



Interim Report January – March 2003

- Sales increased by 46 % to SEK 76 (52) million. Gross margin for the period was 37,2 % (27,9 %). The improved gross margin was due to a bigger part being contributed by income from licenses and development (income = 100 % gross margin).
- Pre-tax loss before depreciation and amortisation amounted to SEK -38 (-103) million. Increased revenues, improved margin and significantly reduced costs resulted in a considerable improvement compared with the corresponding period the previous year.
- Operating loss of SEK -57 (-119) million was posted.
- Cash flow from current operations was SEK -39 (-148) million.

Operations

- *Anoto* partners launched and demonstrated products and services enabling *Anoto* functionality at the CeBIT trade fair. Among others, Nokia introduced a digital pen enabling *Anoto* functionality, Nokia Digital Pen.
- *Anoto* and a leading system integrator signed a license agreement in order to create opportunities to develop new paper-based value-added services. At our partner's request, the name will remain confidential until later in the year.
- C Technologies during the quarter delivered ASIC chips totalling SEK 51 million and in the order book has further ASIC chips for camera modules for mobile phones, which will be delivered commencing the third quarter. This business will also generate future royalties on each ASIC unit.
- C Technologies received orders from a new mobile phone manufacturer for further ASIC chips to be delivered later in the year.
- In the first quarter C Technologies achieved a profit as well as positive cash flow.
- The Anoto Group also carried out minor restructuring of its organisation, thus taking steps to reduce corporate spending by some SEK 30 million per annum, the greater part of which pertains to Anoto.



Anoto Group (publ) corporate identity number 556532-3929

Anoto Group AB is a Swedish high tech company with unique solutions for transmission of handwritten text from paper to digital media, scanning of printed text and intelligent camera surveillance. All products are based on digital camera technology and image processing in real time. The Group is today best known for its subsidiary *Anoto*.

Anoto

Under the new organisation, Anoto's operations are carried out through two business units, System Services and Consumer Products.

System Services

Under business unit System Services, areas Enterprise, Mobile and Infrastructure have been united. The unit focuses on customised services and products aimed at enterprises. Customers comprise operators, system integrators and software developers, IT consultants and infrastructure companies, who in turn provide their enterprise customers with customised solutions enabling *Anoto* functionality.

Among System Services' major agreements is that with Hitachi. Together with Anoto Hitachi develops an extension of Anoto's PLS (Paper Look-up Service), the EPLS (Enterprise Lookup Server), which is an infrastructure functionality for intranet solutions. The new product enables companies to create consumer-specified document management solutions enabling *Anoto* functionality within the company's firewalls. Hitachi will be using EPLS to build in-house forms processing solutions for the e-Government (electronic administration within government and local administrations) in Japan. Launching of EPLS is expected in the second half of 2003, when initial revenues will also be generated. However, Anoto is receiving substantial fixed NRE revenues from Hitachi and has done so since the collaboration was initiated in 2002.

Since the beginning of the year Spain-based system integrator EFD is also offering solutions enabling *Anoto* functionality, supported by Anoto's hosting solution. They are available on the market in Spain under the brand name Naturalcom. Providing customised solutions, EFD primarily addresses enterprises. (www.naturalcom.net)

The Anoto partner Medimediapro in February launched the service OedipSystem, i.e. a digital prescription pad service enabling *Anoto* functionality for doctors in private practice in France. The service enables doctors to automatically get patient information stored in their computer systems. (www.oedip.com).

Previously announced customers such as Vodafone, TIM (Telecom Italia Mobile), MilCom and Sysnet, continue to develop and offer services particularly to enterprises. As stated before, this work is progressing at a slower rate than planned.

Consumer Products

Business Unit consumer products continues to progress in an increasingly satisfactory way. The business unit focuses on development and sales of products that enable people to improve their daily efficiency and communication.

Such products are being offered through partners and target end-users only. They comprise digital pens, PC applications and applications for mobile phones. These products and solutions also serve as the building stones for the services and customised enterprise solutions offered by the Company's other business unit.

In March 2003 Nokia announced its intention to offer a digital pen enabling *Anoto* functionality, a solution for both mobile and PC applications. The Nokia Digital Pen is expected to be commercially available in stores in the third quarter of 2003. This pen will also be sold together with digital notepads and paper products provided by *Anoto* partners.



Hitachi Maxell will be Anoto's fourth partner to offer a digital pen enabling *Anoto* functionality. It is estimated that Maxell's digital pen will be available during the third quarter of 2003. It will be sold primarily on the markets in Japan and China.

