of AudioDev's ambition to make additional acquisitions the Board proposes the AGM 2007 that no dividend (last year SEK 2.42) shall be paid.

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## AudioDev in brief

*AudioDev is a world-leading manufacturer of test equipment for quality control of optical media such as DVD, BD (Blu-ray Disc) and HD DVD (High Density DVD). Net sales in 2006 were SEK 105 million with the largest markets being in the USA, Asia and Europe. The head office is based in Malmö, Sweden. AudioDev has been listed on the Stockholm Stock Exchange (The Nordic List, Small Cap) 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 year in the optical media industry has been characterised by restricted investment in production and test equipment, which has been a challenge to all actors in the industry and has resulted in lower sales and profits for AudioDev. Despite this, the overall market for optical media continues to expand and disc sales, excluding CDs, are on the rise. There has however been sufficient production capacity during 2006 to cover the increased demand for primarily DVD and DVD-R/RW, which is the principal reason for the weak market situation that AudioDev finds itself in. However, the development of the blue laser based formats BD and HD DVD has been in line with market expectations.

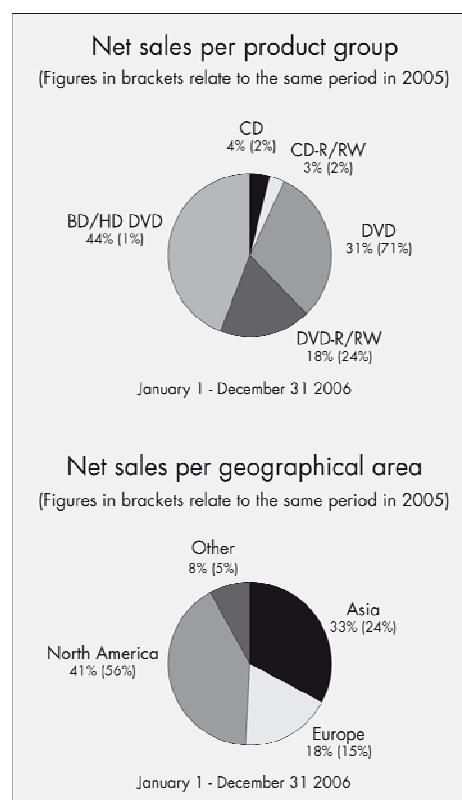
We continue to see the long-term development in optical media as positive, primarily because of the blue laser formats where the growing need of storage capacity for games, film and software will be a key driving force when High Definition TV (HD-TV) has a much stronger foothold in the market. Sales of production and test equipment for these formats are expected to increase gradually. AudioDev has already taken strategically important orders in 2006 from many of the leading actors in the industry, and is thereby well on the way to consolidating its position as the de facto standard also for these formats.

In addition to the development of the blue laser formats, we assess that the market for optical media as a whole is entering a more mature phase from a commercial aspect. DVD will continue to grow and investment in equipment will thereby continue, but demand will be lower than during the record years of 2003 and 2004. The date of the anticipated increase in investment in production equipment for DVD is still difficult to pinpoint.

In line with previously announced rationalisation of the business, AudioDev has reduced the organisation by 23 posts in the first six months of the year. Non-recurrent costs in connection with these redundancies have impacted profits for the first six months negatively. From the third quarter onwards you can see the full effect of the savings measures taken in 2005 and 2006. The new cost level is around SEK 30 million lower than in 2004, on an annual basis.

## Operations during the period

To ensure growth and consolidate the company's market leading position, AudioDev has over the year, in addition to rationalising the business, invested in development in the new blue laser formats, strengthened the level of service and expanded the service offering. The company has also developed core competencies for new customised solutions for existing customers.



### New orders and backlog

New orders for 2005 amounted to SEK 98.3 (215.2) million. The majority of new orders relate to analyzers for the new blue laser formats BD and HD DVD. The backlog of orders totalled 5.8 (12.1) million at the end of the year.

