



## Year-end Report January – December 2002

- Sales increased to SEK 221 (corresponding period the previous year: 156) million, of which SEK 96 (44) million in the fourth quarter. Gross margin for the period was 34 % (9,4 %), of which 31,5 % (31,8 %) in the fourth quarter.
- Pre-tax loss before depreciation amounted to SEK -354 (-573) million of which SEK -30 (-168) million in the fourth quarter. The substantial improvement primarily in the fourth quarter was due to largely increased profits and the cost-cutting measures implemented by the Company mainly in the third quarter.
- Operating loss amounted to SEK -430 (-596) million, of which SEK -53 (-179) million in the fourth quarter.
- Cash flow generated by current operations was SEK -350 (-540) million, of which SEK -41 (-150) million in the fourth quarter.

### Fourth quarter 2002

- During October a fully subscribed new share issue with preferential rights was implemented providing SEK 207 million before issue expenses.
- Anoto signed a partnership contract with China-based AiNiDo for the supply of paper-based services enabling Anoto functionality in China. The services will be offered in enterprise solutions via PC as well as via the networks of China Mobile and China Unicom.
- In December *Anoto* functionality was launched on the Italian market, in collaboration with Telecom Italia Mobile, Sony Ericsson, Esselte and 3M.
- *Logitech* earlier in the year launched Logitech io™, the first digital PC pen enabling Anoto functionality, in the US and Germany. In November it was also introduced in Sweden.
- C Technologies during the second half of 2002 delivered ASIC-chips valued at SEK 75 million and received orders for delivery in the first quarter 2003 totalling USD 7 million (SEK 60 million). In addition the business will generate future royalties per ASIC unit.
- C Technologies achieved positive cash flow in the fourth quarter.

## **Anoto Group**

Anoto Group is composed of innovative high tech companies within the fields of digital camera technology, image processing and digital pens. The Group is today best known for its subsidiary *Anoto*.

### **Anoto**

The subsidiary *Anoto* is progressing largely according to plan. The extensive infrastructure development and development of basic consumer services has been completed. In view of this the company during the autumn 2002 significantly reduced operations in Stockholm. The downsizing will not affect *Anoto*'s ability to finalise its undertakings and to continue selling the finished products.

The weak telecom market has affected the launching times for a number of the Company's potential partners among the operators. The company's long-term outlook with regard to operators is positive.

The remaining business units, Enterprise and PC solutions, are progressing according to plan. In addition to the announced partners, *Anoto* initiated collaboration with further significant companies, which, on request by the respective partner, for the time being remain confidential for reasons of confidentiality and competition.

Business Unit Enterprise focuses on selling solutions and systems to streamline the flow of paper forms within mail service, medical service, logistics, financial transactions, inventory, market research and others. In 2003 the business unit will be further prioritised in order to utilise the strong interest displayed by the market.

Business Unit PC consumer products has progressed very well and the launching of the Logitech io™ pen in the fourth quarter was favourably received. The Company estimates that the Logitech venture in 2003 will provide *Anoto* with royalties and project revenues for *Anoto* enabled pens ranging between SEK 30 and SEK 70 million. Logitech cooperates with existing *Anoto* partners such as 3M Post-it® Notes, MeadWestvaco, Groupe Hamelin and Franklin Covey.

Business Unit Mobile, offering mobile solutions for private consumers and enterprises, has progressed less favourably than forecasted. There is still a keen interest among mobile operators to introduce services based on *Anoto* technology, a delay is however still evident compared with the indications *Anoto* received at the beginning of the year.

In April 2002 *Anoto* functionality was launched on the Swedish mobile consumer market in partnership with Vodafone, Sony Ericsson, Esselte and 3M, thus making Chatpen™ by Sony Ericsson the first digital pen enabling *Anoto* functionality worldwide. A major focus on vertical applications was initiated and during the autumn the first of these, Spärrservice, was introduced in full commercial operation. The market has however progressed slower than expected.

As previously mentioned, the partnership with a significant mobile phone producer, so far not unveiled, is progressing. Launching is estimated to take place in the second half of 2003 and products are expected to be commercially available in stores during the third quarter of 2003.