Anoto has previously launched collaboration with Logitech. With its Logitech® io™ Personal Digital Pen, Logitech® offers a solution for PC and collaborates with FranklinCovey®, manufacturing a digital paper calendar, and with 3M, MeadWestvaco and Groupe Hamelin, providing the market with paper products enabling *Anoto* functionality. It has been available since November 2002 and sales are gradually increasing. At the present time it is marketed in four countries, the US, Germany, Austria and Sweden. Logitech will represent the bulk of pen sales during 2003 and Anoto estimates that the Logitech venture in 2003 will yield royalties and project revenues on digital pens enabling *Anoto* functionality ranging between SEK 30 and 70 million.

In the second half of 2003 *Anoto* will have four partners marketing digital pens enabling *Anoto* functionality.

C Technologies

The subsidiary C Technologies' products, of which the scanning pen C-Pen is best known, are based on digital camera technology with integrated 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 as well as sales of proprietary products.

During the first quarter of 2003, deliveries of so-called ASIC chips to be used in camera modules for mobile phones totalled SEK 51 million. Some deliveries have been postponed until the third quarter (previous communications from the company have stated deliveries valued at USD 7 million (SEK 60 million) to take place in the first quarter of 2003.

C Technologies sees a continued high interest in the ASIC chip for use in camera modules as well as other application areas.

C-Pen 600/800 sales stagnated and did not progress as forecasted.

C-Pen 10 and other C-Pen products that are being developed are still generating keen interest, however volumes so far are relatively small.

WeSpot

The subsidiary WeSpot (in which Anoto Group AB controls 54.7 % of capital and votes) develops applications based on intelligent camera technology, advanced digital image processing and the Group's proprietary ASIC chip. The company has previously concluded three commercial agreements, with US-based Horton/Overhead Door Corporation (part of Japan-based Sanwa Group), Bircher Reglomat regarding WeSpot's Smart Door Opener and the Swedish company Attendo Senior Care regarding WeSpot's Nurse Sensor. Parallel negotiations concerning agreements with a number of potential customers and partners are ongoing.

Operations during the period have progressed largely according to plan.

Commercial products are estimated to reach the market during the present year.

Invoicing and results for the first quarter (January-March)

Invoicing for the first quarter totalled SEK 76 (52) million. Of sales during the period SEK 60 (45) million was attributable to C Technologies, SEK 16 (6) million to *Anoto* and SEK 0,2 (0,5) million to WeSpot.



Of C Technologies' sales, SEK 51 million was attributable to deliveries of ASIC chips for camera modules. When sold to end customers, C Technologies will also receive royalties for each camera module sold.

Development fees pertaining to strategic partnerships represent a major part of sales in *Anoto*, however royalties from manufacturers of digital pens enabling *Anoto* functionality are gradually increasing.

The Group's gross margin for the period was 37,2 % (27,9 %). In pace with increasing revenues for Anoto, Anoto's comparative part increases, and thus the total gross margin for the Group.

Consolidated operating loss for the period was SEK -57 (-118) million.

Sales, administration and research costs are stable and amounted to SEK -66 million, compared with SEK -118 million for the corresponding period the preceding year. The lowered costs are due to the downsizing that was accomplished in 2002.

Consolidated pre-tax loss for the period was SEK -54 (-113) million.

Depreciation of goodwill on consolidation totalled SEK -9,6 (-9,6) million, and amortisation and depreciation amounted to SEK -10 (5,6) million.

Financing and liquidity

At the end of the period, the consolidated liquid assets amounted to SEK 125 million compared to SEK 171 million at the end of the fourth quarter of 2002.

The Group during the period purchased external stock at SEK 8 million, which had a negative impact on the Group's liquid assets.

Cash flow

Cash flow generated by current operations during the period amounted to SEK -39 (-148) million. The progress is largely due to the improvement in consolidated operating loss before depreciation and the change in working capital.

Cash flow for the year amounted to SEK -46 (-156) million. The improvement is due to reasons described above and the fact that investments have decreased. The above expenditure comprises the purchase of stock from a sub-supplier as an extraordinary item, which affected the cash flow negatively by about SEK -8 million. WeSpot accounts for a little less than SEK -8 million of the consolidated expenditure. As a result, our previously announced forecast (WeSpot's expenditure not included) stipulating expenditure of SEK -30 million, exclusive of WeSpot, has been met.

Cash flow was charged with net investments amounting to SEK 7 (19) million for the period.

Investments

Net investments for the period were SEK 7 (19) million, referring primarily to capitalised development and patent expenditures, and limited tangible fixed assets. Investments will be considerably less during 2003 compared with 2002.

Parent Company

Following the legal restructuring of the Group in connection with the previous turn of the year, the parent company operates solely as a holding comprising a limited number of corporate functions.



Accounting Principles

The Company follows the general guidelines, statements and recommendations issued by the Swedish Financial Accounting Standards Council. The Company has furthermore during the period applied the same accounting principles that were used in the Annual Report 2002.

