ANOTO GROUP
ANNUAL REPORT 2003

Enclosed with the Annual Report 2003 is Anoto Group's report on business activities "This is Anoto Group".

Financial information

Financial information from Anoto Group will be published in Swedish and English. Reports can be downloaded from Anoto Group's website www.anotogroup.com or ordered via e-mail info@anoto.com or by telephone: +46 46 540 12 00.

Anoto Group's interim reports for 2004 will be published on the following dates:

• Interim Report Q1	May 11
• Interim Report Q2	August 18
• Interim Report Q3	November 3
• Year-end Report 2004	February 10 2005
• Annual Report 2004	April 2005
• Annual General Meeting for 2004	April 2005

DIRECTORS' REPORT

The Board of Directors and the President of Anoto Group AB (publ) 556532-3929 hereby submit the Annual Report and Consolidated Accounts for the financial year of January, 1 2003–December 31, 2003.

Operations

Anoto Group 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 solutions for mobile phones and intelligent camera surveillance. All products and services are based on digital camera technology and image processing in real time. *Anoto* has in a short time created a global de facto-standard that unites pen and paper with the digital world.

Anoto is becoming an increasingly pronounced provider of technology since *Anoto's* partners are playing a more active part in the development of proprietary products and services enabling *Anoto* functionality. The technology presented by *Anoto* enables users to improve personal efficiency and communication through PC and mobile phone applications. *Anoto* offers tailor-made services and products for enterprise customers.

Anoto's efforts to sign significant collaboration agreements with world-leading companies continue. Such agreements are of strategic importance for the establishment of the global de facto-standard for paper-based digital communication, and for the company's long-term commercial development. These co-operations, with particular emphasis on HP, Hitachi, Hitachi Maxell, Logitech, Nokia and Sony Ericsson, comprise all targeted key markets for the *Anoto* concept. In addition to the aforementioned, further collaboration is underway. However, at the request of the partner it is for the time being not disclosed for reasons of competition and confidentiality.

During the year *Anoto* has downsized its organisation and achieved considerable cost reductions.

C Technologies' products 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 in the global market through licensing and OEM partnerships as well as sales of proprietary products.

In 2003 operations with regard to development of cameras for mobile phones were reduced. C-Pen sales volumes remain stable. During the year C Technologies delivered ASIC chips for mobile camera solutions totalling SEK 85 million. C Technologies' technology continues to raise high interest.

In WeSpot applications based on so-called intelligent camera technology, advanced digital image processing and the Group's proprietary ASIC chip, Argus, are developed. Anoto Group has reduced its holding in WeSpot by not participating in new share issues during the year, and WeSpot is therefore neither a subsidiary nor an associated company any more.

Group structure

In the Group, Anoto Group AB operates as a holding company with corporate-level functions. During the autumn Anoto Group implemented structural changes in order to accomplish improved efficiency in the Company's business units. Part of this work has meant that all operations in C Technologies have been transferred to Anoto AB. Together with *Anoto* it now operates as a separate business unit within Anoto AB. All business operations in the Anoto Group are now conducted in the same legal entity, Anoto AB. Since mid-year WeSpot is no longer an associated company.

Organisation

During 2003 the average number of employees in the Group was significantly reduced from 310 to 182 persons. At the end of the year the Group had 160 employees. The year was characterised by cost savings through gradual downsizing. A comprehensive cost reduction program was accomplished in the autumn, resulting in the workforce in the subsidiary *Anoto* being reduced by about 50 and in C Technologies by about 20.

Sales and results

Net sales for the year amounted to SEK 192 million compared with SEK 221 million the previous year, a reduction by 13 %, of which SEK 119 million (171) is attributable to C Technologies, 73 (48) million to *Anoto* and SEK 0 million (2) to WeSpot. Of sales in C Technologies, SEK 85 million (75) refer to ASIC chips for camera modules. Of sales in *Anoto* a major part of the income was related to product development for external partners. However, royalty and license income is gradually increasing and had a significant impact on sales in 2003. 60 % of the income is in US dollars and the drop in the dollar impacted sales negatively. Dollar flows are however hedged to about 50 %, see further under Risk Management. The Group's gross margin during the year improved both in absolute figures to SEK 91 million (75) and in percentage to 47 (34) %.

Overhead costs saw a significant reduction due to the cost-cutting late 2002 and in 2003. The number of employees was greatly reduced, administrative costs in particular were cut, but also sales and research and development expenses decreased considerably. Since the first quarter of 2003 the Group does not apply general capitalisation of development expenses since development projects for the most part are customer-financed. It is expected that capitalised development expenses will be fully depreciated according to plan in 2007.

Operating loss for the year amounted to SEK –323 million (–430). Cost savings effectuated in the autumn of 2003 did not reached full effect during 2003, in addition restructuring charges totalling (items affecting comparability) SEK –95 (–44) million were charged to the year. The operating loss was further charged with depreciation of goodwill in the amount of SEK –38 million (–38). During the year Anoto Group reduced its expenses by about SEK 120 million on a yearly basis.

Income from holdings in Group companies amount to SEK 25 million (note 13), derived in connection with the deconsolidation of WeSpot and sales of C Technologies, concurrent with write-down of receivables and shares from subsidiaries in connection with a SEK 19 million share issue in WeSpot.

Financing, liquidity and cash flow

The balance sheet total was reduced by SEK 215 million primarily due to the following factors: The Group does not apply general capitalisation of development expenses as of the second quarter of 2003 in accordance with the above, less investments in tangible fixed assets, reduced stock levels, reduced accounts receivable and cash. Anoto Group is striving to become a more distinct technology company and has therefore sold and reduced stock levels dramatically. The Group also aspires to gradually let sales to end-users take place through partners or OEM manufacturing. Stock levels have thus been reduced from SEK 30 million to SEK 3 million, and accounts receivable have decreased from SEK 56 million to SEK 31 million. Current liabilities have been significantly reduced from SEK 133 million to SEK 63 million, primarily due to a decrease in accounts payable and accrued expenses. Provisions in the form of restructuring reserve and other provisions amounted to SEK 55 million (38). During the summer new share issues totalling SEK 145 million directed at the Company's strategic partners Logitech and Hitachi Maxell were implemented. In connection with the Annual General Meeting it was decided to implement an employee stock option program. If fully utilised it may provide a total of SEK 57 million in 2005 and 2006. WeSpot during the year implemented a number of new share issues in which *Anoto* participated only by converting current loans to shares. Anoto Group AB contributed no fresh capital to WeSpot in 2003, there is furthermore no commitment from Anoto Group AB to contribute further funds.

Anoto Group AB's holding in WeSpot on December 31, 2003 amounted to 18,45 %.

At year-end the Group's liquid assets, including current investments amounted to SEK 116 million compared with SEK 171 million at the end of the previous year.

Shareholders' equity at year-end amounted to SEK 451 million, compared with SEK 613 million at the end of the prior year, corresponding to an equity/assets ratio of 79 % (78 %).

Cash flow from current operations was SEK –160 million. The combination of considerably reduced liabilities and the positive impact of reduced accounts receivable resulted in the working capital being reduced by SEK 20 million. Investment activities used up SEK 13 million for the year. Financing activities contributed SEK 148 million, of which new share issues accounted for SEK 144 million. Cash flow for the year totalled SEK –45 million (–197).

Investments

Net investments in 2003 with regard to intangible and tangible fixed assets were SEK 15 million (83). In addition net investments in financial assets amounted to SEK –3 million (–1). The positive cash flow from net investments in financial assets for the year relate to the sales of C Technologies AB.

Research and development

Research and development efforts within the Group are aimed at furthering the development of competence in the integration of electronic hardware and software in digital camera technology in order to produce computerised image processing products. The Group's expenses for research and development in 2003 amounted to SEK 184 Mkr, which includes costs for depreciation of previously capitalised development expenses of SEK 18 million, as well as depreciations of SEK 15 million recorded as an item affecting comparability. During the year the Group capitalised development expenses amounting to SEK 5 million. This capitalisation was made in compliance with the Swedish Financial Accounting Standards Council's Recommendation 15 (RR15) applied by the Company, thus no expenses for research have been activated in the balance sheet. Accordingly, the Group's total costs for Research and Development including the capitalised amount were SEK 189 million in 2003. In general the Group does not capitalise development expenses effective the second quarter of 2003, since development projects for the most part are customer-financed. 53% (41%) of the Group's operating expenses for the year pertain to research and development.

Disputes

Anoto AB in 2003 filed a suit against a private person in the US. The person holds a patent and Anoto AB is of the opinion that the individual in question, among other things, has used this to unlawfully infringe on the Company's business relations. The Company estimates proceedings to continue over 2004.

The insurance carried by the Company is expected to cover the greater part of law expenses and continuous legal assistance. The Group is making provisions for the excess not covered by the insurance policy.

Risk management

Most of the Group's sales take place outside Sweden, agreements are for the most part denominated in US dollars or euro. A major part of costs for goods sold are denominated in US dollars, thus the margin is sensitive primarily to exchange rate fluctuations in US dollars. Trading in financial instruments is only conducted in the parent company Anoto Group AB. Net inflows for the coming six months are assessed and approximately 50% of payments in US dollars are hedged by means of forward exchange contracts extending over periods up to 12 months. In the case of a net surplus in the Group's exchange account, US-dollars are exchanged to Swedish kronor by utilising the forward agreement, should the forward rate be more favourable than the spot rate, otherwise the spot rate is utilised. If the contract on the date of expiry has dollars that remain they are exchanged and placed in an exchange account. In 2003 approximately 60 % of the total income was generated in dollars.

The Group has a robust patent portfolio offering adequate protection against copying for the Company's technologies. At the end of 2003 the Group had a total of 396 active patent applications, of which 60 patents granted, 12 of which in the US. The patents and patent applications protect the *Anoto* pattern, the digital pen, the infrastructure and concept as well as C Technologies' core technology involving reading and translation of text. Competitors' patent rights are continuously being monitored and evaluated in order to avoid disputes in relation to third party patent rights. Where appropriate, the obtaining of a patent or license is negotiated. There are however no guarantees that this will always be successful, and in view of this the Group has for many years carried insurance against litigations costs and damages that may arise in connection with legal proceedings.

The work of the Board of Directors

The Board of Anoto Group consists of eight members, no deputies, elected by the Annual Shareholders' Meeting on May 15, 2003. Four major shareholders are forming a nomination committee in order to prepare proposals for board members and auditors to be presented to the AGM. Among the major shareholders, Ericsson and Logitech have one member each on the Board whereas the remaining Board members have been elected externally. At the inaugural meeting of the Board, Christer Fåhraeus was appointed Chairman of the Board (previously CEO of Anoto Group) and at the same time Örjan Johansson was appointed CEO of the Company. Other employees in the Company participate in the Board's meetings when submitting reports.

The Board of Anoto Group AB has had a total of nine meetings. In addition there has been a large number of contacts between the Company and its Board Members. Throughout the year there have been rules of procedure for the Board, which also established instructions for the President and CEO.

In preparation for each Board meeting, the Board receives information one week prior to the meeting. In addition the Board members have received continuous information between meetings on the Company's operations, financial situation and any other information of importance to the Company.

At the Board meeting issues such as business situation, budget, quarterly accounts, forecasts and strategies are dealt with. During the year the Board has spent a great deal of time on restructuring and financing. Records of all meeting are taken. The Board has appointed two committees to perform different tasks to be reported to the Board.

The Compensation Committee's task is to prepare and recommend remuneration to the President and other senior executives in the corporate management. It is also assigned the task of preparing major remuneration programs, stock option programs and similar to part or the whole of the Company. The Board makes all the decisions.

The auditor presents the direction and scope of the audit to the Audit Committee. The result of the auditor's review is reported to the audit committee when the internal accounting control has been reviewed and after the review of the interim and year-end reports. When the year-end report is adopted at the board meeting, the auditor presents to the entire Board the result of his audit of the internal accounts control and the annual accounts.