## **C Technologies**

The subsidiary C Technologies' products, of which the scanning pen C-Pen is best known, are based on the integration of digital camera technology with advanced image processing in products with low energy consumption and high speed processing. Since the end of 1998 the company has established its technology platform on the global market through license and OEM partnerships and sales of proprietary products.

During the latter half of 2002 the company effectuated delivery of so-called ASIC chips for camera modules for use in mobile phones worth SEK 75 million. The company has delivery of orders in the first quarter 2003 totalling USD 7 million (SEK 60 million). C Technologies' ASIC chips are meeting with continuous strong demand.

Sales of C-Pen 600/800 stagnated and developed less favourably than estimated.

The keen interest in C-Pen 10 continues, and by moving the production to Asia improved margins for 2003 will also be achieved.

Further restructuring work was carried out in the last quarter, and as a result of these initiatives C Technologies made eight members of staff redundant. Previously during the year the staff was reduced by about ten.

## **WeSpot**

In the subsidiary WeSpot (in which Anoto Group AB owns 54.7 percent of votes and capital) applications based on so-called intelligent camera technology, advanced image processing and the Group's proprietary ASIC-chip are developed. WeSpot in the period concluded an additional commercial contract with Bircher Reglomat regarding WeSpot Smart Door Opener. WeSpot has previously been awarded three commercial contracts: Securitas Direct, US-based Overhead Door Corporation (part of Japan-based Sanwa Group) and Attendo Senior Care in Sweden. Parallel negotiations with a number of potential customers and partners regarding further agreements are ongoing.

Operations have during the period largely progressed as planned.

## **Invoicing and results**

Invoicing for the year totalled SEK 221 (156) million, of which C Technologies accounted for SEK 173 (151) million, *Anoto* for SEK 46 (4) million and WeSpot for SEK 2 (1) million.

The Group's gross margin for the period was 34 percent (9,4 percent).

Consolidated operating loss for the period was SEK -430 (-596) million. Sales, administration and research expenses have continued to decrease according to plan and amounted to SEK -429 million, compared with SEK -588 million for the corresponding period the previous year. This decrease has been achieved in spite of the period being charged with divestment costs totalling SEK 46 million.

Pre-tax loss for the period was SEK -413 (-440) million. The result for the corresponding period the previous year included a positive result regarding the Group's profit in connection with directed new share issues in subsidiaries after taking the minority share into consideration. The stated item amounted to SEK 68 million. Adjusted for lump sum expenditures, pre-tax loss for the corresponding period the year before was SEK -508 million. The period was furthermore charged with depreciation of goodwill on consolidation totalling SEK -38 million (-6, part of the year only).

## Financing and liquidity

At the end of the period, consolidated liquid assets amounted to SEK 171 million compared to SEK 52 million at the end of the third quarter and SEK 368 million at the beginning of the year.

As previously stated, in the first quarter the employees of the parent company and wholly owned subsidiaries were offered to acquire warrants in the parent company at market price. Fully utilised the parent company would be provided with SEK 123 million. A voluntary salary cut by those employees subscribing for warrants will during 18 months correspond to a consolidated cost reduction totalling just over SEK 15 million.

During the second quarter the major shareholders of the partly owned subsidiary WeSpot AB (including Anoto Group AB) resolved to, pro rata and in the form of interest-bearing loans, advance a total of SEK 16,5 million in respect of the next new share issue in WeSpot. With this advance the company has secured funds for the first four months of 2003. Of this advance SEK 7,3 million pertains to minority shares, thus constituting a contribution to the liquidity of the Group.

Pursuant to the authorisation granted by the General Meeting, the company in the third quarter implemented two new share issues directed at industrial partners Hitachi and Groupe Hamelin. The new issues yielded SEK 25 million before issue expenses.

In the fourth quarter a new share issue with preferential rights for existing shareholders was implemented providing SEK 207 million before issue expenses.

## Cash flow

Cash flow generated by current operations amounted to SEK -350 (-541) million for the period. The improvement is entirely pertaining to a corresponding improvement of the consolidated operating loss before depreciation.

Cash flow for the year amounted to SEK -197 (-53) million. (The previous year new share issues were implemented totalling SEK 559 million in comparison with SEK 221 million in 2002, which explains the negative trend.)

Cash flow was charged with net investments amounting to SEK 83 (83) million for the period.

