



Interim Report January – June 2003

- Sales increased by 21 % to SEK 99 million (82), of which SEK 23 million (30) is attributable to the second quarter. Gross margin for the period was 45,8 % (29,0 %), of which 74,2 % (31,0 %) in the second quarter. The improved gross margin is due to a larger part being contributed by income generated by licenses and development. The gross margin improved from SEK 24 million to 45 million.
- Pre-tax loss before depreciation and amortisation amounted to SEK -91 million (-204), of which SEK -53 million (-101) is attributable to the second quarter. Increased revenues, improved margin and significantly lowered costs indicate an improvement in comparison with the corresponding period the previous year.
- Earnings per share amounted to -1,38 (-2,95) of which -0,86 (-1,47) in the second quarter.
- Christer Fåhraeus and Örjan Johansson have changed positions within Anoto Group
- Anoto Group has decided on a new share issue in an approximate amount of SEK 144 million directed at the Company's strategic partners Logitech and Hitachi Maxell.
- C Technologies plans to undertake a major reconstruction of the company and aims to focus only on technology sales of ASIC chips, C-Pen sales and technology sales of C-Pen.



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 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 Anoto Group is today best known for its subsidiary *Anoto*.

In the second quarter Christer Fähræus and Örjan Johansson switched positions within the Anoto Group. Christer Fähræus was appointed chairman of the board and Örjan Johansson succeeded as president of the Company. Succeeding Nils Ljung, board member Lars Berg was appointed deputy chairman of the board.

Anoto

System Services

Among System Services' major agreements is that with Hitachi. Hitachi and Anoto launched the EPLS* on the Japanese market at the end of June and initial revenues are expected in the third quarter. Anoto is however receiving fixed NRE (Non Refundable Engineering) revenues from Hitachi since the collaboration was initiated in 2002.

Anoto, Cap Gemini Ernst & Young (CGE&Y) and ReadSoft launched digital pen and paper solutions for the pharmaceutical industry. With mobile data capture, such new solutions facilitate clinical trials and other processes. Primary markets are US, France, Switzerland, UK, Germany and the Nordic countries. Based on technologies provided by ReadSoft and Anoto, CGE&Y offers integration that enables development of comprehensive solutions.

Previously announced customers such as Vodafone, TIM (Telecom Italia Mobile), MilCom, Sysnet, EFD and others continue to develop and offer services primarily to enterprises. As stated before this work is progressing at a slower rate and is generating a lower income than expected.

Under Business units 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 tailor-made solutions enabling Anoto functionality.

* EPLS = Enterprise Paper Look-up Service, is a new product that supplements the infrastructure that is co-developed, marketed and sold by Anoto and Hitachi. The product further enables enterprises to develop customised intranet pen and paper based applications and services.

Consumer Products

Business Unit Consumer Products is progressing well.

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 during the third quarter of 2003. Also this pen will 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 and it will be sold primarily on the Japan and China markets.

Anoto has previously launched collaboration with Logitech. Sales are ongoing since November 2002 and are gradually increasing. At the present time it is sold in four countries, the US, Germany, Austria and Sweden. Logitech will be representing the bulk of pen sales during 2003.



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

The business area focuses on development and sales of products that enable people to improve their daily efficiency and communication. These products, which are being offered via partners and target end-users only, comprise digital pens, PC applications and applications for mobile phones. The products and solutions also serve as building stones for the services and customised enterprise solutions offered by the Company's other business unit.

C Technologies

Interest in C Technologies' ASIC chips for snap-on cameras has declined, and measures will be taken during the third quarter.

C-Pen 600/800 sales have become stagnant and are not progressing according to plan. In connection with the turn of the half-year, write-down of current stock and capitalised development expenditure totalling SEK 28 million will be effectuated.

C-Pen 10 and other C-Pen products that are being developed are generating interest, however volumes so far are not significant. Collaborating with C Technologies is for example, Sparbanken Finn (regional bank in Skåne) offering its enterprise customers a digital solution tailored to suit those enterprise customers that pay their bills via the Internet bank. Using a reading pen, customers will be able to read all necessary information on an invoice at one go.

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

WeSpot

WeSpot AB during the month of May implemented a new share issue directed at existing shareholders. The record for the issue was May 31, 2003. WeSpot AB's major owner Anoto Group AB chose to waive participation in this issue. In the second quarter of 2003, Anoto Group AB subsequently reduced its share in WeSpot AB from 54,7% to 31,3%. WeSpot AB is therefore no longer consolidated, but an associated company within the Anoto Group.