The Audit Committee is assigned the task of during the year continuously follow the audit work, with particular focus on quarterly accounts and year-end reports, review calculations, audit memorandums, annual reports and the Company's financial system and risk management. The Audit Committee also plays an active role in the process of proposing auditors to be elected.

The Board's work is evaluated once a year.

Transition to the International Financial Reporting Standards (IFRS)

The Swedish Financial Accounting Standards Council has in the past years based its recommendations on IFRS and thus the transition to IFRS has taken place gradually. Effective January 1, 2005 all companies listed on the stock exchange in Sweden will change their accounting to comply with IFRS. For Anoto Group this means that the Annual Report for 2005 will be prepared according to the provisions of IFRS. Any differences between the Swedish Financial Accounting Standards Council's recommendations and IFRS depend upon impediments presented by Swedish legislation.

As a result of the transition to IFRS, Anoto Group will make a number of changes with regard to its accounting principles. Anoto Group has a financial centre in the parent company responsible for the Group's accounting principles. Until this annual report is submitted, certain key employees in the parent company will have received training and participated in seminars in order to acquire information on the future transition, and will also have conducted reviews with the Group management and auditors as well as making a comprehensive plan of what effects the introduction of IFRS will have on the internal processes and in what way these need to be changed. The Company will finalise the planning phase and commence the implementation phase shortly after April 1, 2004 when the recommendations that are imperative effective January 1, 2005 have been laid down.

The Board of Anoto Group unconditionally assures Anoto Group's intention to fully comply with the new accounting principles prevailing when the transition to IFRS takes place. The most significant differences between the Group's existing accounting principles and the coming IFRS accounting principles are presented in the "Accounting and Valuation Principles" section.

During the year Anoto Group has continuously reviewed the IFRS rules and regulations that will come into force. IFRS 1 (First time Adoption of International Financial Reporting Standards) regulates the transition to IFRS. Beginning in 2005 the Group will comply with all standards in force on the reporting date (balance sheet date), which as a rule will be applied retroactively in accordance with the principles of IFRS 1. Transition regulations of single standards may not be applied when first implementing IFRS.

Anoto Group submits quarterly reports and the first report after January 1, 2005 is the interim report for the first quarter of 2005. This report must consequently be prepared in compliance with the provisions of the IFRS. An opening balance sheet that complies with IFRS will be prepared as of January 1, 2004, seeing that comparative figures must be reported.

In Anoto Group efforts have been made to facilitate the transition to IFRS, and guarantee that the Group submits financial reports of good quality. In 2004 a number of activities are scheduled, such as choice of accounting alternatives, preparation of opening balance, updating reporting models and updating of policies that together will ensure a properly accomplished implementation of IFRS in Anoto Group.

Significant events after December 31

Anoto received an order valued at about SEK 130 million from a new partner operating in an application area that is new to *Anoto*. The order is composed of advance on royalty and licensing fees. *Anoto* estimates the initial order to extend over a period of three years and deliveries will be made continuously. Generated cash flow will be distributed over two years, amounting to approximately SEK 45 million in 2004 and approximately SEK 85 million in 2005. The name of the new partner will be unveiled later in the year.

Anoto accomplished strategic collaboration with Usyston, a China-based company that will be offering digital pens and services enabling *Anoto* functionality in the Chinese market. The agreement consists of an initial order of SEK 10 million.

Anoto has concluded cooperation with Standard Register and received an initial order for SEK 4 million regarding licensing rights and advance on royalties.

Outlook

Anoto

During 2004 revenues in *Anoto* will continue to increase. The three new orders unveiled after year-end 2003 will provide revenues starting in the first quarter. To date these orders are the largest in the history of *Anoto*. Interest demonstrated by industrial partners remains high.

C Technologies

Sales of C Technologies' products are expected to remain stable but low. C Technologies' is forecast to contribute positive earnings and cash flow for the full year of 2004.

The Group

The Group's fixed charges are expected to gradually decrease, with the aim of reaching about SEK 11 million per month in the second quarter of 2004, as a result measures and adapting costs effectuated across the Group in the third quarter of 2003. Sales in *Anoto* will continue to increase for the full year, whereas sales in C Technologies are estimated to decrease in comparison with 2003.

The Gross margin is expected to improve considerably compared with the prior year, both in respect of percentage and absolute terms. The Group's aim to begin achieving positive cash flow at some point in the second half of 2004 remains.

SUGGESTED TREATMENT OF ACCUMULATED DEFICIT

The Group's accumulated deficit amounts to SEK –688 861 thousand. Provisions for restricted reserves amounts to SEK 0.

Suggested treatment of accumulated deficit in the Parent Company (SEK):

Loss brought forward	0
Net loss for the year	–313 882 922
Total	**–313 882 922**

The Board of Directors and the Chief Executive Officer propose that the accumulated deficit of SEK –313 882 922 be set off against the share premium reserve which will be reduced by the same amount.

With regard to the Group's and Parent Company's results and financial position, we refer to the statements below.

Lund on March 31, 2004

Christer Fåhraeus *Chairman*	Lars Berg *Deputy Chairman*	Kjell Duveblad	Urban Jansson
David Henry	Nils Rydbeck	Jan Uddenfeldt	Örjan Johansson *CEO*

Our audit report was completed on March 31, 2004

Per-Arne Pettersson
Authorised Public Accountant, Deloitte & Touche AB

CONSOLIDATED INCOME STATEMENT

Amounts in SEK 000	Note	2003	2002
Net sales	1, 2	192 368	220 972
Costs of goods sold		–101 487	–145 889
Gross profit	2	**90 881**	**75 083**
Selling expenses		–83 679	–112 201
Administrative expenses	8, 34	–74 154	–168 753
Research and development expenses	34	–169 150	–191 047
Items affecting comparability	9	–95 118	–44 400
Other operating income	10	23 384	21 846
Other operating expenses	11	–14 028	–10 693
Share in associated company's income	14	–1 321	–74
Operating loss	2, 3–7, 12	**–323 185**	**–430 239**
Income from holding in Group companies	13	25 121	—
Income from holding in associated companies	15	–8 876	—
Income from other receivables consisting of fixed assets	16	–10 912	—
Interest income		4 392	5 817
Interest expenses		–1 888	–1 263
Income after financial items		**–315 348**	**–425 685**
Minority share		5 489	13 116
Loss before tax		**–309 859**	**–412 569**
Tax on profits for the year	17	–360	–278
Not loss for the year		**–310 219**	**–412 847**
Loss per share (SEK) 1)		–2.81	–5.08
Do. after dilution (SEK) 2)		–2.81	–5.08
Number of shares, weighted annual average		110 444 201	81 279 784
Do. including current options 3)		111 607 951	81 908 484

1) Loss for the year divided by weighted average number of shares for the year.
2) Loss for the year divided by the total of weighted average number of shares for the year and weighted average number of outstanding warrants for the year at an exercise price less than the market value at year-end. The warrants will only result in a dilution should the conversion into shares entail an increased loss per share (RR 18).
3) Only warrants at an exercise price less than the market value at year-end are included. The comparative year has been recalculated.

CONSOLIDATED BALANCE SHEET

Amounts in SEK 000	Note	2003-12-31	2002-12-31
Assets			
Fixed assets			
Intangible fixed assets			
Capitalised expenditure for development	18	52 143	79 697
Patents	19	29 012	39 244
Goodwill	21	298 674	336 810
Brand names	20	212	—
Total intangible fixed assets		380 041	455 751
Tangible fixed assets			
Equipment and tools	22	10 884	24 782
Computer software	23	414	6 080
Total tangible fixed assets		11 298	30 862
Financial assets			
Holding in associated companies	25	252	277
Other long-term holdings of securities		3 371	—
Other long-term receivables		1 301	1 444
Total financial assets		4 924	1 721
Total fixed assets		396 263	488 334
Current assets			
Inventories			
Finished products and goods for sale		3 006	29 621
Current receivables			
Accounts receivable		31 175	55 941
Minority share		—	7 264
Other receivables		7 161	15 025
Prepaid expenses and accrued income	26	14 880	16 477
Total current receivables		53 216	94 707
Current investments			
Other current investments		97 470	120 095
Cash and bank balances		18 563	51 055
Total current assets		172 255	295 478
Total assets		**568 518**	**783 812**

Amounts in SEK 000	Note	2003-12-31	2002-12-31
Shareholders' equity and liabilities			
Shareholder's equity	27		
Restricted equity			
Share capital		2 357	2 071
Restricted reserves		1 137 752	1 347 405
Total restricted equity		1 140 109	1 349 476
Accumulated deficit			
Loss brought forward		–378 642	–323 740
Net loss for the year		–310 219	–412 847
Total accumulated deficit		–688 861	–736 587
Total shareholders' equity		451 248	612 889
Provisions			
Provisions for restructuring reserve	28, 31	31 250	28 900
Provisions for product warranties	29	1 305	2 077
Other provisions	30	21 995	7 200
Total provisions		54 550	38 177
Long-term liabilities			
Subordinated debentures	33	—	23
Other liabilities		—	7
Total long-term liabilities		—	30
Current liabilities			
Liabilities to credit institutions		—	8 524
Subordinated debentures	33	97	5 071
Accounts payable		21 779	60 240
Tax liabilities		150	12
Advance payments from customers		6 782	2 313
Other liabilities		3 983	5 495
Accrued expenses and deferred income	32	29 929	51 061
Total current liabilities		62 720	132 716
Total equity and liabilities		**568 518**	**783 812**
Assets pledged	35	28 740	64 443
Contingent liabilities	36	57 683	139 992

CONSOLIDATED CASH FLOW STATEMENT

Amounts in SEK 000	Note	2003	2002
Cash flow from operating activities			
Loss after financial items		–315 348	–425 685
Adjustment for items not included in cash flow:			
WeSpot AB's loss cancelled [1]		12 125	—
Change in provisions		16 373	35 176
Depreciation of fixed assets	12, 18–23	74 567	76 514
Write-down of fixed assets	18–20, 22–23	32 890	—
Write-down of inventories		25 959	—
Share in associated company's income	14	1 321	74
Income from holding in Group companies [2]	13	–25 121	—
Income from holding in associated companies	15	8 876	—
Income from other receivables consisting of fixed assets	16	10 912	—
Financial items		–2 504	–4 554
Taxes paid	17	–360	–278
Cash flow from operating activities before change in working capital		**–160 310**	**–318 753**
Cash flow from change in working capital			
Change in operating receivables		33 245	–23 004
Change in inventories		656	17 328
Change in operating liabilities		–53 759	–20 238
Total change in working capital		**–19 858**	**–25 914**
Cash flow from operating activities		**–180 168**	**–344 667**
Investment activities			
Capitalised expenditure for development	18	–5 000	–62 292
Patents	19	–5 541	–16 379
Brand names	20	–291	
Sale of Group company [3]		5 991	—
Equipment & Tools	22	–3 928	–4 549
Computer software	23	–559	990
Holding in associated companies	25	—	–351
Long-term holdings of securities		–3 371	—
Long-term receivables		143	538
Cash flow from investment activities		**–12 556**	**–82 043**
Total cash flow before financing activities		**–192 724**	**–426 710**
Financing activities			
Interest income		4 392	5 817
Interest expenses		–1 888	–1 263
Change in other long-term liabilities		–23	–5 064
New share issues	27	144 660	220 911
Subordinated debentures	27	—	8 117
Translation differences	27	634	1 029
Cash flow from financing activities		**147 775**	**229 547**
Cash flow for the year		**–44 949**	**–197 163**
Liquid assets at the beginning of the year [4]		171 150	368 313
Liquid assets in WeSpot AB at the beginning of the year		–10 168	—
Liquid assets at year-end [4]		**116 033**	**171 150**

1) WeSpot AB is included in the consolidated income statement for the period January–May 2003 as a Group company i.e. the time when the holding in WeSpot AB changed from Group company to associated company. WeSpot AB's loss (–12 125 thousand) for the period January–May 2003 is cancelled in the cash flow statement since WeSpot AB is not included in the balance sheet at year-end and thus has not affected liquid assets.
2) In note 13 it is seen that a consolidated profit of SEK 19 230 thousand has accrued pertaining to WeSpot AB. This profit has arisen due to a new share issue directed at minority shareholders in WeSpot AB and to the deconsolidation of WeSpot AB. The profit of SEK 19 230 thousand has not resulted in any cash receipt in 2003 and is therefore not included in the investment activities.
3) Sale of Group company pertains to C Technologies and the sales price amounts to SEK 5 991 thousand.
4) Liquid assets refer to cash, bank balance and current investments. The duration of current investments is less than three months.