## Investments

Net investments for the period were SEK 83 (83) million, primarily in respect of capitalised development and patent expenditures and tangible fixed assets. A strict review of *Anoto's* investments was carried out in the last quarter, resulting in the company capitalising certain costs pertaining to previous quarters in connection with the annual accounts, in accordance with the adopted accounting principles. Capitalised items amount to a little less than SEK 20 million, which have been charged with depreciation in 2002.

## Fourth quarter (October - December)

Invoicing for the fourth quarter was SEK 96 (44) million, of which C Technologies accounted for SEK 75 (39) million, *Anoto* for SEK 20 (4) million and WeSpot for SEK 1 (1) million.

Sales in C Technologies increased during the year's last quarter, and almost doubled in comparison with the fourth quarter the previous year. Compared with the third quarter of 2002 sales doubled, which is explained by the increasing numbers of ASIC chips for camera modules that are being delivered. Additionally, when sold to the end-user, each camera module will generate royalties for C Technologies.

*Anoto* also met with an increase in sales compared with the fourth quarter the previous year. In comparison with the third quarter of 2002, the increase was equally significant, reflecting the growing number of strategic partnerships that were entered and the development fees they generate, as well as the initial license fees from pen manufacturers.

The gross margin was 31,5 percent (31,8 percent).

Earnings before depreciation were SEK -30 (-168) million and continue to improve. The increase in earnings and the previously mentioned downsizing have started to yield results.

Consolidated operating loss for the fourth quarter was SEK -53 (-179) million.

Sales, administration and research expenses have continued to decrease according to plan, amounting in the fourth quarter to SEK -60 (-182) million. The level of costs in the fourth quarter was lower than expected due to the capitalised development and patent expenditures (see Investments above). Clearing these, costs for the fourth quarter 2002 would amount to SEK -65 million, in line with previous forecasts for *Anoto* and C Technologies.

Pre-tax loss for the quarter was SEK -49 (-159) million. The improvement is SEK 110 million compared to the previous year, which is explained by the above circumstances.

The quarter was charged with depreciation of goodwill on consolidation according to plan amounting to just under SEK -10 (-6) million, where the corresponding item the previous year pertains to part of the period. The quarter was also charged with write amortisation and depreciation amounting to SEK -13 (-6) million.

Cash flow generated by current operations amounted to SEK -41 (-150) million in the fourth quarter.

Cash flow for the fourth quarter was SEK 118 (226) million and was charged with net investments amounting to SEK 39 (34) million.

## **Parent Company**

Subsequent to the legal restructuring of the Group in connection with the previous turn of the year, the parent company operates solely as a holding company with a limited number of consolidated functions.

As previously foretold, Christer Fåhraeus was appointed new CEO and president of the parent company at the Annual General Meeting on April 24, 2002 in connection with which the parent company changed its name to *Anoto Group AB*.

## **Accounting Principles**

The Company follows the general guidelines, statements and recommendations issued by the Swedish Financial Accounting Standards Council. During the period the Company has applied the same accounting principles that were used in the Annual Report 2001.

## **Share Data**

*Anoto Group's* share is listed on the Stockholm Exchange's O-list (Attract 40). On expiration of the reporting period there was a total of 103.569.201 shares, and 11.977.641 \* outstanding warrants.

## Ownership Structure

On December 31, 2002 the number of shareholders in Anoto Group was approximately 15.100. Foreign shareholders controlled 30 percent of the shares. Major shareholders at the same point of time are listed below.

<u>Owner</u>	<u>No. of shares</u>	<u>% of capital &amp; votes</u>
Ericsson	24.338.065	23,5 %
Capital Group	11.189.937	10,8 %
Christer Fåhraeus	6.252.870	6,0 %
4:e AP-fonden	4.871.794	4,7 %
Robur funds	4.410.544	4,3 %
Skandia Carlson funds	3.849.526	3,7 %
Skandia	3.300.050	3,0 %
<u>Other</u>	<u>45.356.415</u>	<u>44,0 %</u>
Total	103.569.201	100,0 %

\*) 5.335.639 of these are warrants issued in connection with the agreement with holders of stock options in Anoto AB regarding exchange of shares, whereby subscription for new shares based on warrants in Anoto AB entitles the subscriber to 1 new share in the parent company per 7,9383 shares in Anoto AB. Full utilisation of all warrants would provide the Group with SEK 247 million. In addition there are 1.688.402 staff warrants in the parent company, of which only 55 % up to now have been offered to employees. Fully utilised the program may provide future subscription payments amounting to SEK 123 million. The salary relinquishment program implemented in the year's first quarter comprises 1.915.846 warrants, whereby the remaining warrants authorised by the General Meeting (3.037.754) will not be utilised and consequently do not constitute a potential dilution exposure. Given these conditions, the actual potential dilution exposure at December 31, 2002 will be approx. 8 %.