Operations during the period have progressed largely according to plan. It is estimated that commercial products will be available on the market during the present year.

Invoicing and results for the first six months (January-June)

Invoicing for the first six months totalled SEK 99 million (82). SEK 67 million (66) of sales during the period is attributable to C Technologies, and SEK 32 million (15) to *Anoto*, WeSpot 0 (1) Mkr.

Of C Technologies' sales, SEK 55 million is attributable to deliveries of ASIC chips for camera modules. When sold to end customers, C Technologies will also receive royalties on each camera module sold.

With regard to *Anoto* sales, a large part is attributable to development fees from strategic partners, however the share of royalties from manufacturers of digital pens enabling *Anoto* functionality are now gradually increasing.

The Group's gross margin for the period was 45,8 % (29,0 %). 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 –168 million (-236).

Sales, administration and research costs are stable and amounted to SEK -136 million, in comparison with SEK -227 million for the corresponding period the previous year. The reduction is due to the downsizing that was accomplished in 2002.

Consolidated pre-tax loss for the period was SEK –143 million (-226).

Depreciation of goodwill on consolidation totalled SEK -19,2 million (-19,2), and amortisation and depreciation amounted to SEK -21,3 million (-13,1).

Owing to the fact that WeSpot is no longer consolidated, the Group is accounting a profit amounting to SEK 19,2 million.

Cash flow (January - June)

Cash flow generated by current operations during the period amounted to SEK -84 million (-209). The improvement is largely due to improved consolidated operating loss before depreciation and the change in working capital.

Cash flow for the period amounted to SEK –92 million (-236). The improvement is due to the reasons mentioned above and the fact that investments have decreased to 25% compared to last year. The above expenditure comprises building up stock and taking over stock from a subcontractor as an extraordinary item, which affected the cash flow negatively by about SEK -14 million. WeSpots accounts for about SEK -10 million of the consolidated expenditure.

Cash flow was charged with net investments during the period amounting to SEK 11 million (39).

Investments

Net investments for the period amounted to SEK 11 million (39), referring largely to patent expenses and limited tangible fixed assets, and partly to development costs. Investments will be considerably less in 2003 compared with 2002.

Second quarter (April – June)

Invoicing for the second quarter was SEK 23 million (30), of which SEK 7 million (20) is attributable to C Technologies, SEK 16 million (9) to *Anoto* and SEK 0 (1) million to WeSpot.

Sales in C Technologies were significantly lower in the second quarter. Already the previous interim report flagged for weaker sales during the present quarter due to postponed order for clip-on cameras.

The second quarter saw considerable sales growth in *Anoto* in comparison with the second quarter the previous year. However, revenues are about the same as in the first quarter, but the part generated by systems and license fees on manufactured pens is increasing.

The gross margin was 74,2 % (31,0 %). In pace with increasing revenues for *Anoto*, *Anoto*'s comparative part is increasing, and thus the total gross margin for the Group.

The operating loss before depreciation was SEK –53 million (-101), and it continues to improve. The downsizing described earlier has yielded results.

Consolidated operating loss for the second quarter was SEK –111 million (-118).

Sales, administration and research expenses have continued to decrease according to plan, amounting to SEK -70 million (-110) in the second quarter. Costs in the second quarter are



somewhat higher than expected depending on some minor allocations, and comprised is also a SEK 5 million item in WeSpot.

The quarter contains items affecting comparability. Anoto Group effectuated lump sum write-down totalling SEK 36 million when closing the books at June 30. The write-downs comprise stocks containing obsolete products and components, and carrying certain capitalised development expenditure in respect of old C-pen products in C Technologies totalling SEK 28 million as an expense. The write-downs also comprise an item regarding obsolete components in Anoto amounting to SEK 8 million.

Pre-tax loss for the period was SEK –89 million (-112).

The quarter was charged with depreciation of goodwill on consolidation according to plan amounting to SEK -9,6 (-9,6) million. The quarter was further charged with amortisation and depreciation amounting to SEK -11,3 million (-7,4).

Cash flow (April – June)

Cash flow generated by current operations amounted to SEK –53 million (-62) in the second quarter.

In the second quarter cash flow for the year was SEK –55 million (-79) and it was charged with net investments amounting to SEK 3 million (21).