INCOME STATEMENT, PARENT COMPANY

Amounts in SEK 000	Note	2003	2002
Net sales	1, 2	24 795	15 394
Costs of goods sold		—	—
Gross profit	2	**24 795**	**15 394**
Administrative expenses	8, 34	–33 419	–30 035
Items affecting comparability	9	–1 815	—
Other operating income	10	6 962	11 948
Other operating expenses	11	–225	–313
Operating loss	2, 3–7, 12	**–3 702**	**–3 006**
Income from holding in Group companies	13	–294 143	–351 872
Income from holding in associated companies	15	–8 876	—
Income from other receivables consisting of fixed assets	16	–10 912	—
Interest income		3 759	4 963
Interest expenses		–9	–20
Loss before tax		**–313 883**	**–349 935**
Tax on profits for the year	17	—	—
Net loss for the year		**–313 883**	**–349 935**
Loss per share (SEK) [1]		–2,84	–4,31
D:o. After dilution (SEK) [2]		–2,84	–4,31
Average number of shares for the year		110 444 201	81 279 784
D:o., incl. outstanding warrants [3]		111 607 951	81 908 484

1) Loss for the year divided by weighted average number of shares for the year.
2) Loss for the year divided by the total of weighted average number of shares for the year and weighted average number of outstanding warrants for the year at an exercise price less than the market value at year-end. The warrants will only result in a dilution should the conversion into shares entail an increased loss per share (RR 18).
3) Only warrants at an exercise price less than the market value at year-end are included. The comparative year has been recalculated.

BALANCE SHEET, PARENT COMPANY

Amounts in SEK 000	Note	2003-12-31	2002-12-31
Assets			
Fixed assets			
Tangible fixed assets			
Equipment and tools	22	259	345
Total tangible fixed assets		259	345
Financial fixed assets			
Holding in Group companies	24	725 943	766 946
Other long-term holdings of securities		4 093	—
Receivables from Group companies		5 594	96 753
Total financial fixed assets		735 630	863 699
Total fixed assets		735 889	864 044
Current assets			
Current receivables			
Accounts receivable		1 451	340
Receivables from Group companies		—	5 544
Other receivables		3 061	481
Prepaid expenses and accrued income	26	3 889	3 906
Total current receivables		8 401	10 271
Current investments			
Other current investment		97 472	120 735
Cash and bank balances		507	16 209
Total current assets		106 380	147 215
Total assets		**842 269**	**1 011 259**

Amounts in SEK 000	Note	2003-12-31	2002-12-31
Shareholders' equity and liabilities			
Shareholders' equity	27		
Restricted equity			
Share capital		2 357	2 071
Restricted reserves		1 141 844	1 347 405
Total restricted shareholders' equity		1 144 201	1 349 476
Accumulated deficit			
Loss brought forward		—	—
Net loss for the year		–313 883	–349 935
Total accumulated deficit		–313 883	–349 935
Total shareholders' equity		830 318	999 541
Provisions			
Other provisions	30	2 282	—
Total provisions		2 282	—
Current liabilities			
Accounts payable		649	5 820
Other liabilities		1 610	239
Accrued expenses and deferred income	32	7 410	5 659
Total current liabilities		9 669	11 718
Total equity and liabilities		**842 269**	**1 011 259**
Assets pledged	35	22 750	46 000
Contingent liabilities	36	52 828	68 364

CASH FLOW STATEMENT, PARENT COMPANY

Amounts in SEK 000	Note	2003	2002
Cash flow from operating activities			
Loss after financial items		–313 883	–349 935
Adjustment for items not included in cash flow:			
Change in provisions		2 282	—
Depreciation of fixed assets	12, 22	86	86
Income from holding in Group companies	13	294 143	351 872
Income from holding in associated companies	15	8 876	—
Income from other receivables consisting of fixed assets	16	10 912	—
Other financial items		–3 750	–4 943
Cash flow from operating activities before changes in operating funds		**–1 334**	**–2 920**
Cash flow from changes in operating funds			
Changes in operating receivables		1 870	71 840
Changes in operating liabilities		–2 049	4 142
Total changes in operating funds		**–179**	**75 982**
Cash flow from operating activities		**–1 513**	**73 062**
Investment activities			
Holding in Group companies [1]	24	–255 937	–351 872
Other long-term holdings of securities [2]		—	—
Equipment & tools	22	—	–431
Long-term receivables at Group companies		70 075	–86 741
Cash flow from investment activities		**–185 862**	**–439 044**
Total cash flow		**–187 375**	**–365 982**
Financing activities			
Interest income		3 759	4 963
Interest expenses		–9	–20
New share issues	27	144 660	220 911
Cash flow from financing activities		**148 410**	**225 854**
Cash flow for the year		**–38 965**	**–140 128**
Liquid assets at the beginning of the year [3]		136 944	277 072
Liquid assets at year-end [3]		**97 979**	**136 944**

1) Share in Group companies refers to unconditional shareholders' contributions in 2003 to the subsidiary C Technologies AB, which has been sold, (SEK – 65 534 thousand) to Anoto AB (SEK – 196 389 thousand) and C Pen AB (SEK – 5 thousand). It also includes the sales price (SEK 5 991 thousand) pertaining to shares in C Technologies AB.
2) Other long-term holdings of securities (SEK 4 093 thousand) in the balance sheet on December 31, 2003 refer to WeSpot AB which in 2003 changed from Group company to associated company, and finally on December 31, 2003 to other long-term holdings of securities. The holding on December 31, 2003 is 18,45 %. The book value has not resulted in any payments in 2003, therefore no amount is recorded under investment activities above.
3) Liquid assets refer to cash, bank balance and current investments. The duration of current investments is less than three months.

ACCOUNTING AND VALUATION PRINCIPLES

General accounting principles

The Company follows the Swedish Annual Accounts act and general advice, statements and recommendations from the Swedish Financial Accounting Standards Council and the Swedish Institute of Authorised Public Accountants.

New accounting principles

For a number of years the Swedish Financial Accounting Standards Council has been adjusting Swedish accounting principles in order to comply with the International Financial Reporting Standards (IFRS). This has resulted in several new recommendations from the Swedish Financial Accounting Standards Council. In addition Anoto Group AB (publ) has applied the amendments to the recommendations already taken into consideration. The recommendations considered to have had an effect on Anoto Group AB (publ) this year are: RR 18 (Earnings per share), RR 22 (Presentation of financial statements), RR 25 (Segment reporting), RR 26 (Events after the balance sheet date) and RR 27 (Financial instruments: Disclosure and classification).

The application of new accounting principles has only had a marginal effect on comparative figures. As a result of the application of RR 18 key ratios for the previous year have been recalculated, information on this accounting principle was published in the Group's year-end report for the fourth quarter 2003. As to the rest the new recommendations have led to extensive additional information in the notes.

The main differences between the accounting principles adopted by the Group and those in the future in compliance with IFRS are:

- Employee benefits (IAS 19/RR29). In Anoto Group there are no provisions for pensions as all pension commitments have been transferred to an insurance company. The Group has no blue-collar employees and for that reason this recommendation will not affect the Group.
- Financial instruments (IAS 39). The preliminary judgement implies that this recommendation will entail obligation to provide additional information. For further information on the Groups reporting on financial items, please refer to the section "Risk Management" in the Directors' Report.
- Deferred taxes (IAS 12) relating to discounting deferred income taxes. This recommendation will not affect Anoto Group.
- Earnings per share (IAS 33/RR 18) as effects of options. Anoto Group has current warrant programs reported in the notes. The changeover from the accounting principles already applied in compliance with RR18 to IAS 33 will not affect Anoto Group.
- Intangible assets (IAS 38/RR15). After the first quarter of 2003 Anoto Group does not generally capitalise expenditures for development due to the fact that the development projects are mainly customer-financed. This recommendation will therefore not affect Anoto Group. With regard to current intangible assets the only change will be that the Company need not justify depreciation plans over ten years stipulated by RR15. The Group has already adapted to future changes, having calculated adequate value of use that justifies values carried forward.
- Financial leases entered prior to 1997 (IAS 17/RR&:99). Anoto Group has no financial leases and therefore this recommendation does not affect Anoto Group.

Consolidated accounts

The consolidated accounts include the parent company Anoto Group AB (publ) and those companies in which the parent company, directly or indirectly, at year-end controls more than 50% of the voting rights. The consolidated accounts have been prepared in accordance with the acquisition method. This means that assets and liabilities of the acquired subsidiaries are shown at market value according to the acquisition analysis made. Should the acquisition value of shares in subsidiaries exceed the estimated value of the company's net assets according to the acquisition analysis, the difference will be made up of Group goodwill, written off over an estimated time of economic life. Deferred tax is calculated at 28% of the difference between the estimated market value of assets and liabilities and taxable residual value to the extent that the difference is not included in untaxed reserves. Only profits occurring after the time of acquisition have been included in the Group's profits and shareholders' equity.

All internal transactions within the Group have been eliminated from the Group's accounts. Internal transactions refer to internal sales, internal profits, internal transactions, shareholders' contributions to associated companies and write-down of holdings in Group companies.

Minority shares in subsidiary profits and shareholders' equity have been eliminated from the Group's accounts.

The Anoto Group AB (publ) applies the so-called current method of translating foreign subsidiaries' accounts. This means that all the subsidiaries' assets and liabilities are translated according to the closing day rate, whereas items in the income statement are translated at the average rate. Translation differences occurring as a result of this are partly due to the effect of the difference between the income statement's average rate and the closing day's rate at the end of the year and partly to the net assets being translated at a different rate at year-end compared to the rate at the beginning of the year. Translation rate differences are not carried over to the income statement but are carried directly to shareholders' equity.

Income statement

Income is derived from sales of products, royalties and development projects. Income from sales of products is booked primarily when all risks and rights associated with the ownership have been transferred to the buyer, normally in connection with delivery. Royalties are booked in the same month as the actual sale takes place at the partner company. Income attributable to development projects is booked in the same period as work carried out, i.e. percentage of completion is applied.

Research and development expenses

Costs pertaining to development are carried as continuous expenses. Development expenses up to and including the first quarter of 2003 are capitalised as assets in accordance with the Swedish Financial Accounting Standards Council's Principle 15 (see further under Intangible fixed assets). As of the second quarter of 2003 all research and development expenses are carried as continuous expenses. After the first quarter of 2003 Anoto Group does not generally capitalise expenditures for development due to the fact that the development projects are mainly customer-financed.

Items affecting comparability

Events and transactions affecting earnings that are important to observe when the period's result is compared with other periods, is reported in the income statement under its own heading (Items affecting comparability).

Anoto Group AB (publ) and its subsidiaries have during the years of 2002 and 2003 carried out structural reorganisation and a number of steps have been taken. These steps have primarily resulted in centering the business development and a more defined organisational structure for operations in the company's streams.

Expenses in connection with these measures have been classified as items affecting comparability in the case that significant costs have been a direct result of decisions regarding structural changes made by the Board of Directors. No continuous operating expenses have been classified as items affecting comparability.

The definition of items affecting comparability has been that they are a direct result of the structural change that has taken place in the company and that similar expenses will not occur in the future. In addition the expense should be considerable.

