

# Interim report for AudioDev AB (publ)

## 1 January – 30 June, 2002

(Figures in brackets relate to the period January-September 2001)

- *Net turnover between January and June amounted to SEK 106.7 (92.9) million.*
- *Operating income between January and June totalled SEK 17.0 (18.4) million.*
- *During the first six months of the year, the share of DVD sales rose to 88 % (72).*

	<i>Apr-Jun 2002</i>	<i>Apr-Jun 2001</i>	<i>Change %</i>	<i>Jan-Jun 2002</i>	<i>Jan-Jun 2001</i>	<i>Change %</i>
<i>Net turnover, SEK M</i>	70.2	63.3	10.9	106.7	92.9	14.9
<i>Operating income, SEK M</i>	15.3	16.5	-7.3	17.0	18.4	-7.6
<i>- as % of net turnover</i>	21.8	26.1	-	15.9	19.8	-
<i>Profits for the period, SEK M</i>	10.6	10.1	5.0	11.8	11.3	4.4
<i>- as % of net turnover</i>	15.1	16.0	-	11.1	12.2	-
<i>Orderbook, SEK M</i>	20.6	92.1	-77.6	20.6	92.1	-77.6
<i>Earnings per share, SEK</i>	0.65	0.63	3.2	0.73	0.70	4.3

### The AudioDev Group

AudioDev is a world leader in the supply of test equipment for optical media such as CD and DVD. Test equipment forms part of the production equipment used by actors in *the market for optical media*. These actors include content suppliers who use CD and DVD for the distribution of their products, and the manufacturers of optical media and optical media players.

Since its launch in 1987, AudioDev has set the de facto standard for the testing of optical media. The Group has its head office in Malmö and subsidiaries in the USA and Hong Kong. In addition to this, AudioDev has built up a network of agents in all countries and regions of major significance. None of the company's competitors has global distribution on this scale. Our clients include Technicolor, Ritek Global Media, Microsoft, EMI, Samsung, Warner, Sonopress, Pioneer, Cinram, Panasonic, MBI, DAI Nippon Printing and CMC. With a unique range of products in important growth areas, AudioDev holds the leading position in its sector of a rapidly expanding market.

## The market for production equipment

The market for production equipment and, consequently, test equipment is driven by the introduction of new optical formats at an increasingly rapid rate at the same time as the total demand for optical media is growing. Complexity increases with each new format, a condition which also applies to the development of existing formats. New, more complex formats mean that the demand for advanced testing is growing.

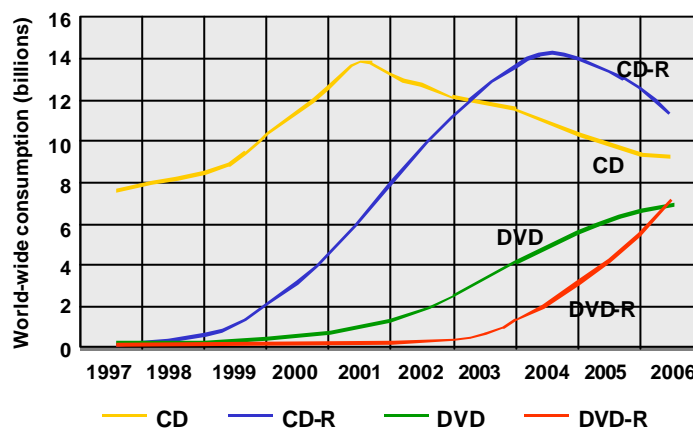
### Irregular growth

As described above, the demand for test equipment is dependent on the demand for optical media, but to some extent presents a different pattern. Investment in production equipment and, consequently, test equipment occurs in stages. Growth in the market for media is gradual but, at times, manufacturers have a tendency to over-invest which regularly leads to over-capacity and a hiatus for all suppliers of production equipment. A new period of major investment then follows until growth in a particular medium levels-off and a period of maturity ensues. This investment pattern produces irregular growth in the demand for production equipment and, as a consequence, test equipment.

## The market for optical media

Although the demand for test equipment does not follow the market for optical media precisely, the development of the underlying markets provides a picture of investment requirements in the industry.

### Trends for optical media



Source: Understanding & Solution

During 2001 and the first six months of 2002, DVD, DVD-R and CD-R showed strong growth while the CD medium reached its peak and is currently in decline.

It is estimated that world-wide sales of DVD discs will increase from approximately 1 billion to 2 billion in 2002 (*see graph, source: Understanding & Solutions*). Sales of DVD-ROM (DVDs for computers, such as games) are also included in this figure. Market trends indicate a major increase in DVD-ROM at the expense of CD-ROM.