Share Data

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

Ownership Structure

On March 31, 2002 the number of shareholders in Anoto Group was 14 770. Foreign shareholders owned 30 % 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 & votes</u>
Ericsson	24.338.065	23,5 %
Capital Group	12.426.000	12,0 %
Christer Fähræus and companies	5.832.870	5,6 %
4:e AP-fonden	4.871.794	4,7 %
Robur funds	4.173.740	4,0 %
Skandia Carlson funds	3.888.026	3,8 %
Odin Norden	3.599.399	3,5 %
Skandia	3.244.550	3,1 %
Banco funds	1.960.606	1,9 %
Metalworkers Union	1.811.215	1,7 %
<u>Other</u>	<u>37.422.936</u>	<u>36,1 %</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

Anoto and a leading system provider, of the same importance as Hitachi, have concluded a license agreement in order to develop new types of services based on *Anoto* functionality. The company is a leader in a number of industrial and IT segments worldwide, and on our partner's request the name will for the time not be disclosed for reasons of secrecy and confidentiality. The new system will be based on the infrastructure EPLS * in combination with software and hardware developed by the partner. Revenues for *Anoto* will be composed of royalties on transactions, license income generated by EPLS sales, per royalties and NRE (Non Refundable Engineering).

Logitech's digital pen enabling *Anoto* functionality received two awards in conjunction with the big Retail Fair, Spring Retail Vision. Logitech io™ Personal Digital Pen was awarded the prizes "Best New Technology 2003" and "The Best Input Device 2003".

C Technologies has launched new camera projects and negotiations regarding agreements for an inexpensive C-Pen family aimed at OEM and license sales are ongoing.



C Technologies has received orders from a new mobile phone manufacturer for further ASIC chips to be delivered later in the year.

Outlook

Anoto

Anoto will be presenting gradually increasing revenues by the quarter during 2003 and onwards. The share composed of royalties is expanding, constituting an increasingly larger part. The Logitech agreement is likely to generate the bulk of revenues in 2003.

In the fourth quarter of 2003 *Anoto's* costs will decrease further, the restructuring now decided on will result in reduced costs starting in the fourth quarter, and will reach full effect in the second quarter of 2004.

The keen interest demonstrated by large and small industrial partners continues.

C Technologies

C Technologies' ASIC chips continue to meet with vivid interest, however irregular invoicing is forecasted over the quarters in 2003. The second quarter is expecting to see weaker sales than the first quarter.

Sales of C-Pen products, primarily C-Pen 10, are expected to remain stable, however lower volumes are foreseen than previously anticipated.

C Technologies has initiated new camera projects that may be producing results in 2004. Efforts to conclude agreements regarding an inexpensive C-Pen family aimed at OEM and license sales are also ongoing.

WeSpot

The product development is in its final stages and the production of a number of products is expected to start in 2003. WeSpot is anticipated to generate earnings starting in the second half of 2003. The company is now preparing to implement a new share issue to boost its funds, in which Anoto Group will not participate. It is therefore highly probable that Anoto Group AB's share in WeSpot will have decreased below 50 % within 1-2 quarters and that the latter will then no longer be consolidated, being instead accounted as an associated company within the Anoto Group.

The Group

The Group is forecasting further reduced costs as from the fourth quarter of 2003 depending on the steps and cost-cutting measures made in Anoto Group and *Anoto* in the second quarter. On a yearly basis these cost reductions will correspond to consolidated savings of SEK 30 million.

Sales in *Anoto* will increase considerably during the year, whereas C Technologies' sales are stagnating. Therefore the forecast stipulating a 50% increase in sales will not be met, the primary reason being the irregular deliveries of C Technologies' ASIC chips.

The expanded share of license revenues results in a gradual increase of the gross margin, which is growing faster than sales.

The Group's aim to achieve positive cash flow at the end of the year remains. The uncertainty regarding ASIC chip deliveries in the fourth quarter makes it difficult to estimate the exact point of time.



Financing

The Company estimated that positive cash flow may be achieved without further capital contribution.

Annual General Meeting

The Annual General Meeting of 2003 will be held today, May 15, at 16.00 p.m. on the Company's premises in Lund.

Interim Reports

Half-year	August 19
Third quarter	November 11
Year-end 2003	February 10, 2004

Lund, May 15, 2003

Christer Fåhraeus
President

This interim report has not been subject to review by the Company's accountants.