Intangible fixed assets

Effective as at January 1, 2001 the Swedish Financial Accounting Standards Council's principle 15 (RR15) is applied by the Company. In brief RR15 means that expenses for development of new products are recorded as assets if these expenses in all probability will generate future income. Anoto Group's interpretation of RR15 means that expenses are not recorded as an asset until the new product has reached the stage of entering the industrialisation phase. All costs prior to this are carried as a continuous expense. Depreciation plans based on an economic life of five years are started as from market introduction of the respective product.

In 2003 the Company's business changed to the effect that development projects are being primarily customer-financed, thus generating so-called NRE (Note 1). Development expenses are therefore not capitalised in the balance sheet as of the second quarter of 2003, all development expenses are instead charged continuously to operating profit/loss.

External expenditures for patents and brand names, with depreciation plans over ten years, are capitalised in the balance sheet. No marketing expenses are capitalised. Thus the Group's capitalisation principles regarding patents and brand names remain unchanged in comparison with the previous year.

Tangible fixed assets

Tangible fixed assets consisting of equipment and tools, computer equipment and software are accounted at acquisition value with deduction for accumulated depreciation according to plan.

Depreciation according to plan

Depreciation according to plan is based on the acquisition value and estimated economic life, taking the following depreciation periods into consideration:

Patents	10 years
Goodwill	10 years [1)]
Development expenses	4–6 years [2)]
Equipment and tools	5 years
Computer equipment, software	3 years [3)]
Leasehold improvements	2–5 years [4)]

1) Goodwill on consolidation resulted from the non-cash issue in 2001 when the outstanding minority share in the subsidiary Anoto AB was acquired. Goodwill on consolidation is subject to straight-line depreciation through the expected economic lifetime. The adopted depreciation period (10 years) is motivated primarily by the extent and contents of Anoto AB's patent portfolio, the scope of the agreements and partnerships entered by the company, and the value put on Anoto AB in connection with the said non-cash issue.
2) Capitalised development expenditure is written off from the time of capitalisation to April 30, 2007 inclusive. This means that the depreciation rate of expenditure capitalised at a later stage is faster, to be fully depreciated on April 30, 2007.
3) Capitalised computer software regards so-called CAD programs of significant importance for current work on product development.
4) Straight-line depreciation is made through the duration of the respective leases, ranging from two to five years.

Write-downs

When there is indication that the value of an asset has decreased the recovery value is determined. The recovery value is determined at the highest value of use and net sales value. For Anoto this means in practice that the value of use arises when there is no second-hand market for the greater part of the fixed assets used throughout the company. The value of use of certain assets have in present cases been fixed at 0 since write-downs have been made at the end of various projects, and then for assets which cannot be used in future projects.

Write-down of inventories in connection with resctructuring operations in C Technologies has been effectuated in the traditional manner, using the highest acquisition value and net sales value. The net sales value has been used where appropriate.

Leasing

Lease contracts are classified in the consolidated accounts either as financial or operational leasing. Financial leasing applies when the financial risks and benefits associated with the leasing object have been transferred to the leaseholder. Otherwise it is a case of operational leasing. The Anoto Group has no financial leasing.

Receivables and liabilities in foreign currencies

Current receivables and liabilities in foreign currencies have been translated at the closing date rate, including unrealised exchange gains and and losses carried directly against the profits for the year. Exchange gains (losses) relating to operating receivables and liabilities are recorded as other operating income (other operating expenses). Translation differences regarding financial receivables and liabilities are recorded among financial items.

The Group during the year adopted the principle of using currency forwards to hedge 50 % of the net flow of US dollars for six months at a time.

Accounts receivable

Accounts receivable are shown as net after provision for bad debts. Provisions for bad debts are based on individual evaluation of receivables made with regard to expected bad debt losses.

Inventories

Inventories, consisting of finished products and critical components, have been valued at the lowest acquisition value according to the first-in first-out principle (FIFO) and real value (lowest value principle). The technical development is rapid and the need for inventory write-down has been significant in 2003. Thus the actual write-downs have mostly been based on net sales value.

Pensions

All pension commitments have been taken over by insurance companies.

Liquid assets

Liquid assets are composed of cash, bank balance and current investments. No current investments have an investment horizon exceeding three months.

Shareholders' contribution

Submitted shareholders' contributions are reported at the contributor as an increase of the item Participation in Group companies, whereupon it is considered whether a write-down of the share value is required. Submitted shareholders' contribution is booked directly against shareholders' equity at the recipient.

Taxes

The Group's taxes consist mainly of current taxes on the taxable profits for the year in foreign subsidiaries.

Deferred income taxes recoverable are accounted as idle deficit deduction to the extent that they are expected in all probability to be utilised in the foreseeable future.

Exchange rates

When consolidating foreign group companies the following exchange rates have been applied:

		Average rate		Closing day rate	
Country	Currency	2003	2002	2003	2002
USA	USD	8.0894	9.7243	7.2750	8.8250
Hongkong	HKD	1.0388	1.2468	0.9375	1.1325
Japan	JPY (100)	6.9772	7.7657	6.8000	7.3950

NOTES – Amounts in SEK 000 unless otherwise stated. TSEK stands for SEK 000.

Note 1 Sales

The Group's sales per operating unit and geographic markets in 2003 were:

	Anoto	C Technologies	Total
Sweden	7 534	20 278	27 812
Other EU countries	13 758	5 645	19 403
USA	10 308	1 801	12 109
Rest of the world	40 962	92 082	133 044
Total	**72 562**	**119 806**	**192 368**

The Group's sales distributed by type of revenues were:

	2003	2002
Products	113 039	161 970
NRE [1]	47 661	29 522
Technology [2]	21 577	7 885
Other	10 091	21 595
Total	**192 368**	**220 972**

1) Income linked to soft and hardware development for our partners' products.
2) Comprises various types of licenses and royalties.

The Parent Company's sales to subsidiaries totalled SEK 24 795 thousand, entirely attributable to proceeds from the provision of intra-group services for other group companies. These proceeds have been eliminated from the consolidated accounts and is therefore not included in the total amount above.

Note 2 Result by segment

The Group's net result per business unit in 2003 were:

	Anoto	C Technologies	Other	Total
Net sales	72 562	119 806	—	192 368
Gross profit	61 427	29 454	—	90 881
Items affecting comparability	–44 029	–49 274	–1 815	–95 118
Operating loss	–194 770	–66 669	–61 746	–323 185
Profit from holding in Group companies	—	—	25 121	25 121
Loss from holding in associated companies	—	—	–8 876	–8 876
Interest income	496	58	3 838	4 392
Write-down of financial assets	—	—	–10 912	–10 912
Interest expenses	–985	–49	–854	–1 888
Minority share	—	—	5 489	5 489
Tax on profits for the year	–5	—	–355	–360
Net loss for the year	**–195 264**	**–66 660**	**–48 295**	**–310 219**

The column "Other" contains the result derived from other parts of the Group as well as elimination of Group transactions.
All assets and investments occur mostly in the Swedish companies.

Note 3 Average number of employees

	2003		2002	
	Number	Of whom men	Number	Of whom men
Parent Company	18	7	10	4
The rest of Sweden	151	135	286	240
USA	4	2	6	4
Hongkong	3	1	3	1
Japan	6	3	5	2
Total	**182**	**148**	**310**	**251**

Note 4 Distribution according to sex on Board of Directors and senior executives

	2003		2002	
	Number	Of whom men	Number	Of whom men
Board of Directors [1]	8	8	8	8
The rest of Sweden	12	12	15	15
USA	4	4	4	4
Hongkong	2	2	2	2
Japan	3	3	3	3
Total [2]	**29**	**29**	**32**	**32**

1) Refers to the Parent Company's Board of Directors
2) Refers to all persons on Boards of Directors and among senior executives in the Group's companies. Several subsidiaries have Boards consisting of salaried employees who do not receive remuneration for board work. This means that certain individuals have positions on boards in several countries.

Note 5 Absence from work due to illness in Swedish companies as of July 1, 2003

Age category	Total absence, %	of which 60 days or more, %
Age 29 or younger	2.00	0.00
Age 30–49	2.38	53.27
Age 50 or older	*	*
Women	3.42	12.84
Men	2.07	56.51
Total	**2.29**	**45.60**

* Not accounted for due to exemption clause in the legislation stipulating that information should not be supplied if the number of employees in the group does not exceed ten or if the information is attributable to a single individual. Group refers to both gender and age category.

Note 6 Salaries and other remunerations

Salaries and other renuberations	2003 Board and President	2003 Other senior executives (three persons)	2003 Other employees	2002 Board and President	2002 Other senior executives (two persons)	2002 Other employees
The Group	9 330	3 940	92 776	12 054	1 883	148 491
Of which the Parent Company	3 365	1 858	7 788	1 525	877	3 205

Social costs and pension expenses	2003 Social costs	2003 Pension	2002 Social costs	2002 Pension
The Group	31 884	14 915	44 013	27 259
Of which Board and President	1 569	356	2 138	658
Of which other senior executives (three persons)	1 075	812	618	384
The Parent Company	4 270	1 887	2 004	1 608
Of which Board and President	1 105	146	500	197
Of which other senior executives (one person)	609	521	288	151

Anoto Group AB (publ) on May 27, 2003 announced the change that took place when Örjan Johansson took over as President and Christer Fåhraeus succeeded Örjan Johansson as Chairman of the Board. Christer Fåhraeus left his employment immediately whereas Örjan Johansson initially invoiced his fee from an external company. Örjan Johansson started his employment with the Parent Company on November 1, 2003. In relation to the President, termination is subject to 6 months notice by either party. In addition to the notice period, salary is disbursed for six months to the President, if termination by the company.The maximum notice period for other senior executives is twelve months.
No agreements have been made in respect of pension commitments in addition to those included in the information in notes, neither for board members nor senior executives. Neither the President nor any other senior executive receives economic remuneration in addition to severance pay in accordance with the above in the case of termination of employment. No employees have additional bonus clauses in their employment agreements.The Company has chosen to solve this by allotting options in employee stock option programs.

Note 7 Remunerations to senior executives

Board and President 2003	Salary/fee	Bonus	Pension premium	Other remunerations	Total	Allocation for the year Options	Allocation for the year Value options
Christer Fåhraeus	1 181	273	146	407	2 007	—	—
Örjan Johansson	541	—	—	2 248	2 789	350 000	729
Lars Berg	250	—	—	—	250	—	—
Jan Uddenfelt	225	—	—	—	225	—	—
Urban Jansson	225	—	—	—	225	—	—
Nils Rydbeck	225	—	—	—	225	—	—
Kjell Duveblad	75	—	—	—	75	—	—
Nils Ljung	238	—	—	—	238	—	—
Christer Johansson	150	—	—	—	150	—	—
David Henry	—	—	—	—	—	—	—
Total 1)	**3 110**	**273**	**146**	**2 655**	**6 184**	**350 000**	**729**

Board and President 2002	Salary/fee	Bonus	Pension premium	Other remunerations	Total	Allocation for the year Options	Allocation for the year Value options
Christer Fåhraeus	1 134	—	175	—	1 309	72 000	220
Örjan Johansson	150	—	—	2 290	2 440	—	—
Lars Berg	75	—	—	—	75	—	—
Jan Uddenfelt	38	—	—	—	38	—	—
Urban Jansson	75	—	—	—	75	—	—
Nils Rydbeck	75	—	—	99	174	—	—
Nils Ljung	75	—	—	—	75	—	—
Christer Johansson	75	—	—	—	75	—	—
Mats Lindoff	1 111	—	128	—	1 239	—	—
Total 1)	**2 808**	**—**	**303**	**2 389**	**5 500**	**72 000**	**220**

1) Total remuneration may be received from different companies within the Group. All fees to Board Members and President are paid by Anoto Group AB (publ). Planned payment of remuneration to the Board in December 2002 was delayed and was payed in January 2003.