The growth in DVD-R/RW has already been greater than anticipated. In 2001, approximately 0.2 billion DVD-R discs were sold and, in 2002, sales are expected to increase by 150 per cent (*see graph, source: Understanding & Solutions*). As far as AudioDev is concerned, this dramatic increase in the sale of DVD-R/RW discs has also had an effect on the sale of test

equipment for this medium. The share of sales has increased from zero to 27 per cent compared with the first six months of the previous year.

DVD-R/RW disc prices are currently much higher than those for CD-R/RW, but they are falling at a much faster rate which means that volumes are growing and the medium is increasingly taking over from the CD-R/RW market.

To summarise, it can be stated that a gradual change from CD to DVD is now taking place in the market. In total, DVD (pre-recorded and recordable) is going through a growth phase, something which is also evident in AudioDev's sales. During the first six months of 2002, DVD represented 88 (72) per cent of sales.

### **The future**

New optical formats are being introduced at a rapidly increasing rate. Examples of future launches include DVD Audio (audio discs with a higher capacity than CD) and next generation DVD for film, based on blue-laser technology, which has superior picture quality and better capacity than DVD. These formats are currently at the development stage and are not expected to reach the consumer before 2004.

### **Competing storage media and technologies**

There are a number of alternatives to optical media for information storage. The most important examples of competitive storage alternatives are broadband and different forms of memory cards such as memory sticks. The main advantage with broadband is that storage capacity is unlimited. On the other hand, broadband is expensive and difficult to test. Memory cards have a more rapid transmission capacity than optical media, but have less storage capacity and are significantly more expensive. To summarise, we maintain that optical media currently offers the best value for money on the market.

## **AudioDev's operations, January-June 2002**

The first quarter of the year was characterised by low demand for test equipment for both CD and DVD. By the end of the first quarter, the inflow of orders had improved on previous months and this positive trend continued in the second quarter.

## **Orders received and orderbook**

### **April-June**

Orders received during the period from April to June amounted to SEK 71.9 (51.9) million. This represents an increase of 39 per cent compared with the same period of the previous year.

### **January-June**

Orders received during the period from January to June totalled SEK 117.8 (140.2) million and, at the close of the period, the orderbook amounted to SEK 20.6 (92.1) million. A significant proportion of the orders received consisted of analysers for the DVD medium. A major reason for the high orderbook and inflow of orders for the same period in 2001 was the Microsoft Xbox order received by AudioDev at the beginning of the previous year. With the latter removed from the equation, orders received as well as the orderbook were higher compared with the same period in the previous year.

## **Net turnover**

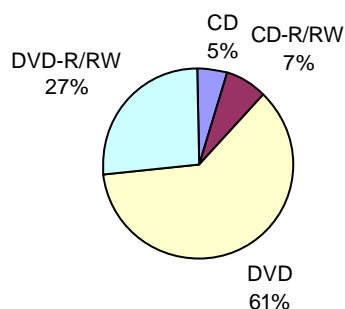
### **April-June**

Net turnover amounted to SEK 70.2 (63.3) million during the period.

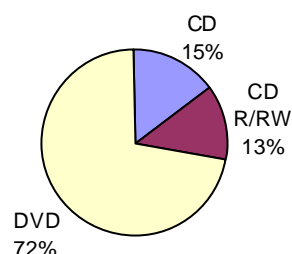
## January-June

Net turnover amounted to SEK 106.7 (92.9) million during the period. The great majority of sales, SEK 93.8 million, are for DVD analysers.

### Net turnover per product group

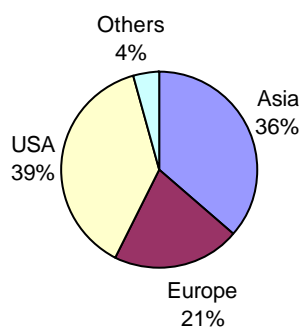


1 Jan – 30 June 2002

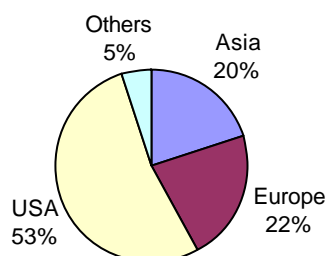


1 Jan – 30 June 2001

### Net turnover per geographic market



1 Jan – 30 June 2002



1 Jan – 30 June 2001

During the first and second quarters, AudioDev's DVD analyser consolidated its position as the dominant product group compared with the CD analyser. All told, the DVD analyser represented 88% of turnover. DVD-R/RW has picked up speed in 2002 and increased from zero to 27 per cent compared with the first quarter of the previous year.

The majority of AudioDev's sales are in the USA and Asia, a situation which is closely bound up with the fact that the USA is the main market for DVD-Video (DVD made for film) while Asia is the principal market for recordable DVD. The explanation for sales in the USA having fallen in percentage terms compared with the first quarter of 2001 is the large Xbox order received by AudioDev at the beginning of the year. This order apart, the share of sales in the USA for the current six months is higher than for the same period of the previous year.