Income statement in summary

The Group

(Amounts in SEK 000s)

	Quarter 1		Accumulated
	Jan - Mar 2003	Jan - Mar 2002	Jan - Dec 2002
Net sales	75 891	51 946	220 972
Cost of goods sold	(47 648)	(37 445)	(145 889)
Gross profit	28 243	14 501	75 083
Sales, administration & research costs	(66 100)	(117 730)	(428 734)
Profit before depreciation	(37 857)	(103 229)	(353 651)
Depreciation of intangible assets	(15 660)	(11 002)	(55 209)
Depreciation of tangible fixed assets	(3 938)	(4 271)	(21 305)
Result from participation in group companies ¹	-	-	(74)
Operating profit/loss	(57 455)	(118 502)	(430 239)
Other financial items	347	1 436	4 554
Minority share	3 041	3 396	13 116
Profit/loss before taxes	(54 067)	(113 670)	(412 569)
Taxes	(71)	(1)	(278)
Profit/loss after taxes	(54 138)	(113 671)	(412 847)
Key ratios:			
Gross margin	37,2%	27,9%	34,0%
Operating margin	Neg	Neg	Neg
Earnings per share (SEK) ³	(0,52)	(1,49)	(5,08)
Earnings per share after dilution (SEK) ³	(0,52)	(1,49)	(5,08)



Balance Sheet in summary

(Amounts in SEK 000s)

	The Group		
	March 31, 2003	Dec 31, 2002	March 31, 2002
Goodwill	327 726	336 810	365 412
Other fixed assets	148 166	151 524	120 881
Minority share	7 264	7 264	-
Other current assets	105 291	117 064	129 033
Cash and bank balances, incl. current investments	125 342	171 150	211 830
Total assets	713 789	783 812	827 156
Shareholders' equity	555 937	612 889	693 504
Interest-bearing liabilities	5 094	5 093	5 000
Other liabilities	152 758	165 830	128 652
Total shareholders' equity and liabilities	713 789	783 812	827 156

Changes in equity

	The Group		
	Jan 1, 2003 - Mar 31, 2003	Jan 1, 2002- Mar 31, 2002	Jan 1, 2002- Dec 31, 2002
Opening balance	612 889	798 963	798 963
New share issue	-	-	232 088
Issue expenses	-	-	(11 177)
Subordinated debentures with detachable warrants ⁵	50	7 998	8 117
Write-down of receivables from minority share in WeSpot AB ⁴	(3 041)	-	(3 284)
Translation difference	177	214	1 029
Loss for the year	(54 138)	(113 671)	(412 847)
Closing balance	555 937	693 504	612 889



Cash flow analysis

The Group

(Amounts in SEK 000s)	Jan - March 2003	Jan - March 2002	Jan - Dec 2002
Operating profit/loss before depreciation	(37 857)	(103 229)	(353 651)
Change in warranty provision	(5 295)	602	35 176
Taxes paid	(71)	(1)	(278)
Change in working capital	3 998	(45 653)	(25 914)
Cash flow from operations	(39 225)	(148 281)	(344 667)
Net investments	(7 208)	(18 687)	(82 580)
Operating cash flow before financing	(46 433)	(166 968)	(427 247)
Financing:			
New share issues	-	-	220 911
Change in long-term liabilities	-	-	(5 064)
Other financial items	348	1 436	4 554
Other items ^{4,5}	277	9 049	9 683
Cash flow for the year	(45 808)	(156 483)	(197 163)
Liquid assets at the beginning of the period *	171 150	368 313	368 313
Liquid assets at the end of the period *	125 342	211 830	171 150

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

Key ratios

The Group

	Jan - March 2003	Jan - March 2002	Jan - Dec 2002
Cash flow for the year (SEK 000s)	(45 808)	(156 483)	(197 163)
Cash flow / share (SEK) ³	(0,44)	(2,04)	(2,43)
Cash flow / share (SEK) after dilution ³	(0,44)	(2,04)	(2,43)
	<u>March 31, 2003</u>	<u>March 31, 2002</u>	<u>Dec 31, 2002</u>
Equity/assets ratio	77,9%	83,8%	78,2%
Number of shares ²	115 546 842	89 076 265	115 546 842
Equity per share (SEK) ²	4,81	7,79	5,30



Notes

¹ Anoto AB during the year of 2002 acquired 45% of the shares in Anoto Communications Ltd, Japan.

² Incl. outstanding warrants (March 31, 03: 11 977 641; Dec 31, 02: 11 977 641; March 31, 02: 12 549 364).

³ Key ratios regarding earnings and cash flow per share per are based on weighted average number of shares and outstanding warrants for the respective periods.

⁴ The part of the receivables from the minority share in WeSpot AB not covered by the minority share commitment.

⁵ Payments derived from warrants in Q4, 2002 have been recorded directly against shareholders' equity, implying reclassification in relation to Interim Report 1, 2002 (Jan-March) in which this item was recorded as other operating income. The item in question amounts to 7 392.