Senior Executives 2003	Salary/fee	Bonus	Pension premium	Other remunerations	Total	Allocation for the year Options	Value options
Group Executive Board	3 707	426	926	1 778	6 837	300 000	625
Total	**3 707**	**426**	**926**	**1 778**	**6 837**	**300 000**	**625**

Senior Executives 2002	Salary/fee	Bonus	Pension premium	Other remunerations	Total	Allocation for the year Options	Value options
Group Executive Board	1 883	—	384	1 512	3 779	130 500	269
Total	**1 883**	**—**	**384**	**1 512**	**3 779**	**130 500**	**269**

Note 8 Remuneration to auditors

Total remunerations to the Company's auditors have been charged to the loss for the year as follows:

	2003		2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Auditing assignments				
Deloitte & Touche [1]	380	380	95	380
Andersen [1]	—	—	—	119
Horwath	—	36	—	47
Abou Acc Off.	—	—	—	12
Other assignments				
Deloitte & Touche [1]	115	285	405	505
Andersen [1]	—	—	—	229
Abou Acc Off.	—	59	—	56
Total	**495**	**760**	**500**	**1 348**

Auditing assignments refer to examination of the annual accounts and the administration by the Board of Directors as well as other tasks that are incumbent upon the Company's auditors to perform, as well as consultations or other services renderd arising from observations in connection with such examinations or carrying out such tasks. Everything else is "Other assignments".

1) Operations in Arthur Andersen AB and Deloitte & Touche AB were amalgamated on June 1, 2002. Operations in Arthur Andersen AB were transferred to Deloitte & Touche AB.

Note 9 Items affecting comparability

	2003		2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Restructuring expenses [1]	–1 815	–41 950	—	–37 200
Write-down of inventories [2]	—	–25 959	—	—
Write-down of intangible fixed assets [3]	—	–23 562	—	—
Write-down of tangible fixed assets [3]	—	–3 647	—	—
Other provisions	—	—	—	–7 200
Total	**–1 815**	**–95 118**	**—**	**–44 400**

1) Expenses pertaining to cost-cutting programs leading to the number of positions being reduced and costs for the closing down of premises.
2) In connection with C Technologies AB's business being consolidated and transferred to Anoto AB as a new business unit, the remaining business is centered. Invetories associated with the business affected by this downsizing are thus written down.
3) In connection with C Technologies AB's business being consolidated and transferred to Anoto AB as a new business unit, the remainder of the business is centered. Fixed assets tied to the business that are affected by this downsizing are thus written down.

Note 10 Other operating income

	2003		2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Exchange gains	2 835	11 173	167	6 190
Rental income	4 127	12 127	11 780	10 982
Other	—	84	1	4 674
Total	**6 962**	**23 384**	**11 948**	**21 846**

Note 11 Other operating expenses

	2003		2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Exchange losses	–225	–14 028	–313	–10 594
Other	—	—	—	–99
Total	**–225**	**–14 028**	**–313**	**–10 693**

Note 12 Depreciation

Depreciation of tangible and intangible assets are part of the income statement's sub-items as follows:

	2003		2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Selling expenses	—	–825	—	–10 653
Administrative expenses	–86	–1 356	–86	–10 652
Development expenses	—	–72 386	—	–55 209
Total	**–86**	**–74 567**	**–86**	**–76 514**

Note 13 Income from holding in Group companies

	2003		2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Group profit regarding WeSpot AB [1)]	—	19 230	—	—
Write-down of shares in C Technologies AB [2)]	–65 534	—	–70 434	—
Write-down of shares in Anoto AB [2)]	–196 389	—	–281 438	—
Write-down of shares in C Pen AB [2)]	–5	—	—	—
Result from sales of C Technologies AB [3)]	–32 215	5 891	—	—
Total	**–294 143**	**25 121**	**–351 872**	**—**

1) A profit for the Group has resulted pertaining to WeSpot AB. This profit is the result of a new share issue directed at minority shareholders in WeSpot AB, as well as the deconsolidation of WeSpot AB. Directed new share issues in WeSpot (without the participation of Anoto Group AB) have resulted in an increase in the Group's equity, thus resulting in a profit for the Group which has been recorded in the consolidated income statement. The deconsolidation means that previous years' consolidated loss (negative corporate worth) has a positive impact on consolidated earnings when the negative corporate worth is eliminated in the Groups' equity at deconsolidation.

2) Refers to submitted unconditional shareholders' contribution to the subsidiaries C Technologies AB, which was disposed of in 2003, Anoto AB and C Pen AB. The shareholders' contribution was made to cover the loss for the year in the subsidiaries and restore the subsidiaries' equity in order to correspond with the share capital.

3) The sales of C Technologies AB results in a profit for the Group amounting to SEK 5 891 thousand and in a loss for the Parent Company amounting to SEK – 32 215 thousand. The difference is due to the result for the Group being calculated as the difference between the sales price and the corporate worth of C Technologies, whereas the result for the Parent Company is calculated as the difference between the sales price and the book value of the shareholding in C Technologies AB. The corporate worth differs from the book value of the shareholding in that the corporate worth has been affected by sales in C Technologies during the time of the holding and by unconditional shareholders' contributions.

Note 14 Share in associated companies' income

	2003		2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Participation in Anoto Communications KK	—	–25	—	–74
Participation in WeSpot AB [1)]	—	–1 296	—	—
Total	—	**–1 321**	**—**	**–74**

1) Refers to profit participation in WeSpot AB for the period June 1, 2003–December 31, 2003 when WeSpot AB was an associated company in the Anoto Group. Anoto Group AB (publ) has complied with generally accepted auditing standards and reduced acquisition value shares by share in associated company loss. For shares in WeSpot AB this has led to the negative result reducing the value of shares until the acquisition value amounts to 0. Since Anoto Group AB (publ) has no further commitments with regard to WeSpot AB, no further negative result subsequent to this date has been recorded.

Note 15 Income from holding in associated companies

	2003		2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Write-down of shares in WeSpot AB [1)]	–8 876	–8 876	—	—
Total	**–8 876**	**–8 876**	**—**	**—**

1) On September 30, 2003 a new share issue in WeSpot AB was implemented in which Anoto Group AB (publ) participated by converting part of a promissory note in WeSpot AB to shares. Other shareholders participated in addition to Anoto Group AB (publ). The shares in WeSpot AB were written down to 0 as at September 30, 2003.

Note 16 Profit/loss from other receivables consisting of fixed assets

	2003		2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Write-down of promissory note WeSpot AB [1]	–10 912	–10 912	—	—
Total	**–10 912**	**–10 912**	**—**	**—**

1) On September 30, 2003 a new share issue in WeSpot AB was implemented in which Anoto Group AB (publ) participated by converting part of a promissory note in WeSpot AB to shares. Other shareholders participated in addition to Anoto Group AB (publ). The shares in WeSpot AB were written-down to 0 as at September 30, 2003. That part of the promissory note which was not convereted was written down to 0.

Note 17 Taxes

	2003		2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Current taxes [1]	—	–360	—	–278
Deferred taxes	—	—	—	—
Total	**—**	**–360**	**—**	**–278**

1) Current taxes primarily refer to taxes in foreign subsidiaries.

Connection between the tax rate for the year and reported profit/loss before taxes:

	2003		2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Reported loss before taxes	–313 883	–309 859	–349 935	–412 569
Taxes in accordance with current tax rate at 28%	87 887	86 761	97 982	115 519
Tax effect from non-deductible expenses:				
Other non-deductible expenses	–87 922	–88 218	–98 535	–98 901
Tax effect of profit in foreign Group companies	—	–142	—	–224
Adjustment for tax rates in foreign Group companies	—	44	—	76
Value adjustment of deferred taxes on deficit deduction	35	1 196	553	–16 748
Total	**—**	**–360**	**—**	**–278**

Tax deficit

	2003		2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Opening balance	–333 087	–1 205 843	–323 885	–781 527
Tax on profit for the year	124	–260 742	–9 202	–424 316
Adjustment for sale of company	—	164 871	—	—
Tax deficit carried forward	**–332 963**	**–1 301 714**	**–333 087**	**–1 205 843**
Nominal amount taxes recoverable	93 230	364 480	93 264	337 636

There are no temporary differences.
Tax receivables calculated at nominal amounts (28 %) in accordance with the above have been valued at 0 in the balance sheet. Seeing that the Group is still reporting a loss the nominal amount of tax receivables have not been valued in the consolidated balance sheet.
Tax deficits refer to Swedish companies and are not timelimited.

Note 18 Capitalised expenditure for research and development work

	Dec 31, 2003		Dec 31, 2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Accumulated acquisition value				
Acquisition value brought forward	—	95 020	—	32 728
Acquisitions for the year	—	5 000	—	62 292
Intra-group transfer 2003-12-30	24 218	—	—	—
Accumulated acquisition value carried forward	**24 218**	**100 200**	**—**	**95 020**
Accumulated depreciation according to plan				
Depreciation brought forward	—	–15 323	—	–2 750
Depreciation for the year according to plan	—	–17 760	—	–12 573
Write-downs for the year	—	–14 794	—	—
Intra-group transfer 2003-12-30	–24 218	—	—	—
Accumulated depreciation according to plan carried forward	**–24 218**	**–47 877**	**—**	**–15 323**
Residual value according to plan carried forward	**—**	**52 143**	**—**	**79 697**

Writedowns for the year amount to SEK –14.794 and are entirely attributable to C Technologies AB. C Technologies' business was transferred to Anoto AB as at December 1, 2003. Before this transference an estimation of the future value of the intangible fixed assets was made. The book value was thereafter written down to the replacement cost. The company engaged an independent authorised public accounting firm in order to estimate the replacement cost.

Note 19 Patents

	Dec 31, 2003		Dec 31, 2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Accumulated acquisition value				
Acquisition value brought forward	—	47 589	—	31 210
Acquisitions for the year	—	5 541	—	16 379
Intra-group transfer Dec 30, 2003	12 750	—	—	—
Reduction by sale of business	—	–2 606	—	—
Accumulated acquisition value carried forward	**12 750**	**50 524**	**—**	**47 589**
Accumulated depreciation according to plan				
Accumulated depreciation brought forward	—	–8 345	—	–3 768
Depreciation for the year according to plan	—	–4 840	—	–4 577
Write-downs for the year	—	–8 717	—	—
Intra-group transfer Dec 30, 2003	–12 750	—	—	—
Reduction by sale of business	—	390	—	—
Accumulated depreciation according to plan carried forward	**–12 750**	**–21 512**	**—**	**–8 345**
Residual value according to plan carried forward	**—**	**29 012**	**—**	**39 244**

Writedowns for the year amount to SEK –8 717 thousand and are entirely attributable to C Technologies AB. C Technologies' business was transferred to Anoto AB as at December 1, 2003. Before this transference an estimation of the future value of the intangible fixed assets was made. The book value was thereafter written down to the replacement cost. The company engaged an independent authorised public accounting firm in order to estimate the replacement cost.

Note 20 Brand names

	Dec 31, 2003		Dec 31, 2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Accumulated acquisition value				
Acquisition value brought forward	—	—	—	—
Acquisitions for the year	—	291	—	—
Intra-group transfer Dec 30, 2003	56	—	—	—
Accumulated acquisition value carried forward	**56**	**291**	**—**	**—**
Accumulated depreciation according to plan				
Accumulated depreciation brought forward	—	—	—	—
Depreciation for the year according to plan	—	–28	—	—
Write-downs for the year	—	–51	—	—
Intra-group transfer Dec 30, 2003	–56	—	—	—
Accumulated depreciation according to plan carried forward	**–56**	**–79**	**—**	**—**
Residual value according to plan carried forward	**—**	**212**	**—**	**—**

Writedowns for the yar amount to SEK –51 thousand and are entirely attributable to C Technologies AB. C Technologies' business was transferred to Anoto AB as at December 1, 2003. Before this transference an estimation of the future value of the intangible fixed assets was made. The book value was thereafter written down to the replacement cost. The company engaged an independent authorised public accounting firm in order to estimate the replacement cost.