## Significant events after the end of the reporting period

C Technologies was awarded a further order for ASIC-chips (the company's proprietary System-on-a-chip Argus). Total order volumes to be delivered in the first quarter are now valued at USD 7 million SEK (60 million) and will in addition generate future royalties.

Anoto's customer Medimedia France, has received its first delivery of pens and is planning to start sales to French physicians in April this year. The application emphasises on automatic processing of drug prescriptions.

Franklin Covey launched iScribe Digital Planner which, together with Logitech io™, enables digital transmission of Franklin Covey's paper calendars to Microsoft Outlook and Lotus Notes.

## Outlook

### *Anoto*

Services for vertical applications have progressed well. Far-reaching collaboration with Hitachi has previously been reported and a further agreement of the same importance is foreseen. This has however been slightly delayed, and is now expected during the first quarter of 2003.

The PC solution for consumers was in Q4 launched by Logitech as the "io™," pen. It will probably generate the greater part of pen sales in 2003.

The launching of Anoto's consumer services by operators was delayed in comparison with previous indications. It is estimated that a minimum of 10 operators will have introduced some type of commercial service during 2003. There will be increased focus on vertical applications within Business Unit Mobile. During 2002 TIM, Milcom, Chiahui, Sysnet and Medimedia launched commercial enterprise services. This pace of progress is estimated to remain unchanged.

Vodafone's focus on applications continues, which should reflect increased service sales.

In 2003 monthly costs are forecasted to amount to approximately SEK 16 million for *Anoto*, implying yearly costs savings of some SEK 100 million in comparison with the situation prior to the significant structural reorganisation that was decided upon and carried out in the third quarter of 2002.

In the first quarter *Anoto* is expected to start collaboration with a printer manufacturer to further increase the supply of paper and create opportunities for new types of services.

The interest expressed by large and small industrial partners is increasing continuously.

### *C Technologies*

In the previous report a very good result in the fourth quarter was forecasted and realised. The strong demand for ASIC chips continues, and the order situation for delivery in the first quarter is, as previously stated, very favourable.

Sales of Cpen products, primarily Cpen 10, are expected to remain stable, but smaller volumes than previously forecasted are expected. There are however other products within the Cpen family which will be launched in 2003.

Previously estimated cost reductions resulting from organisational restructuring decided upon and carried out during the second and fourth quarters remain.

C Technologies is estimated to continue to generate positive cash flow during the year.

### *WeSpot*

WeSpot is expected to generate earnings during 2003. The company plans to boost its funds during spring. It is still regarded as probable that Anoto Group AB's share in WeSpot will have decreased below 50 % within 1-2 quarters and that the latter will no longer be consolidated, being instead accounted as an associated company within the Anoto Group

### *The Group*

The Group is forecasting increased sales of more than 50% for the whole of 2003.

The cash flow (cash flow for the year) is expected to improve considerably (compared with previous quarters) and is estimated to fall below SEK -30 million in the first quarter (excluding WeSpot in accordance with the above assessment of reduced future ownership). Continuous improvement may be expected during the year.

The Group is expected to achieve positive cash flow during the second half of 2003.

## **Financing**

Taking into consideration the result of the completed new share issue in the fourth quarter of 2002, the Company estimates that positive cash flow could be achieved without further capital contribution.

## Annual General Meeting

The Annual General Meeting will be held on May 15, 2003 in Lund. The Board of Directors will propose that no dividends be paid.