### Sales

Net sales amounted to SEK 104.6 (217.8) million. The lower sales figure in comparison to the previous year is due to the investment in manufacturing capacity dropping further in 2006 compared to 2005. This market situation has also meant that AudioDev has been unable to compensate for the large share of analyzers sold for Microsoft's Xbox in 2005 and which consequently has affected full year comparison figures.

About half the product mix is now made up of sales from analyzers for the blue laser formats, BD and HD DVD while the remaining share is primarily made up of sales of analyzers for DVD and DVD-R/RW (see diagram). Sales of CD analyzers is still marginal, which is in line with the maturity of the format. It is worth noting that the order value for a blue laser analyzer is up to three times that of a DVD analyzer. The geographical split reflects product sales as premastered media is manufactured primarily in the US and Europe, while recordable discs are produced mainly in Asia.

### Profit/loss and margins

Gross profit for the year was SEK 37.9 (107.9) million, which equates to a gross margin of 36.3% (49.6 %). The gross margin was pulled down as a result of low production volume and inventory write-downs. SEK -7.8 million of the costs can be attributed to write-downs of components for one discontinued product.

The reduced sales expenses in comparison to the previous year are linked to the reduced commission on sales to agents and to our associated company AudioDev Far East as well as cost rationalisations.

The rise in R&D costs is due to customer funded development initiatives not being made for the period as they were for the corresponding period in 2005.

Around SEK 6.2 million of the increased administration costs relate to non-recurrent costs. SEK 4.6 million of these are costs in connection with redundancy payments.

The 'Other operating earnings/expenses' item includes the impact of currency fluctuations on operations.

Profit/loss after financial items was SEK -52.3 (19.8) million. Profit shares from the associated company AudioDev FarEast are included in this profit level.

Profit/loss after tax for the year was SEK -36.8 (12.6) million. The profit margin for the period was -35.2 % (5.8 %).

### Financial position

Liquid assets amounted to SEK 120.4 (232.1) million at December 31, 2006. During the period the majority of the group's liquid assets were held in commercial papers and corresponding securities.

Return on the above was SEK 3.6 (3.7) million and is included in the net financial income.

On the accounting date, the Group's short-term investments were SEK 68.7 (169.5) million. Group financial costs were SEK 0.1 (0.1) million for the year. The equity/assets ratio at December 31, 2006 was 87.8 % (85.4 %). Group shareholders' equity was SEK 206.1 (285.0) million at the end of the year.

### Cash flow

The Group showed a negative cash flow from current operations of SEK -69.1 (68.6) million. Assets tied up in operating capital have increased by SEK 22.5 million due to increased inventories. The increase in inventory is a consequence of the need to stock critical main components in an effort to ensure future sales. SEK 40.5 million has been paid in shareholder dividends for the year.

Group gross investments in tangible fixed assets have been made at SEK 3.1 (4.9) million for the period. Investments are mainly related to computer and measuring equipment.

### Personnel

The average number of employees for the year was 92 (113). The reduction is a result of the above mentioned adjustment and rationalisation of the business implemented in the second quarter. The number of full-time employees at the company at the end of the year was 82 (107).

### The parent company

Net sales for the parent company amounted to SEK 88.8 (206.0) million. Profit/loss after financial items was SEK -51.8 (23.7) million. Investments in tangible fixed assets totalled SEK 3.0 (4.7) million. Disposable liquid assets totalled SEK 116.1 (228.9) million.



## Progress during the fourth quarter

### New orders

New orders totalled SEK 19.8 (36.4) million in the fourth quarter and relate primarily to blue laser analyzers.

### Sales

Net sales amounted to SEK 27.2 (43.0) million. The majority of sales in the fourth quarter also relate to analyzers for the blue laser formats.

### Profit/loss and margins

Gross profit for the fourth quarter was SEK 3.4 (22.0) million, which equates to a gross margin of 12.4 % (51.2 %). The gross margin was pulled down as a result of low production volume and inventory write-downs. SEK -7.8 million of the costs can be attributed to write-downs of components for one discontinued product.

The reduced sales expenses in comparison to the previous year are linked to the reduced commission on sales to agents and to our associated company AudioDev Far East as well as cost rationalisations.