Note 21 Goodwill

	Dec 31, 2003	Dec 31, 2002
	THE GROUP	
Accumulated acquisition value		
Acquisition brought forward	381 301	381 301
Accumulated acquisition value carried forward	**381 301**	**381 301**
Accumulated depreciation according to plan		
Depreciation brought forward	–44 491	–6 355
Depreciation for the year according to plan	–38 136	–38 136
Accumulated depreciation according to plan carried forward	**–82 627**	**–44 491**
Residual value according to plan carried forward	**298 674**	**336 810**

Note 22 Equipment and tools

	Dec 31, 2003		Dec 31, 2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Accumulated acquisition value				
Acquisition value brought forward	431	59 778	—	55 619
Acquisitions for the year	—	4 394	431	5 128
Disposal for the year	—	—	—	–969
Reduction by sale of business	—	–1 865	—	—
Accumulated acquisition value carried forward	**431**	**62 307**	**431**	**59 778**
Accumulated depreciation according to plan				
Accumulated depreciation brought forward	–86	–34 996	—	–16 450
Depreciation for the year according to plan	–86	–12 068	–86	–18 936
Write-downs for the year	—	–5 304	—	—
Disposal for the year	—	—	—	390
Reduction by sale of business	—	945	—	—
Accumulated depreciation according to plan carried forward	**–172**	**–51 423**	**–86**	**–34 996**
Residual value according to plan carried forward	**259**	**10 884**	**345**	**24 782**

Writedowns for the year amount to SEK –5 304 thousand and are attributable to C Technologies AB as well as Anoto AB. C Technologies AB's share amounts to SEK –1 657 thousand and Anoto AB's share to SEK –3 647 thousand. Writedowns are largely accounted for by writedowns of so-called hard tools used during the development phase of various technical solutions. Unique tools which cannot be re-utilised after finished projects or studies are scrapped in andvance, thereby resulting in writedowns.

Note 23 Computer Software

	Dec 31, 2003		Dec 31, 2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Accumulated acquisition value				
Acquisition value brought forward	—	10 925	—	11 915
Acquisitions for the year	—	93	—	1 000
Disposal for the year	—	—	—	–1 990
Accumulated acquisition value carried forward	**—**	**11 018**	**—**	**10 925**
Accumulated depreciation according to plan				
Accumulated depreciation brought forward	—	–4 845	—	–2 553
Depreciation for the year according to plan	—	–1 735	—	–2 292
Depreciation for the year	—	–4 024	—	—
Disposal for the year	—	—	—	—
Accumulated depreciation according to plan carried forward	**—**	**–10 604**	**—**	**–4 845**
Residual value according to plan carried forward	**—**	**414**	**—**	**6 080**

Writedowns for the year amount to SEK –4 024 thousand and are attributable to Anoto AB. The writedown refers to software intended for use for services that Anoto AB has decided not to further develop into commercial services. Due to this decision the software was written down to SEK 0.

Note 24 Participation in Group Companies

PARENT COMPANY	Dec 31, 2003	Dec 31, 2002
Opening balance	**766 946**	**766 946**
Submitted shareholders' contribution brought forward	351 872	—
Accumulated submitted shareholders' contribution for the year [1)]	261 928	351 872
Acquisition for the year	—	—
Sales for the year	–38 206	—
Accumulated writedowns brought forward	–351 872	—
Re-classifications for the year [2)]	–2 797	—
Writedowns for the year [1)]	–261 928	–351 872
Closing balance	**725 943**	**766 946**

Company name	Org.Reg.No.	Office	Total number of shares	Share of capital and voting rights, %	Shareholders' equity	Book value
Anoto AB	556573-8811	Lund	377 764 350	100.0	3 778	725 843
C Technologies US Inc	13-4074434	USA	11 000	100.0	–5 169	—
C Pen AB	556591-2481	Malmö	1 000	100.0	102	100
						725 943

1) Refers to unconditional shareholders' contribution submitted to the subsidiaries C Technologies AB, Anoto AB and C Pen AB that were disposed of in 2003. The shareholders' contribution was made to cover the loss for the year in the subsidiaries and restore the subsidiaries' equity in order to correspond with the share capital.
2) Refers to the prior subsidiary WeSpot AB. The shareholding in WeSpot AB at the beginning of the year was 54,7 % and has continued to decrease during the year since WeSpot AB has implemented several new share issues without the participation of Anoto Group AB. The shareholding as at Dec 31, 2003 was 18,45 %.

The Anoto Group comprises a sub-group encompassing the following companies: Anoto, Inc., USA · Anoto Nippon K.K., Japan · Anoto Ltd., Hongkong.

Note 25 Holding in associated companies

THE GROUP	Dec 31, 2003	Dec 31, 2002
Opening balance	**277**	**—**
Acquisition for the year	—	351
Share of income in associated companies	–25	–74
Closing balance	**252**	**277**

Company name	Org.Reg.No.	Registered Office	Total number of shares	Share of capital and voting rights, %	Shareholders' equity	Book value
Anoto Communications K.K.	0110-01-038206	Japan	1 000	45,0	481	252
						252

Note 26 Prepaid expenses and accrued income

	Dec 31, 2003		Dec 31, 2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Prepaid rents	3 084	7 256	3 549	6 216
Prepaid leasing charges	—	609	7	79
Insurance premiums for patents	—	916	—	—
Accrued interest income	197	200	210	279
Accrued income	—	1 327	—	795
Other	608	4 572	140	9 108
Closing balance	**3 889**	**14 880**	**3 906**	**16 477**

Note 27 Change in shareholders' equity

THE GROUP 2003	Share capital	Statutory reserve	Net loss for the year	Total
Equity brought forward Jan 1, 2003 pursuant to the adopted balance sheet for the previous year	**2 071**	**1 347 405**	**–736 587**	**612 889**
New share issue July	286	144 374		144 660
Issue expenses		—		—
Write-back of receivables from minority in WeSpot AB			3 284	3 284
Exchange rate differences [1), 2)]			634	634
Displacement of restricted reserves and accumulated deficit		–354 027	354 027	—
Net loss for the year			–310 219	–310 219
Equity carried forward Dec 31, 2003	**2 357**	**1 137 752**	**–688 861**	**451 248**

1) Exchange rate differences translated at closing day rate by financial reports for foreign businesses.
2) Translation difference brought forward Jan 1, 2003 amounts to SEK – 1 355 thousand and the accumulated translation difference Dec 31, 2003 amounts to SEK – 721 thousand.

THE GROUP 2002	Share capital	Restricted reserve	Accumulated deficit	Total
Equity brought forward Jan 1, 2002 pursuant to the adopted balance sheet for the previous year	**1 531**	**1 335 133**	**–537 701**	**798 963**
New share issue July	13	14 937		14 950
New share issue August	10	9 990		10 000
New share issue November	517	206 621		207 138
Issue expenses		–11 177		–11 177
Subordinated debentures with warrants		8 117		8 117
Writedown of receivables from minority in WeSpot AB [3)]			–3 284	–3 284
Exchange rate differences [1), 2)]			1 029	1 029
Displacement of restricted reserves and accumulated deficit		–216 216	216 216	—
Net loss for the year			–412 847	–412 847
Equity carried forward Dec 31, 2002	**2 071**	**1 347 405**	**–736 587**	**612 889**

1) Exchange rate differences translated at closing day rate by financial reports for foreign businesses.
2) Translation difference brought forward Jan 1, 2002 amounts to SEK – 2 384 thousand and the accumulated translation difference Dec 31, 2002 amounts to SEK – 1 355 thousand.
3) The part of receivables from minority in WeSpot AB not covered by capital contribution pledged by the minority in WeSpot AB.

PARENT COMPANY 2003	Share capital	Share premium reserve	Statutory reserve	Accumulated deficit	Total
Equity brought forward Jan 1, 2003 pursuant to the adopted balance sheet for the previous year	**2 071**	**1 345 348**	**2 057**	**–349 935**	**999 541**
Allocation of loss for the previous year		–349 935		349 935	—
New share issue July	286	144 374			144 660
Issue expenses		—			—
Net loss for the year				–313 883	–313 883
Equity carried forward Dec 31, 2003	**2 357**	**1 139 787**	**2 057**	**–313 883**	**830 318**

PARENT COMPANY 2002	Share capital	Share premium reserve	Statutory reserve	Accumulated deficit	Total
Equity brought forward Jan 1, 2002 pursuant to the adopted balance sheet for the previous year	**1 531**	**1 332 771**	**2 057**	**–207 794**	**1 128 565**
Allocation of loss for the previous year		–207 794		207 794	—
New share issue July	13	14 937			14 950
New share issue August	10	9 990			10 000
New share issue November	517	206 621			207 138
Issue expenses		–11 177			–11 177
Net loss for the year				–349 935	–349 935
Equity carried forward Dec 31, 2002	**2 071**	**1 345 348**	**2 057**	**–349 935**	**999 541**

The number of shares and their nominal value changed during the year as follows:

	Increase in number of shares	Number of shares	Nominal value/ share, SEK
Registered opening balance Jan 1, 2003		**103 569 201**	**0.02**
New share issue registered July 9, 2003	11 000 000	114 569 201	0.02
New share issue registered July 31, 2003	3 300 000	117 869 201	0.02
Registered closing balance Dec 31, 2003		**117 869 201**	**0.02**

	Increase in number of shares	Number of shares	Nominal value/ share, SEK
Registered opening balance Jan 1, 2002		**76 526 901**	**0.02**
New share issue registered July 17, 2002	650 000	77 176 901	0.02
New share issue registered August 28, 2002	500 000	77 676 901	0.02
New share issue registered November 4, 2002	25 892 300	103 569 201	0.02
Registered closing balance Dec 31, 2002		**103 569 201**	**0.02**

Note 28 Provisions for restructuring reserve

	Dec 31, 2003		Dec 31, 2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Opening balance	**—**	**28 900**	**—**	**—**
Utilised amounts	—	–33 479	—	–8 300
New provisions	—	35 829	—	37 200
Unutilised amounts that were reversed	—	—	—	—
Closing balance	**—**	**31 250**	**—**	**28 900**

It is estimated that the expected payment pertaining to provisions for restructuring reserve regarding staff reductions will be made mainly in the first quarter of 2004. The part pertaining to the closing of premises will be subject to payment up to the last day of the lease contract on September 30, 2006.

Note 29 Product guarantee provisions

	Dec 31, 2003		Dec 31, 2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Opening balance	**—**	**2 077**	**—**	**3 001**
Utilised amounts	—	–1 664	—	–3 023
New provisions	—	892	—	2 099
Unutilised amounts that were reversed	—	—	—	—
Closing balance	**—**	**1 305**	**—**	**2 077**

It is estimated that the expected payment pertaining to provisions for product warranty obligations will be made during 2004.

Note 30 Other provisions

	Dec 31, 2003		Dec 31, 2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Opening balance	**—**	**7 200**	**—**	**—**
Utilised amounts	—	—	—	—
New provisions	2 282	18 195	—	7 200
Unutilised amounts that were reversed	—	–3 400	—	—
Closing balance	**2 282**	**21 995**	**—**	**7 200**

It is estimated that the expected payments pertaining to other provisions will be made continuously during a number of years. A large part of the provisions relate to social costs in respect of warrant program 5 in note 33. Payments in connection with this are estimated in the spring of 2005 as well as the spring in 2006. The provision also includes amounts for legal dispute described in the Directors' Report.

Note 31 Terminating operations

The structural changes in Anoto Group have continued during the year of 2003. The business has been centered both in respect of business model and legal structure.

The technology platform underlieing the Group's development of commercial products has been completed and further versions are now being produced entirely on a customer-financed basis. This customer-financed development represents a major source of income for the Group and is called NRE (Non Refundable Engineering). Concurrently with this progress the Group has ceased to apply general capitalisation of development expenses in compliance with RR 15 as of the second quarter of 2003 since development projects for the most part are customer-financed. Previously capitalises expenses will be fully depreciated on April 30, 2007.

As a part of centering and focusing the business, the decision was made to transfer operations in C Technologies from C Technologies AB to Anoto AB in order to concentrate operations in Sweden to one legal entity only. C Technologies now constitutes one of the Group's two business units. The company C Technologies AB was subsequently sold to an external interested party.