<u>Interim Reports</u>	<u>Date</u>
First quarter	May 15
Half-year	August 19
Third quarter	November 11
Year-end 2003	February 10, 2004

Lund, February 4, 2003

Christer Fåhraeus  
President

## **Review Report**

For year-end report Jan 1, 2002 – Dec 31, 2002  
Anoto Group AB (publ) Org. No. 556532-3929

I have reviewed this year-end report in accordance with the recommendation on review of semi-annual/interim reports issued by the Swedish Institute of Authorised Public Accountants. A review is considerably limited in scope compared with an audit. Nothing has come to my attention that causes me to believe that the year-end report does not comply with the requirements of the Securities and Clearing Operations Act and the Annual Accounts.

Lund, February 4, 2003

Per-Arne Pettersson  
Deloitte & Touche



**Income Statement in summary****The Group**

(Amounts in SEK 000s)

	Quarter 4		Accumulated	
	Oct - Dec 2002	Oct - Dec 2001	Jan - Dec 2002	Jan - Dec 2001
Net sales	95 569	43 516	220 972	156 204
Cost of goods sold	(65 481)	(29 677)	(145 889)	(141 506)
<b>Gross profit</b>	<b>30 088</b>	<b>13 839</b>	<b>75 083</b>	<b>14 698</b>
Sales, administration & research	(60 336)	(181 502)	(428 734)	(587 537)
<b>Profit before depreciation</b>	<b>(30 248)</b>	<b>(167 663)</b>	<b>(353 651)</b>	<b>(572 839)</b>
Depreciation of intangible assets	(18 617)	(7 484)	(55 209)	(10 809)
Depreciation of tangible assets	(4 388)	(4 151)	(21 305)	(12 735)
<b>Operating profit/loss</b>	<b>(53 253)</b>	<b>(179 298)</b>	<b>(430 165)</b>	<b>(596 383)</b>
Result from participation in group companies <sup>1</sup>	-	8 816	-	68 210
Result from participation in associated companies <sup>2</sup>	(74)	-	(74)	-
Other financial items	692	493	4 554	7 938
Minority share	3 278	11 311	13 116	80 042
<b>Profit/loss before taxes</b>	<b>(49 357)</b>	<b>(158 678)</b>	<b>(412 569)</b>	<b>(440 193)</b>
Taxes	(44)	(301)	(278)	(488)
<b>Profit/loss after taxes</b>	<b>(49 401)</b>	<b>(158 979)</b>	<b>(412 847)</b>	<b>(440 681)</b>
<b>Key ratios:</b>				
Gross margin	31,5%	31,8%	34,0%	9,4%
Operating margin	Neg	Neg	Neg	Neg
Earnings per share (SEK) <sup>6</sup>	(0,52)	(2,61)	(5,08)	(8,97)
Earnings per share after dilution (SEK) <sup>6</sup>	(0,46)	(2,44)	(4,46)	(8,50)

**Balance Sheet in summary**

(Amounts in SEK 000s)

	<b>The Group</b>	
	Dec 31, 2002	Dec 31, 2001
Goodwill	336 810	374 946
Other fixed assets	151 524	107 933
Minority share	7 264	-
Other currents assets	117 064	111 388
Cash and bank balances, incl. current investments	171 150	368 313
Total assets	783 812	962 580
Shareholders' equity	612 889	798 963
Minority share	-	2 568
Interest-bearing liabilities	5 093	5 417
Other liabilities	165 830	155 632
Total shareholders' equity and liabilities	783 812	962 580

**Changes in equity**

	<b>The Group</b>	
	Jan 1, 2002 - Dec 31, 2002	Jan 1, 2001 - Dec 31, 2001
<b>Opening balance according to the adopted balance sheet for the previous year</b>	<b>798 963</b>	<b>503 055</b>
Effect of change of accounting principle <sup>5</sup>	-	(68 545)
Minority share hereof	-	3 979
<b>Opening balance adjusted according to the new accounting principle</b>	<b>798 963</b>	<b>438 489</b>
New share issues	232 088	450 000
Non-cash issue	-	347 016
Issue expenses	(11 278)	(12 638)
Redemption of warrants	-	975
Subordinated debentures with detachable warrants	8 117	1 733
Minority share of submitted stockholders' share in subsidiaries	-	(573)
Minority share of result for the year not recorded in the income statement <sup>3</sup>	-	16 928
Write-down of receivables from minority share in WeSpot AB <sup>7</sup>	(3 284)	
Translation difference	1 130	(2 286)
Loss for the year	(412 847)	(440 681)
<b>Closing balance</b>	<b>612 889</b>	<b>798 963</b>