Financing and liquidity

Consolidated liquid assets at the end of the period amounted to SEK 69 million, WeSpot not included, compared to SEK 123 million, WeSpot not included, at the end of the first quarter, 2003.

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 company 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 the 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 10.031.380 * outstanding warrants.



Ownership Structure

On June 30, 2003 the number of shareholders in Anoto Group was 14 578. Foreign shareholders owned approx. 35 % 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 and votes</u>
Ericsson	24.338.065	23,5 %
Capital Group	12.426.000	12,0 %
4:e AP-fonden	4.871.794	4,7 %
Christer Fähræus and companies	4.867.720	4,7 %
Odin Norden	4.339.399	4,2 %
Skandia Carlson funds	3.974.876	3,8 %
Robur funds	3.907.074	3,8 %
DNB A/C Eirik Naess-Ulseth	2.813.040	2,7 %
Skandia	2.509.050	2,4 %
SIS Segaintersettle AG/Zürich	2.050.997	2,0 %
<u>Other</u>	<u>37.471.186</u>	<u>36,2 %</u>
Total	103.569.201	100,0 %

*) 3.389.378 of these are warrants issued in connection with the agreements 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 SEK198 million. In addition there are 1.688.402 so-called employee warrants in the parent company, of which 55 % only 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 first quarter of this year comprises 1.915.846 warrants, and it is estimated that 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 June 30, 2003 will be approx. 6 %. (the redemption price for these options range between SEK 39 and 136, subscription period 2003-2005). At the Annual General Meeting on May 15, 2003 the board was authorised to issue a further 3.500.000 options. The dilution is not affected since these options replace the options program that expires during 2003.

Significant events after the end of the reporting period

Anoto Group implemented new share issues valued at approx. SEK 144 million directed at the Company's strategic partners Logitech and Hitachi Maxell. The issues were implemented and paid during the month of July. Logitech invests approx. SEK 121 million, thus acquiring 10,2 percent (12 million shares) of Anoto Group. Hitachi Maxell invests approx. SEK 23 million, thus acquiring 2,0 percent (2.3 million shares) of Anoto Group.

The new issue was implemented in two steps. The board decided, based on the authorisation granted by the Annual General Meeting, to issue 11 million shares. In addition the board decided to issue a further 3,3 million shares, which was authorised by an extraordinary general meeting. The extraordinary general meeting was convened on July 17, 2003 in order to authorise this new issue.

The new share issue is a natural continuation of the previously communicated collaboration between Anoto and Logitech, and the significant participating interest reinforces the strategic partnership that was formed with the intention of undertaking business and technical development of Logitech® io™ Digital Pen as well as the digital pen and paper platform. In connection with this, David Henry, Senior Vice President of Logitech, was elected member of the board of the Anoto Group.

Anoto and Hitachi launched sales of the new infrastructure product EPLS that enables enterprises to create digital forms management solutions enabling *Anoto* functionality within the company's firewalls. The EPLS will initially be sold in Japan through Hitachi Ltd and in Europe via *Anoto* partners. EPLS is sold together with software enabling, among other, development of digital storage of documents.



C Technologies plans to undertake a major reconstruction of the company and aims to focus only on technology sales of ASIC chips, C-Pen sales and technology sales of C-Pen. C Technologies therefore aims to close the company's camera division, which is responsible for the snap-on camera products for mobile phones. As a consequence all employees within the division will be given notice, the reason being lack of new orders for ASIC chips for snap-on camera solutions. The notice concerns 20 persons. Internal technology sales of ASIC chips to meet the needs at Anoto and C Technologies and for integration in products such as mobile phones will not be affected.

Outlook

Anoto

Anoto will be presenting gradually increasing revenues during the quarters of 2003 and onwards. The share composed of royalties is expanding and will continue to grow.

In the fourth quarter costs in *Anoto* will be reduced further, and the restructuring which was decided on in May will result in cost reductions beginning in the fourth quarter, with full effect achieved in the second quarter of 2004.

Large and small industrial partners continue to show a keen interest.

C Technologies

C Technologies has further deliveries of ASIC chips for camera modules for mobile phones on order, which will be delivered starting during the third quarter. The interest in C Technologies' ASIC chips for snap-on cameras has dropped and invoicing will be lower during the second half of the year compared to what was previously anticipated. The planned close-down of C Technologies' camera division for snap-on cameras will impact on revenues and costs in the fourth quarter of 2003.