Around SEK 0.4 million of the increased administration costs relate to non-recurrent costs. The comparison figures from the previous year include a positive effect of around SEK 1.8 million made up of payments of a non-recurring character. The 'Other operating earnings/expenses' item includes the impact of currency fluctuations on operations.

Profit/loss after financial items was SEK -19.0 (4.1) million. Profit shares from the associated company AudioDev FarEast are included in this profit level.

Profit/loss after tax for the fourth quarter was SEK -14.0 (1.8) million. The profit margin for the period was -51.4 % (4.1 %).

## Events after close of report

After the end of the financial year, AudioDev has taken an important step in its development through the acquisition of STEAG ETA-Optik GmbH from HamaTech AG, owned by Singulus Technologies AG, Germany.

ETA-Optik has great technological expertise in measurement techniques and spectrometry. Their product range includes both in-line (scanners) and off-line analyzers, which complements AudioDev's product range in optical media. In addition, the company has products for applications outside of optical media that provide a platform for increased growth in new markets. ETA-Optik sales were EUR 4.85 million in 2006, with around 60 percent of the business in optical media and the remaining 40 percent in other fields. The main office is located in Heinsberg, Germany, and the company has about 40 employees, working primarily in research and development.

ETA-Optik was acquired on February 8, 2007 and is consolidated by AudioDev from that date. The company has undergone significant restructuring in 2006, and is expected to return a modest profit in 2007, excluding integration costs. The integration costs are estimated at SEK 7 million.

The purchase price, which was paid in cash from our own funds, totalled EUR 3.25 million. As part of the agreement, Singulus Technologies will continue to employ measuring equipment by ETA-Optik for optical disc replication lines in the future.

## Accounting principles

From January 1, 2005 AudioDev prepares its financial reports in accordance with IFRS, which is approved by the EU commission. This interim report is thereby prepared according to IAS 34 Interim reporting. For information on the applied accounting principles, we refer you to the annual report for 2005. The accounting principles are unchanged from those applied in 2005.

## AGM and dividend

The Annual General Meeting will be held on Wednesday, April 25, 2007, at 4.30pm in AudioDev's offices, Kabingatan 9, Malmö.

AudioDev does not have a special nomination committee. These matters shall instead be handled by AudioDev's principal owner, Jan Barchan, in consultation with representatives from the five largest shareholders.

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 meeting in 2007.

The annual report is planned for publishing in week 14 when it will be available on the company's website and be distributed to all shareholders.

In the light of AudioDev's ambition to make additional acquisitions the Board proposes the AGM 2007 that no dividend (last year SEK 2.42) shall be paid.

The above proposal represents a deviation from the dividend policy adopted in 2003. The Board will be reviewing the dividend policy in 2007.

## Future reports

- April 25, 2007  
Interim report, January-March  
Annual General Meeting
- July 19, 2007  
Interim report, January-June
- October 18, 2007  
Interim report, January-September
- February 2008  
Accounting report 2007

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This accounting report has not been reviewed by the company's auditors.

Malmö, February 14, 2007  
AudioDev AB (publ.)

**Christer Sjöström**  
CEO and Group Chief Executive

### For more information, please contact:

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## Income Statement (TSEK)

	Oct -Dec 2006	Oct -Dec 2005	Full year 2006	Full year 2005
Net sales	27,171	42,986	104,564	217,788
Cost of sold goods	-23,813	-20,983	-66,656	-109,866
<b>Gross profit</b>	<b>3,358</b>	<b>22,003</b>	<b>37,909</b>	<b>107,922</b>
Sales expenses	-7,543	-10,184	-30,178	-41,911
R&D expenses	-11,801	-11,206	-42,890	-41,345
Administration expenses	-3,987	-1,978	-22,224	-15,405
Other operating earnings/expenses	318	4,594	634	5,960
<b>Operating profit</b>	<b>-19,655</b>	<b>3,229</b>	<b>-56,749</b>	<b>15,221</b>
Profit/loss from shares in associated companies	-100	109	894	905
Financial net	783	726	3,510	3,700
<b>Profit/loss after financial items</b>	<b>-18,972</b>	<b>4,064</b>	<b>-52,345</b>	<b>19,826</b>
Tax for the period	4,996	-2,305	15,569	-7,183
<b>Profit/loss for the period</b>	<b>-13,976</b>	<b>1,759</b>	<b>-36,776</b>	<b>12,643</b>
Profit per share, SEK	-0.84	0.11	-2.20	0.76
Profit per share after full dilution, SEK	-0.82	0.10	-2.15	0.76
No. of shares before dilution, average, thousands	16,716	16,716	16,716	16,716
No. of shares after dilution, average, thousands	17,116	17,087	17,116	16,742