More end-user oriented work and development of applications is now allocated to our partners. This in combination with centring the legal structure in 2003 led to to further staff cuts. We estimate that we now have an excellent structure for the current business.

The business in C Technologies AB was sold to Anoto AB for SEK 462 thousand. Certain minor parts of the assets and liabilities were transferred to Anoto Group AB (publ). C Technologies AB was sold without operations for SEK 5 991 thousand. The proceeds have resulted in positive cash flow in the first quarter of 2004.

Note 32 Accrued expenses and deferred income

	Dec 31, 2003		Dec 31, 2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Holiday pay liability	1 944	7 489	1 063	11 966
Social security liabilities	1 216	4 625	460	4 439
Payroll tax	452	2 949	190	7 567
Marketing expenses	—	1 857	—	3 096
Other	3 798	13 009	3 946	23 993
Total	**7 410**	**29 929**	**5 659**	**51 061**

Note 33 Subordinated debentures/warrants

Within the framework of an incentive program, the Parent Company and certain subsidiaries have since 1998 issued various types of options.

Options programme	No. of options	Shares per option	No. of shares	Subscription price SEK	Subscription period up to	Fully utilised provided MSEK
1 Employee stock options program 2001	1 639 225	1.03	1 688 402	72.70	2005-12-15	123
2 Anoto warrants program 4	493 794	1.032	509 595	65.09	2004-03-31	43
3 Salary relinquishment program 2002/warrants	402 250	1.032	415 122	44.58–92.06	2004-01-31	23
4 Salary relinquishment program 2002/warrants	1 454 190	1.032	1 500 724	56.20–131.80	2005-01-31	100
5 Employee stock option program 2003	4 655 000	1	4 655 000	11.45–13.09	2006-05-31	57
	8 644 459		**8 768 843**			

1) Since the employee stock options are linked to the employment only 19 % of the total amount of shares have been allotted to employees within the Group as at December 31, 2003.

2) In accordance with a decision at the extraordinary general meeting in Anoto Group on January 16, 2002 a total of 5 170 714 warrants have been issued, each of which give entitlement to subscribe 1,032 shares in Anoto Group AB (publ). These warrants will be utilised in exchange for shares that, in accordance with the above, may be subscribed for in the subsidiary Anoto AB by exercising outstanding warrants. Only the above amount remains, the remainder has matured "out of the money". This exchange is based on holders of warrants in Anoto AB having pledged to, subsequent to subscription for shares in Anoto AB, exchange such shares for shares in Anoto Group AB (publ). This exchange is based on the same exchange ratio between Anoto Group AB (publ) and Anoto AB, underlying the non-cash issue through which the Parent Company acquired Ericsson's minority share in Anoto AB in the last quarter of 2001. The number of warrants in the above table has been translated to the amount of corresponding shares in Anoto Group.

3) 4) At the Extraordinary General Meeting on January 16, 2002 it was futher resolved to authorise the Board to issue warrants to be used in an offering to employees to acquire these warrants at market price in return for voluntary reduction in pay over a maximum of 18 months. The offering comprises a number of programs extending over two and three years respectively at subscription prices as above.

5) At the Annual General Meeting on May 15, 2003 the Board was authorised to issue a further 4 655 000 options, so-called employee options, of which 3 500 000 have been allotted to employees in the fourth quarter of 2003.

Fully utilised, given these conditions, actual deferred dilution as at December 31, 2003 will be approx. 7,4 %, which could have changed until the time when this Annual Report is distributed. If the options "in the money" are taken into consideration (according to present value computation), the deferred dilution as at December 31, 2003 will amount to approx. 3,9 %.

Note 34 Significant leasing costs

Pursuant to a leasing agreement the Group has the use of computer equipment at a calculated acquisition value of SEK 13 672 thousand. The leasing cost in connection with this equipment in 2003 amounted to SEK 10 405 thousand. The remaining leasing costs amount to SEK 1 581 thousand for 2004 and to SEK 319 thousand for 2005.

In addition to the above-mentioned computer equipment the extent of equipment used within the scope of the leasing agreement is immaterial in monetary terms.

The Group's commitment in respect of rented premises for the period 2004–2006 amounts to SEK 86 747 thousand.

Note 35 Assets pledged

	Dec 31, 2003		Dec 31, 2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Blocked bank account	22 750	28 740	36 000	54 443
Floating charges	—	—	10 000	10 000
Total	**22 750**	**28 740**	**46 000**	**64 443**

Note 36 Contingent liabilities

	Dec 31, 2003		Dec 31, 2002	
	PARENT COMPANY	THE GROUP	PARENT COMPANY	THE GROUP
Purchase commitment	—	4 855	—	71 628
Guarantee commitment for subsidiaries	52 828	52 828	68 364	68 364
Total	**52 828**	**57 683**	**68 364**	**139 992**

AUDIT REPORT

To the Annual General Meeting of the shareholders of Anoto Group AB (publ), Corporate Identity Number 556532-3929

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and chief executive officer of Anoto Group AB for the financial year 2003. These accounts and the administration of the company are the responsibilities of the board of directors and the chief executive officer. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts, and the administration, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles and their application by the board of directors and the chief executive officer, as well as evaluating the overall presentation of information in the annual accounts and consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the chief executive officer. We also examined whether any board member or the chief executive officer has, in any other way, acted in contravention of the Swedish Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act and, thereby, give a true and fair view of the company's and the group's financial position and results of operations, in accordance with generally accepted accounting principles in Sweden.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the accumulated deficit of the parent company be dealt with in accordance with the proposal in the director's report and that the members of the board of directors and the chief executive officer be discharged from liability for the financial year.

Malmö on March 31, 2004

Deloitte & Touche AB

Per-Arne Pettersson
Authorised Public Accountant

FIVE-YEAR SUMMARY

Income statement in summary

Amounts in SEK 000	1999 [1]	2000 [1]	2001	2002	2003
Net sales	49 115	80 014	156 204	220 972	192 368
Gross profit/loss	14 892	–4 517	14 698	75 083	90 881
Depreciation, intangible fixed assets	–1 006	–1 757	–10 809	–54 236	–60 901
Depreciation, tangible fixed assets	–1 647	–4 233	–12 735	–22 278	–13 803
Operating loss	–55 252	–220 993	–596 383	–430 239	–323 185
Profit from participation in Group Companies	30 771	27 638	68 210	—	25 121
Loss from share in associated companies	—	—	—	—	–8 876
Loss from other receivables which are fixed assets	—	—	—	—	–10 912
Other financial items	–468	10 935	7 938	4 554	2 504
Loss after net financial items	–24 949	–182 420	–520 235	–425 685	–315 348
Taxes	–37	–47	–488	–278	–360
Minority share	105	13 359	80 042	13 116	5 489
Net loss	–24 881	–169 108	–440 681	–412 847	–310 219

Balance sheet in summary

Amounts in SEK 000	Dec 31, 1999 [1]	Dec 31, 2000 [1]	Dec 31, 2001	Dec 31, 2002	Dec 31, 2003
Assets					
Intangible fixed assets	7 970	19 307	432 366	455 751	380 041
Tangible fixed assets	5 234	20 495	48 531	30 862	11 298
Financial fixed assets	—	1 939	1 982	1 721	4 924
Total fixed assets	13 204	41 741	482 879	488 334	396 263
Inventories	2 561	24 795	46 949	29 621	3 006
Accounts receivable	16 424	26 424	30 826	55 941	31 175
Other current assets	5 979	21 851	33 613	38 766	22 041
Cash and bank including current investments	30 621	421 206	368 313	171 150	116 033
Total current assets	55 585	494 276	479 701	295 478	172 255
Total assets	**68 789**	**536 017**	**962 580**	**783 812**	**568 518**
Shareholders' equity and liabilities					
Share capital	15 000	438 489	798 963	612 889	451 248
Minority interest	2 767	12 139	2 568	—	—
Provisions					
Non-interest bearing	1 047	3 061	3 001	38 177	54 550
Long-term liabilities					
Non-interest bearing	39	52	94	30	—
Interest bearing	4 383	417	5 000	—	—
Current liabilities					
Non-interest bearing	22 297	80 192	152 537	119 192	62 623
Interest bearing	23 256	1 667	417	13 524	97
Total liabilities	51 022	85 389	161 049	170 923	117 270
Total shareholders' equity and liabilities	**68 789**	**536 017**	**962 580**	**783 812**	**568 518**

Cash flow statements in summary

Amounts in SEK 000	1999 [1]	2000 [1]	2001	2002	2003
Operating loss before depreciation	–52 599	–215 003	–572 841	–353 725	–248 481
Non liquidity-affecting items	939	1 967	–548	34 898	88 171
Change in operating funds	15 305	–11 800	32 777	–25 914	–19 858
Cash flow from current activities	–36 355	–224 836	–540 612	–344 667	–180 168
Cash flow from investment activities	–10 231	–34 526	–83 379	–82 043	–12 556
Cash flow before financing	–46 586	–259 362	–623 991	–426 710	–192 724
Cash flow from financing activities	32 851	649 947	571 098	229 547	147 775
Cash flow for the year	–13 735	390 585	–52 893	–197 163	–44 949

Key ratios

	1999 [1]	2000 [1]	2001	2002	2003
Sales growth, %	2 031	63	95	41	neg
Gross margin, %	30	neg	9	34	47
Operating margin, %	neg	neg	neg	neg	neg
Profit margin, %	neg	neg	neg	neg	neg
Capital employed, SEK 000	26 406	452 712	806 948	626 413	451 345
Return on capital employed, %	neg	neg	neg	neg	neg
Return on shareholders' equity, %	neg	neg	neg	neg	neg
Share of risk-bearing capital, %	26	84	83	78	79
Equity/assets ratio, %	26	84	83	78	79
Net debt/equity ratio, multiple	–1.24	–0.93	–0.45	–0.26	–0.26
Interest coverage ratio, multiple	–24.0	–153.7	–399.5	–336.0	–168.0
Net debt, SEK 000	–21 982	–419 122	–362 896	–157 626	–115 936
Average number of employees	48	107	299	310	182
Sales per employee, SEK 000	1 023	748	522	713	1 057
Salaries and remunerations incl. social security costs, SEK 000	23 358	73 114	242 754	233 700	152 845
(of which pension premiums)	1 023	4 535	23 252	27 259	14 915

1) Regarding 1999–2000 after adjustment due to effects owing to change of accounting principle with regard to R&D expenses, implying that development costs are carried as a continuous expense in accordance with the Swedish Financial Accounting Standard Councils Recommendation 15 (RR15).

DEFINITIONS

Average number of employees
Average number of employees during the year.

Capital employed
Balance sheet total minus non-interest bearing allocation and liabilities, including deferred tax liabilities.

Cash flow per share
Operating cash flow from current activities in relation to the weighted average number of shares during the year.

Earnings per share
Earnings after taxes in relation to the weighted average number of shares during the year.

Equity/assets ratio
Shareholders' equity, including minority, as a percentage of balance sheet total.

Gross margin
Gross profit or loss as a percentage of net sales. Gross profit or loss is defined as net sales minus the cost of goods sold.

Interest coverage ratio
Profit or loss after net financial items increased by interest expenses as a percentage of interest expenses.

Net debt
Interest bearing liabilities with deductions for liquid assets and current investments.

Net debt/equity ratio
Net liabilities divided by shareholders' equity including minority.

Operating margin
Operating profit or loss after depreciation as a percentage of operation's net sales.

Profit margin
Profit or loss after net financial items as a percentage of operation's net sales.

Return on equity
Profit/loss for the year as a percentage of average shareholder's equity.

Return on capital employed
Profit/loss after net financial items increased by interest costs as a percentage of average capital employed.

Sales growth
Increase of net sales as a percentage of previous year's net sales.

Sales per employee
Net sales in relation to the average number of employees.

Share of risk-bearing capital
Shareholder's equity, minority and deferred tax at year-end as a percentage of balance sheet total.