Sales of C-Pen product, primarily C-Pen 10, are expected to remain stable, however smaller volumes than previously expected are foreseen.

Efforts to conclude agreements regarding an inexpensive C-Pen family aimed at OEM and licence sales are ongoing.

The Group

The Group is forecasting further reductions in fixed charges as from the fourth quarter of 2003, depending on the steps and cost-cutting measures taken in Anoto Group and Anoto in the second quarter. These reductions will on a yearly basis correspond to consolidated savings of SEK 30 million.

Sales in *Anoto* will be growing during the year, whereas C Technologies' sales will become stagnant and in all probability be lower than the previous year. Sales for the year is therefore expected to be lower than last year.

The gross margin is expected to improve considerably in comparison with the previous year, both in respect of percentage and absolute terms.

The Anoto Group aims to begin achieving positive cash flow at some point during second half 2004.

Financing

Due to the company's new aim of achieving positive cash flow and the newly implemented new share issues, it is estimated that the company will require no further capital contribution.



Interim Reports

Third quarter
Year-end 2003

November 11
February 10, 2004

Lund, August 19, 2003

Örjan Johansson
President

Review Report

For the Financial Statement January 1, 2003 – June 30, 2003-06-30
Anoto Group AB (publ) corporate identity number 556532-3929

I have reviewed this semi-annual in accordance with the recommendations regarding review of semi-annual reports and 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 semi-annual report does not comply with the requirements of the Securities and Clearing Operations Act and the Annual Accounts Act.

Lund, August 19, 2003

Per-Arne Pettersson
Deloitte & Touche



Income Statement in summary

The Group

(Amounts in SEK 000)

	Quarter 2		Accumulated		Year
	April - June 2003	April - June 2002	Jan - June 2003	Jan - June 2002	Jan - Dec 2002
Net sales	23 012	29 729	98 903	81 675	220 972
Cost of goods sold	(5 936)	(20 515)	(53 584)	(57 960)	(145 889)
Gross profit	17 076	9 214	45 319	23 715	75 083
Sales, administration & research	(70 376)	(109 729)	(136 477)	(227 459)	(428 734)
Profit before depreciation	(53 000)	(100 515)	(91 158)	(203 744)	(353 651)
Depreciation of intangible assets	(15 799)	(12 375)	(31 459)	(23 377)	(55 209)
Depreciation of tangible assets	(5 089)	(4 663)	(9 027)	(8 934)	(21 305)
Items affecting comparability ¹	(36 400)	-	(36 400)	-	-
Participation in associated companies ^{2,3}	-	-	-	-	(74)
Operating profit/loss	(110 588)	(117 553)	(168 044)	(236 055)	(430 239)
Result from participation in group companies ³	19 230	-	19 230	-	-
Other financial items	235	2 146	582	3 582	4 554
Minority share	2 448	3 380	5 489	6 776	13 116
Profit/loss before taxes	(88 675)	(112 027)	(142 743)	(225 697)	(412 569)
Taxes	(118)	(117)	(189)	(118)	(278)
Profit/loss after taxes	(88 793)	(112 144)	(142 932)	(225 815)	(412 847)
Key ratios:					
Gross margin	74,2%	31,0%	45,8%	29,0%	34,0%
Operating margin	Neg	Neg	Neg	Neg	Neg
Earnings per share (SEK) ⁴	(0,86)	(1,47)	(1,38)	(2,95)	(5,08)
Earnings per share after dilution (SEK) ⁴	(0,86)	(1,47)	(1,38)	(2,95)	(5,08)



Balance Sheet in summary

(Amounts in SEK 000s)

The Group

	June 30, 2003	Dec 31, 2002	June 30, 2002
Goodwill	317 742	336 810	355 878
Other fixed assets	139 672	151 524	134 032
Minority share	-	7 264	-
Other current assets	62 147	117 064	118 610
Cash and bank balances, incl. Current investments	68 567	171 150	132 552
Total assets	588 128	783 812	741 072
Shareholders equity	473 691	612 889	582 263
Minority share	-	-	-
Interest bearing liabilities	95	5 093	5 000
Other liabilities	114 342	165 830	153 809
Total shareholders' equity and liabilities	588 128	783 812	741 072