## Balance sheet (TSEK)

	31/12/06	31/12/05
Assets	15,312	14,352
Inventories	75,426	51,643
Accounts receivable	18,603	25,425
Other receivables	5,058	10,147
Liquid assets	120,368	232,127
<b>Total assets</b>	<b>234,767</b>	<b>333,694</b>
Shareholders' equity	206,114	<b>285,014</b>
Allocations	0	12,736
Short term receivables	28,653	35,944
<b>Total shareholders' equity and liabilities</b>	<b>234,767</b>	<b>333,694</b>

## Cash flow analysis (TSEK)

	Oct -Dec 2006	Oct -Dec 2005	Full year 2006	Full year 2005
Cash flow from current operations before changes in operating capital	-2,569	8,769	-46,576	16,829
Changes in operating capital	6,661	78,041	-22,523	51,737
Cash flow from current operations	4,092	86,810	-69,097	68,566
Cash flow from investment operations	-141	-2,910	-3,116	-4,808
Cash flow from financing operations	1,324	1,916	-39,545	-31,137
<b>Cash flow for the period</b>	<b>5,275</b>	<b>85,816</b>	<b>-111,759</b>	<b>32,621</b>
Liquid assets at the beginning of the period	115,093	146,311	232,127	199,506
Liquid assets at the end of the period	120,368	232,127	120,368	232,127

## Group equity (TSEK)

	Share capital	Contributed funds	Other reserves	Accrued funds	Total shareholders' equity
<b>Opening balance at January 1, 2005</b>	<b>8,358</b>	<b>35,310</b>	<b>3,104</b>	<b>238,242</b>	<b>285,014</b>
Dividend				-40,454	-40,454
Realised profit derivative			-238		-238
Exchange rate difference from overseas operations			-1,151		-1,151
Price diff. profit/loss for the year				-281	-281
Profit/loss for the year				-36,776	-36,776
<b>Closing balance at December 31, 2006</b>	<b>8,358</b>	<b>35,310</b>	<b>1,715</b>	<b>160,732</b>	<b>206,114</b>

## Key ratios

	Oct -Dec 2006	Oct -Dec 2005	Full year 2006	Full year 2005
Growth in net sales (%)	-36.8 %	-3.8 %	-52.0 %	-20.8 %
Gross margin (%)	12.4 %	51.2 %	36.3 %	49.6 %
Operating margin (%)	-72.3 %	7.5 %	-54.3 %	7.0 %
Margin after financial items (%)*	-69.8 %	9.5 %	-50.1 %	9.1 %
Profit margin (%)	-51.4 %	4.1 %	-35.2 %	5.8 %
Depreciation (MSEK)	-1.0	-1.0	-4.2	-3.9
Shareholders' equity (MSEK)	206.1	285.0	206.1	285.0
Capital employed (MSEK)	206.1	285.0	206.1	285.0
Total assets (MSEK)	234.8	333.7	234.8	333.7
Rate of return on capital employed (%)	-8.8 %	1.4 %	-21.3 %	6.7 %
Rate of return on shareholders' equity (%)	-6.5 %	0.6 %	-15.0 %	4.3 %
Equity/assets ratio (%)	87.8 %	85.4 %	87.8 %	85.4 %
Capital turnover rate, multiple	0.1	0.2	0.4	0.7
No. of employees (average for the period)	94	108	92	113
Net sales per employee (TSEK)	289	398	1,137	1,927
Operating profit per employee (TSEK)	-209	30	-617	135

\* Profit/loss after financial items in percentage of net sales