Shareholders' equity per share
Shareholders' equity in relation to the weighted average number of shares during the year.

THE SHARE

The Anoto Group share has been quoted on Stockholmsbörsen's O-list, Attract 40, under the ANOT symbol since June 16, 2000. Prior to this the share was quoted on Nya Marknaden, where it was initially listed on March 15, 2000.

Anoto Group's share capital amounts to SEK 2 357 384 distributed over 117 869 201 shares each with a nominal value of SEK 0.02. Each share entitles the holder to one vote at the AGM and an equal share of the Company's assets and profits.

Share performance and turnover

In 2003 the price of the Anoto Group share rose by 45 per cent, from SEK 11.70 to SEK 17.00. At the same time Affärsvärlden's general index rose by 30 per cent and Stockholmsbörsen's index for the information technology segment rose by 83 per cent. Total market value of the Anoto Group on December 31, 2003 was SEK 2 004 million. On March 8, 2004 the share price was SEK 18.20 and the total market value was SEK 2 145 million.

In 2003, 54 964 662 Anoto shares were traded on Stockholmsbörsen, corresponding to a turnover rate of 46,6 per cent.

Shareholders

At the end of 2003 Anoto Group had a total of 13 568 shareholders. The ten major shareholders at that point in time held 66,3 per cent of the total amount of shares. Institutional investors in Sweden held 22.9 per cent of the shares and foreign shareholders 45,4 per cent.

Dividend policy

No dividend will be considered in the next few years. The Company's future dividend policy will be adapted to profit levels, financial position and funding requirements. Proposed dividends will be weighted against shareholders' demands for a reasonable yield and operational self-finance requirements.

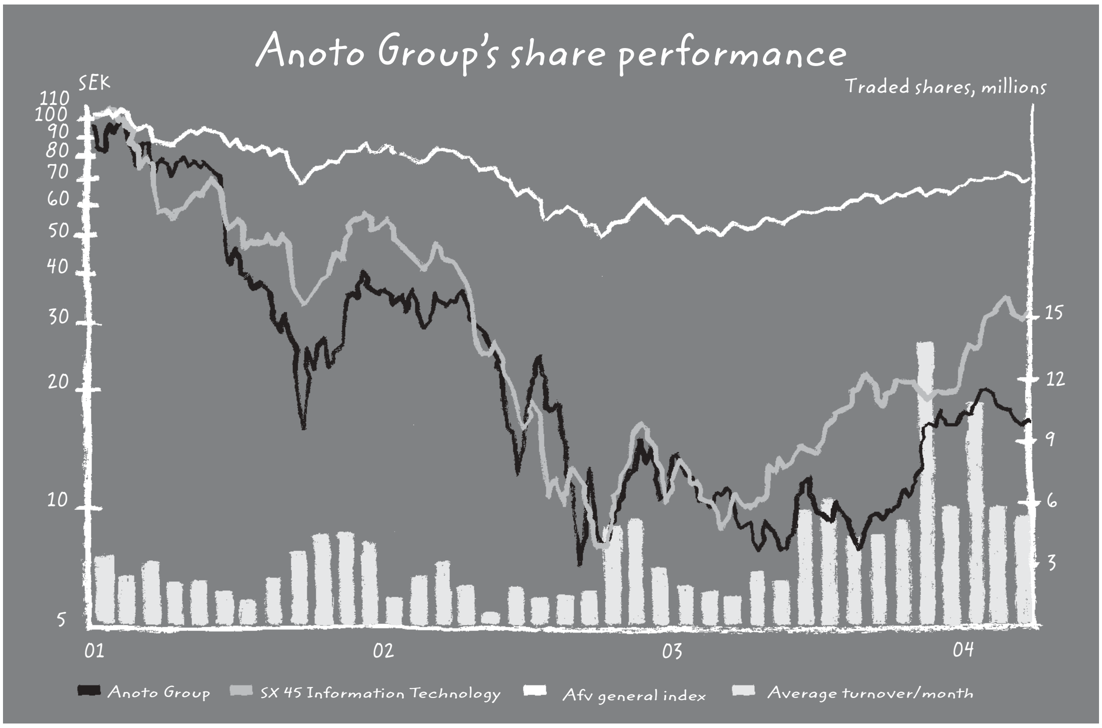
Warrent programs

At present there are five different option programs in the Parent Company (two of which regard so-called employee stock options with subordinated debentures and three are traditional warrant programs), directed at employees. The programs comprise a total of 8 644 459 subscribed options extending between January 31, 2004 and May 31, 2006.

Full utilisation of the subscribed options comprised by these programs could result in the subscription of 8 768 843 new shares, entailing an increase of the share capital by SEK 175 377, and a dilution of capital and voting rights of 7,4 per cent. The issue prices for the options comprised by these five programs are in the inverval of SEK 11.45–131.80 kr.

Analyses

The Anoto Group is analysed by several banks and stockbrokers inclusing Alfred Berg, Carnegie, Crédit Agricole Indosuez Cheuvreux Nordic, Nordberg Capital Inc., Nordea, Remium Securities and SHB.



Data per share

	2003	2002	2001
Number of shares	117 869 201	103 569 201	76 526 901
Number of outstanding options [1]	4 655 000	—	2 698 650
Average number of shares	110 444 201	81 279 784	49 132 068
Average number of outstanding options	1 163 750	628 700	2 694 450
Loss per share, SEK	–2.81	–5.08	–8.97
Do. Incl. options, SEK	–2.81	–5.08	–8.97
Cash flow for the year per share, SEK	–0.41	–2.43	–1.08
Do. Incl. options, SEK	–0.41	–2.43	–1.08
Shareholders' equity per share, SEK [2]	4.09	7.54	10.44
Do. Incl. options, SEK [2]	4.04	7.48	10.08

1) In 2003 the basis of calculation was changed in compliance with RR18 paragraph 27. The values for 2002 have also been recalculated. For further information on outstanding options see note 33.

2) In 2003 the basis of calculation for shareholders' equity per share was changed. Shareholders' equity is divided by the weighted average number of shares during the year. The same applies to options. Comparative figures have been recalculated.

Ownership structure at December 31, 2003

No. of shares owned	Total number of shareholders	% of total no. of shareholders	Shares owned, total	% of share capital
1–1 000	10 979	80.9	3 258 749	2.8
1 001–10 000	2 307	17.0	6 298 638	5.3
10 001–100 000	208	1.5	6 288 348	5.3
100 001–	74	0.5	102 023 466	86.6
Total	13 568	100.0	117 869 201	100.0

Major shareholder at December 31, 2003

Name	%	Total
Ericsson	17.9	21 138 065
Capital Group	11.4	13 426 000
Logitech	10.2	12 000 000
Robur fonder	5.2	6 173 762
Odin Norden	5.2	6 098 399
Skandia Carlson fonder	4.3	5 081 592
4:e AP-fonden	4.1	4 871 794
Christer Fåhraeus	3.3	3 867 720
Other shareholder	38.4	45 211 869
Total		**117 869 201**

Ownership by country

Country	%
Sweden	54.6
USA	14.9
Switzerland	12.4
Norway	11.8
Luxembourg	2.1
Other	4.2
Total	**100**

THE BOARD OF DIRECTORS

Christer Fåhraeus
is Chairman of the board

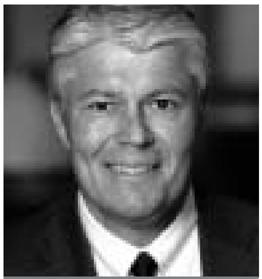
Christer Fåhraeus
born 1965
Chairman of the Board and founder
Board member since 1996.
Other positions: Board member of Cellavision, Precise Biometrics, Agellis and Respiratorius.
Shareholding: 3 867 720 shares, 72 000 options and 500 000 call options in Anoto Group. Christer Fåhraeus has also issued 133 000 call options in Anoto Group.

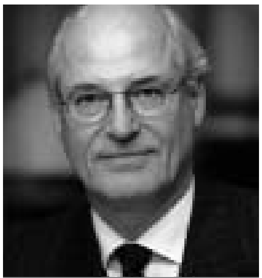
Lars Berg
born 1947
Deputy Chairman of the Board
Board member since 2000.
Other positions: Chairman of the Board of Eniro and Net Insight.
Board member of Ratos, Telefónica Móviles and other unquoted companies.
Shareholding: 13 333 shares in Anoto Group.

Örjan Johansson
born 1960
CEO
Board member since 2000.
Other positions: Board member of Agellis, IT Öresund, Teknopol, Trivector, Scalado, WeSpot and others.
Shareholding: 165 332 shares and 350 000 employee options in Anoto Group.

Urban Jansson
born 1945
Board Member
Board member since 2000.
Other positions: Chairman of the Board of Drott, Plantagen ASA and Proffice.
Board member of Addtech, Ahlstrom Corp, Eniro, SEB and others.
Shareholding: 4 000 shares in Anoto Group.

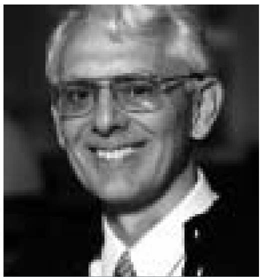

Christer Fåhraeus


Kjell Duveblad


Lars Berg


David Henry


Örjan Johansson


Nils Rydbeck


Urban Jansson


Jan Uddenfeldt

Supplementary information
The recorded holdings includes, where appropriate, holdings spouses and underage children and holding via proprietary companies.

Kjell Duveblad
born 1954
Board Member
Board member since 2003.
Other positions: Board member of North West Capital Ltd, SVM North Node AB, Telelogic AB and Teleopti AB.
Shareholding: 10 000 shares in Anoto Group.

David Henry
born 1956
Board Member
Board member since 2003.
Other positions: –
Shareholding: –

Nils Rydbeck
born 1946
Board Member
Board member since 2000.
Other positions: Board member of Axis Communications AB, Blekinge Technical College and Member of Royal Swedish Academy of Engineering Sciences.
Shareholding: 5 000 shares in Anoto Group.

Jan Uddenfeldt
born 1950
Board Member
Board member since 2002.
Other positions: Chairman of the Board of The Electronic Foundation.
Board Member of the Royal Institute of Technology (KTH).
Shareholding: 1400 shares in Anoto Group.

SENIOR EXECUTIVES

Örjan Johansson, born 1960
CEO
Board member since 2000.
Other positions: Board member of Agellis, IT Öresund, Teknopol, Trivector, Scalado, WeSpot and others.
Shareholding: 165 332 shares and 350 000 employee options in Anoto Group.

Peter Liss, born 1960
CFO
Employed since 2002.
Shareholding: 133 000 call options and 150 000 employee options in Anoto Group.

Anders Tormod, born 1964
COO
Employed since 2000.
Shareholding: 2 333 shares, 45 000 warrants and 150 000 employee options in Anoto Group.

AUDITOR

Deloitte & Touche AB

Per-Arne Pettersson, Auditor in charge
born 1959
Authorised Public Accountant
Auditor of Anoto Group since 2000.

Annual General Meeting

The Annual General Meeting will be held at 4 p.m., Tuesday, May 11, 2004 on the Company's premises at Hus Delta 3, Ideon, Scheelevägen 19C, Lund, Sweden. Shareholders wishing to attend the meeting should notify the Company in one of the following ways: By phone +46 46 540 12 00, fax +46 46 540 11 90, e-mail charlotte.laveson@anoto.com, or by post to Anoto Group, Scheelevägen 19C, SE-223 70 Lund.

Notification should reach the Company no later than Thursday May 6, 2004 at 12 noon. In order to participate shareholders must also be registered in the share register kept by VPC AB, the Swedish Securities Register Center, no later than April 30, 2004. Shareholders who have their shares registered with a nominee must temporarily register these shares with VPC under their own name no later than April 30, 2004.

At the time of notification, please state name, social security number or corporate identification number, address, telephone number and registered number of shares. In case of participation by proxy, details should be sent to the Company prior to the AGM.

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