Sales in Europe are at a constant level compared with the previous year. Pre-recorded media manufactured in Europe and the generally low climate of investment are the chief reasons for the relatively low sales for the period. Up to now, the production of recordable media in Europe has been insignificant. Historically speaking, for reasons of cost, the production of

CD-R/RW has been low. The EU has, however, introduced customs tariffs on CD-R/RW imported from low-price countries in Asia. This may increase European investment in the manufacture of recordable media and, in future, lead to higher production levels of DVD-R/RW in Europe.

During the first quarter, sales of test equipment for the CD medium fell. There is a greater proportion of investments in production equipment for DVD.

## **Operating income and margin**

### **April-June**

Operating income for the period was SEK 15.3 (16.5) million. The operating margin for the same period deteriorated to 21.8 (26.1) per cent.

### **January-June**

Operating income amounted to SEK 17.0 (18.4) million in the first six months of the year. The gross margin remains unchanged compared with the previous year, while the operating margin fell as a consequence of stock write-downs and amounted to 15.9 (19.8) per cent.

The Group's invoicing is predominantly made in US dollars. The greater part of the estimated net flow in USD is hedged through forward exchanges. As of 30 June 2002, future flows to the equivalent of USD 20 million were hedged against Swedish kronor at an average rate of SEK 10.53 due to mature between July 2002 and June 2003. During the period concerned, the effect of completed hedging on income at operational level was SEK -0.2 (-3.8) million.

## **Investments**

Investments in tangible fixed assets amounted to SEK 1.6 (2.9) million in the first six months of 2001. These investments were chiefly in computer and testing equipment.

## **Financial position and liquidity**

As at 30 June 2002, liquid assets totalled SEK 130.1 million compared with SEK 159.4 million at the end of 2001. At the end of June, the equity/assets ratio stood at 92 per cent compared with 87 per cent at the end of 2001. At the end of the period, Group shareholders' equity amounted to SEK 278.7 compared with SEK 274.9 million at the end of 2001.

## **Cash flow**

### **April - June**

The Group recorded negative cash flow between April and June from operating activities amounting to SEK -5.3 (+17.2) million. Capital tied up in operating capital increased by SEK 19.5 (6.2) million in the second quarter.

### **January - June**

Cash flow from operating activities amounted to SEK -19.6 (-10.5) million during the period January to June. Capital tied up in operating capital increased by SEK 31.8 (23.5) million. This increase is due to high invoicing in June.

## **Personnel**

The average number of staff during the period January – June 2002 was 99 compared with 105 during the same period in 2001.

## **The parent company**

Turnover in the parent company totalled SEK 70.4 (91.8) million with operating income amounting to SEK 18.3 (23.9) million. Investments in tangible fixed assets of SEK 1.5 (2.1) million were made in the first six months of 2002. Disposable liquid assets reached SEK 126.5 million compared with SEK 145.5 at the end of 2001.

## **Forthcoming financial reports 2002**

25 October                      Interim report January - September 2002.

February 2003                Accounts bulletin 2002.

## **Other information**

This interim report has not been audited by the company's accountants.

Malmö, 20 August, 2002

**AudioDev AB (publ.)**

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<b>Profit and loss statement (MSEK)</b>	<b>Consol. April-June 2002</b>	<b>Consol. April-June 2001</b>	<b>Consol. Jan-June 2002</b>	<b>Consol. Jan-June 2001</b>	<b>Consol. Jan-Dec 2001</b>	<b>Consol. Rolling 1 July 2001- 30 June 2002</b>
Net turnover	70,2	63,3	106,7	92,9	215,1	228,9
Operating costs	-54,0	-45,9	-87,5	-72,8	-171,8	-186,5
<b>Profit before depreciation</b>	<b>16,2</b>	<b>17,4</b>	<b>19,2</b>	<b>20,1</b>	<b>43,3</b>	<b>42,4</b>
Depreciation	-0,9	-0,9	-2,2	-1,7	-3,6	-4,1
<b>Operating profit</b>	<b>15,3</b>	<b>16,5</b>	<b>17,0</b>	<b>18,4</b>	<b>39,7</b>	<b>38,3</b>
Net financial items	0,7	-0,6	0,7	-0,8	5,0	6,5
<b>Profit after financial items</b>	<b>16,0</b>	<b>15,9</b>	<b>17,7</b>	<b>17,6</b>	<b>44,7</b>	<b>44,8</b>
Estimated tax	-5,4	-5,8	-5,9	-6,3	-12,6	-12,2
<b>Profit for the period</b>	<b>10,6</b>	<b>10,1</b>	<b>11,8</b>	<b>11,3</b>	<b>32,1</b>	<b>32,6</b>
Average number of shares, thousands	16 420	16 106	16 262	16 106	16 106	16 184
Average number of shares after full dilution, thousands	17 322	17 200	17 319	17 200	17 200	17 260
Profit per share, SEK	0,65	0,63	0,73	0,70	1,99	2,01
Profit per share after full dilution, SEK	0,61	0,59	0,68	0,66	1,87	1,89
Equity per share, SEK	16,97	15,76	17,14	15,76	17,07	17,22
Equity per share after full dilution, SEK	16,09	14,76	16,09	14,76	15,98	16,15