**Cash flow analysis****The Group**

(Amounts in SEK 000s)	Quarter 4		Accumulated	
	Oct - Dec 2002	Oct - Dec 2001	Jan - Dec 2002	Jan - Dec 2001
Operating profit/loss before depreciation	(30 248)	(167 663)	(353 651)	(572 839)
Change in warranty provision	(1 006)	(1 858)	(924)	(60)
Taxes paid	(44)	(301)	(278)	(488)
Change in working capital	(9 822)	20 126	5 115	32 775
<b>Cash flow from operations</b>	<b>(41 120)</b>	<b>(149 696)</b>	<b>(349 738)</b>	<b>(540 612)</b>
Net investments	(39 477)	(34 206)	(82 580)	(83 379)
<b>Operating cash flow before financing</b>	<b>(80 597)</b>	<b>(183 902)</b>	<b>(432 318)</b>	<b>(623 991)</b>
<b>Financing:</b>				
New share issues	197 499	438 338	220 810	438 338
New share issues directed at subsidiary minorities	-	19 484	-	120 751
Change in long-term liabilities	752	(47 776)	6	4 625
Other financial items	692	493	4 554	7 938
Other items	445	(282)	9 785	(554)
<b>Cash flow for the year</b>	<b>118 791</b>	<b>226 355</b>	<b>(197 163)</b>	<b>(52 893)</b>
Liquid assets at the beginning of the period *	52 359	141 958	368 313	421 206
<b>Liquid assets at the end of the period *</b>	<b>171 150</b>	<b>368 313</b>	<b>171 150</b>	<b>368 313</b>

\*) Liquid assets refer to cash, bank balances and current investments

**Key ratios****The Group**

	Oct - Dec 2002	Oct - Dec 2001	Jan - Dec 2002	Jan - Dec 2001
Cash flow for the year (SEK 000s)	118 791	226 355	(197 163)	(52 893)
Cash flow / share (SEK) <sup>6</sup>	1,25	3,75	(2,43)	(1,08)
Cash flow / share (SEK) after dilution <sup>6</sup>	1,11	3,59	(2,13)	(1,02)
	Jan 31, 2002	Jan 31, 2001		
Equity / assets ratio	78,2%	83,0%		
Number of shares <sup>4</sup>	115 179 140	79 225 551		
Equity per share (SEK) <sup>4</sup>	5,32	10,08		

## Notes (SEK 000s)

<sup>1</sup> During the previous year the Group made a profit through a new share issue in the subsidiary Anoto AB directed at Ericsson Mobiel Communications AB.

This profit amounted to 49 377 after taking the minority share into consideration. The Group made a similar profit the previous year through new share issues directed at minority holders in the subsidiary WeSpot AB. The profit in this case amounted to 18 833 after taking the minority share into consideration.

<sup>2</sup> Anoto AB during year 2002 acquired 45% of the shares in Anoto Communications Ltd, Japan.

<sup>3</sup> The minority share in Anoto AB increased from 15 percent to 30 percent at the end of March 2001. In order to give a more true and fair view of the income statement, 15 percent the income statement have been used when eliminating the minority share of the result for the period Jan1,2001-March 31, 2001. The effect of the remaining 15 percent became a positive item in the Group's equity. Effective Nov 1, 2001, Anoto AB is fully consolidated. Similarly the increasing minority share in the subsidiary WeSpot in the previous year has been taken into consideration.

<sup>4</sup> Including outstanding warrants (Dec 31, 02: 11 977 641; Dec 31, 01: 2 698 650).

<sup>5</sup> Effective as of Jan 1, 2001 the Swedish Financial Accounting Standards Council's Recommendation RR15 (Intangible assets) is applied. In accordance with the transitional regulations of this principle, a lump-sum write-down of a total of 68 545 (corresponding to the residual value according to plan). This lump-sum write-down was redorded as an adjustment entry in the equity opening balance on Jan 1, 2001 in accordance with the Sedish Financial Accounting Standards Council's recommendation RR5 (Change of accounting principle).

<sup>6</sup> Key ratios regarding earnings and cash flow per share are based on weighted average number of shares and outstanding warrants for the respective periods.

<sup>7</sup> The part of the receivables from the minority share in WeSpot AB not covered by the minority share commitment.