Changes in equity

The Group

	Jan 1, 2003 June 30, 2003	Jan 1, 2002 June 30, 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	-	7 998	8 117
Write-down of receivables from minority share in WeSpot AB ⁵	-	-	(3 284)
Write-back of receivables from minority share in WeSpot AB	3 284	-	-
Translation difference	450	1 117	1 029
Loss for the year	(142 932)	(225 815)	(412 847)
Closing balance	473 691	582 263	612 889



Cash flow analysis

The Group

(Amounts in SEK 000s)	Quarter 2		Accumulated		Year
	April - June	April - June	Jan - June	Jan - June	Jan - Dec
	2003	2002	2003	2002	2002
Operating profit/loss before depreciation	(53 300)	(100 515)	(91 158)	(203 744)	(353 651)
Adjustment of items not part of cash flow:					
Cancellation of WeSpot AB's profit/loss (note discl.)	4 788		11 068		
Change in provisions	(7 887)	(460)	(13 182)	142	35 176
Taxes paid	(118)	(117)	(189)	(118)	(278)
Cash flow from operations					
before change in working capital	(56 517)	(101 092)	(93 461)	(203 720)	(318 753)
Change in working capital	3 733	39 423	9 481	(5 402)	(25 914)
Cash flow from operations	(52 784)	(61 669)	(83 980)	(209 122)	(344 667)
Net investments	(3 242)	(20 655)	(10 573)	(39 342)	(82 580)
Operating cash flow before financing	(56 026)	(82 324)	(94 553)	(248 464)	(427 247)
Financing:					
New share issues	-	-	-	-	220 911
Change in long-term liabilities	72	-	72	-	(5 064)
Other financial items	807	2 146	1 323	3 582	4 554
Other items ⁵	466	900	743	9 121	9 683
Cash flow for the year	(54 681)	(79 278)	(92 415)	(235 761)	(197 163)
Liquid assets at the beginning of the period *	125 342	211 830	171 150	368 313	368 313
Liquid assets in WeSpot AB at the beg. of the period	(2 094)		(10 168)		
Liquid assets at the end of the period *	68 567	132 552	68 567	132 552	171 150

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

Key ratios

The Group

	April - June	April - June	Jan - June	Jan - June	Jan - Dec
	2003	2002	2003	2002	2002
Cash flow for the year (SEK 000s)	(54 681)	(79 278)	(92 415)	(235 761)	(197 163)
Cash flow / share (SEK) ⁴	(0,53)	(1,04)	(0,89)	(3,08)	(2,43)
Cash flow / share (SEK) after dilution ⁴	(0,53)	(1,04)	(0,89)	(3,08)	(2,43)
	June 30, 2003	Dec 31, 2002	June 30, 2002		
Equity / assets ratio	80,5%	78,2%	78,6%		
Number of shares ⁶	113 600 581	115 546 842	88 136 840		
Equity per share (SEK) ⁶	4,17	5,30	6,61		



Notes (SEK 000s)

1. During Q 2 2003, certain write-downs were made and recorded as items affecting comparability in order to increase comparability with previous quarters. Total write-downs amount to 36,400 and are distributed according to the following: Anoto AB; write-down stock 8,200, C Technologies AB; write-down stock 9,759, write-down intangible fixed assets 14,794, write-down tangible fixed assets 3,647.
2. Anoto AB in year 2002 acquired 45% of the shares in Anoto Communications Ltd, Japan.
3. In connection with the directed new share issue in WeSpot on May 31, 2003, Anoto Group's share was reduced to 31,31%, and as from June 1, 2003 WeSpot AB is therefore handled as an associated company. The directed new share issue and the fact that WeSpot AB is no longer consolidated have resulted in a positive effect amounting to 19,230 for Anoto Group AB. At the time when WeSpot AB changes to an associated company, the recorded value of WeSpot AB is 0. The share of the associated company's negative outcome for June has not been recorded, as Anoto Group AB has not undertaken to guarantee WeSpot's liabilities.
4. Key ratios regarding earnings and cash flow per share are based on the weighted average number of shares and outstanding warrants for the respective periods.
5. In the period January - June, 2003, WeSpot AB is included as subsidiary up to and including May 31, 2003, i.e. the point of time when the share in WeSpot AB changed from subsidiary (54,73%) to associated company (31,31%). WeSpot AB's profit/loss in the period January-May, 2003 is cancelled since WeSpot at the end of the period is not part of the balance sheet and thus has not affected liquid assets.
6. Including outstanding warrants (June 30, 03: 10,031,380; Dec 31, 02-12-31: 11,977,641; June 30, 02: 11,609,939).