<b>Balance sheet (MSEK)</b>	<b>2002-06-30</b>	<b>2001-06-30</b>	<b>2001-12-31</b>
<b>Assets</b>			
Intangible fixed assets	1,0	1,4	1,2
Tangible fixed assets	11,1	10,4	11,5
Liquid assets	130,1	132,5	159,4
Other current assets	160,8	181,6	144,0
<b>Total assets</b>	<b>303,0</b>	<b>325,9</b>	<b>316,1</b>
<b>Liabilities and equity</b>			
Equity	278,7	253,8	274,9
Non interest-bearing liabilities	24,3	72,1	41,2
<b>Total liabilities and equity</b>	<b>303,0</b>	<b>325,9</b>	<b>316,1</b>

#### Specification of group shareholders' equity

	<b>Share capital</b>	<b>Restricted reserves</b>	<b>Non-restricted capital</b>	<b>Total</b>
Opening balance, 1 January 2002	8,1	203,5	63,3	274,9
New share issue	0,3	4,0		4,3
Dividend paid			-12,4	-12,4
Translation difference		0,0	0,1	0,1
Profit for the period			11,8	11,8
<b>Closing balance, 30 June 2001</b>	<b>8,4</b>	<b>207,5</b>	<b>62,8</b>	<b>278,7</b>

	Consol. April-June 2002	Consol. April-June 2001	Consol. Jan-June 2002	Consol. Jan-June 2001	Consol. Jan-Dec 2001
<b>Cash flow analysis (MSEK)</b>					
Operating profit	15,3	16,5	17,0	18,4	39,7
Adjustments for items not included in cash flow, etc.	0,9	0,9	2,2	1,7	3,6
Net financial items	0,7	-0,6	0,7	-0,8	5,0
Tax paid	-2,7	-5,8	-7,7	-6,3	-16,8
Change in operating capital	-19,5	6,2	-31,8	-23,5	-12,5
<b>Cash flow from ongoing business</b>	<b>-5,3</b>	<b>17,2</b>	<b>-19,6</b>	<b>-10,5</b>	<b>19,0</b>
Investments in fixed assets	0,0	-0,2	-1,6	-2,9	-5,7
<b>Cash flow from investments</b>	<b>0,0</b>	<b>-0,2</b>	<b>-1,6</b>	<b>-2,9</b>	<b>-5,7</b>
Change in long-term liabilities	0,0	0,0	0,0	0,0	0,0
New share issue	4,3	0,0	4,3	0,0	0,0
Dividend paid	-12,4	-3,2	-12,4	-3,2	-3,2
Exchange rate difference	0,1	-0,3	0,0	0,6	0,8
<b>Cash flow from financial activities</b>	<b>-8,0</b>	<b>-3,5</b>	<b>-8,1</b>	<b>-2,6</b>	<b>-2,4</b>
Cash flow for the period	-13,3	13,5	-29,3	-16,0	10,9
Liquid assets at start of period	143,4	119,0	159,4	148,5	148,5
Liquid assets at end of period	130,1	132,5	130,1	132,5	159,4

	Consol. April-June 2002	Consol. April-June 2001	Consol. Jan-June 2002	Consol. Jan-June 2001	Consol. Jan-Dec 2001
<b>Key ratios</b>					
Operating margin, %	21,8	26,1	15,9	19,8	18,5
Profit margin, %	15,1	16,0	11,1	12,2	14,9
Return on capital invested, %	5,5	6,6	6,1	7,4	15,3
Return on equity, %	3,8	4,0	4,3	4,5	12,3
Equity ratio, %	92,0	77,9	92,0	77,9	87,0
Average number of employees	98	110	99	105	104
Turnover per employee	0,7	0,6	1,1	0,9	2,1
Operating profit per employee	0,2	0,2	0,2	0,2	0,4

## Definitions

### Operating margin:

Operating profit as a percentage of net turnover.

### Equity ratio:

Equity as a percentage of turnover.

### Profit margin:

Profit for the period as a percentage of net turnover.

### Turnover per employee:

Net turnover divided by the average number of full-time employees.

### Return on capital invested:

Profit after net financial profit plus financial costs divided by average capital invested.

### Operating profit per employee:

Operating profit divided by the average number of full-time employees.

### Return on equity:

Profit for the period divided by average equity.