Interim Report January – September 2003

- Sales increased by 21 % to SEK 151 million (125), of which SEK 52 million (44) is attributable to the third quarter. Gross margin for the period was 46% (36%), of which 45% (49%) in the third quarter. The expanded gross margin is due to increased license and development revenues, to SEK 69 million from SEK 45 million.

- Pre-tax loss before depreciation and amortisation amounted to SEK -131 million (-279), of which SEK -39 million (-75) is attributable to the third quarter.

- Earnings per share amounted to –2,51 (-4,74) of which –1,09 (-1,78) in the third quarter.

- *Anoto* presented cost cutting measures and downsizing of Anoto Group and Anoto AB. The company has given some fifty employees notice. The staff reduction is brought about by much of the basic development being completed, and the fact that *Anoto* partners are carrying out a larger part of the product development and industrialisation.

- The downsizing will help to gradually lower group costs to approximately SEK 11 million per month. Full effect of the cost-cutting program will be achieved as of the second quarter 2004.

Anoto *Group* (publ) corporate identity number 556532-3929

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

During the third quarter Anoto Group presented cost reductions and staff cuts in Anoto Group and Anoto AB. Some fifty employees have been given notice. The staff reduction is brought about by much of the basic development being completed, and the fact that Anoto partners are now carrying out a larger part of the product development and industrialisation. The downsizing will help to gradually lower group costs to approximately SEK 11 million per month. Full effect of the cost-cutting program will be achieved as of the second quarter 2004. Downsizing charges, estimated at SEK 42 million, will impact primarily the third quarter of 2003.
This will affect cash flow for a considerable time, as the greater part of the SEK 42 million will be paid during the fourth quarter this year and the first quarter next year. In connection with the restructuring it is estimated that certain products will become obsolete, resulting in a SEK 8 million write-down of stock values.

Anoto

Anoto is an increasingly pronounced supplier of technology since its partners as a rule are more active today, both in respect of developing proprietary products and driving the use of digital services enabling *Anoto* functionality.

System Services

Hitachi and *Anoto* started sales of the infrastructure product, the EPLS*, enabling companies to create digital forms management solutions with *Anoto* functionality within their firewalls. Initially, the EPLS is being sold in Japan by Hitachi Ltd and in Europe by *Anoto* Partners. The EPLS is sold together with software for the development of, among other things, digital documents storage. Sales are ongoing and the first contracts are expected in the fourth quarter. *Anoto* will receive future NRE (Non Refundable Engineering) revenues from Hitachi for further development of the EPLS product.

Previously announced customers such as Vodafone, TIM (Telecom Italia Mobile), MilCom, Sysnet, EFD and others continue to develop and offer services primarily to enterprises. Today, many companies have either initiated trial services with *Anoto* functionality, or are already using such services in their daily affairs. As stated before this work is progressing at a slower rate and is generating a lower income than expected.

The unit System services focuses on customised services and products aimed at enterprises. Customers comprise operators, system integrators and software developers, IT consultants and infrastructure companies who in turn provide their enterprise customers with tailor-made solutions enabling Anoto functionality.

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

Consumer Products

Business Unit Consumer Products is showing satisfactory progress, however volumes are slightly lower than expected.

In March 2003 Nokia announced its intention to offer a digital pen enabling *Anoto* functionality, a solution for both mobile and PC applications. Launching of the Nokia Digital Pen has been slightly delayed and is estimated to be commercially available in stores in the fourth quarter.

Also this digital pen will be sold together with digital notepads and paper products provided by *Anoto* partners.

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

Anoto has previously launched collaboration with Logitech. Sales are ongoing since November 2002. At the end of the third quarter *Anoto* partner Logitech launch new software with improved functionality and character recognition. Version 2.0 of the pen software facilitates functions such as editing, searching, organizing, exporting and emailing handwritten notes. The software is compatible with Microsoft OneNote and Microsoft Journal (Tablet PC). It also offers the possibility to convert handwritten notes into standard digital text, using MyScript Notes® software from Vision Objects. At the present time it is sold in the US, Germany, Austria and Sweden. Logitech will be representing the bulk of pen sales during 2003.

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

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

C Technologies

Interest in C Technologies' ASIC chips for snap-on cameras has declined, and measures were taken during the third quarter. C Technologies carried out significant restructuring of the company and is in future focusing merely on technology sales of ASIC chips, C-Pen sales and C-Pen technology.

C Technologies has therefore discontinued its camera division, responsible for the product snap-on cameras for mobile phones, resulting in all employees in this division being given notice. Some 20 employees are concerned. The company will however complete the delivery of all orders and projects undertaken. The technology sales of ASIC chips to meet internal needs within *Anoto* and C Technologies and for integration in products such as mobile phones is consequently not affected.

ASIC chips totalling a value of SEK 23 MSEK were delivered in the third quarter, primarily in respect of camera modules for mobile phones.

C-Pen 600/800 sales continue to be low.

C-Pen 10 and other C-Pen products that are being developed are still generating interest, however volumes so far are not significant.

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

WeSpot

Together with other shareholders in WeSpot, Anoto Group B in Q3 converted a previous bridge loan to shares through a non-cash issue. The bridge loan to WeSpot had conditions stipulating that repayment to the lender should be effectuated in the form of issuance of new shares. Subsequent to this new issue, Anoto Group AB's stake in WeSpot AB will correspond to 33,44%. Anoto Group AB has no further undertaking to subscribe for new shares in WeSpot AB.

Invoicing and results for the first nine months (January-September)

Invoicing for the first nine months amounted to SEK 151 (125) million, of which SEK 102 million (96) is attributable to C Technologies, SEK 49 million (28) to *Anoto* and SEK **-** million (1) to WeSpot.

Of sales in C Technologies, SEK 78 (17) million represented shipments of ASIC chips for camera modules. In addition, C Technologies will receive royalties per unit sold when the camera modules are sold to the end customer.

Development fees pertaining to strategic partnerships represent a major part of sales in *Anoto,* however royalties and licences are now gradually increasing.

The Group's gross margin for the period was 45.5% (35.9%). Concurrently with increasing revenues for *Anoto, Anoto's* comparative part is increasing, and thus the total gross margin for the Group.

Consolidated operating loss for the period was SEK –277 million (-377), comprising items affecting comparability amounting to SEK 86 (44) million.

Sales, administration and research costs amounted to SEK –199 million, compared with SEK –324 million for the corresponding period the previous year. The reduced costs are due to the downsizing carried out in 2002.

Consolidated pre-tax loss for the period was SEK –270 million (-363).

Depreciation of goodwill on consolidation totalled SEK –28,8 million (-28,8), and amortisation and depreciation amounted to SEK –30,2 million (-24,7).

The Group is accounting a profit arising from the deconsolidating of WeSpot AB amounting to SEK 19,2 million, and a write-down of liability of SEK 19 million in connection with a new share issue in the company.

Cash flow (January - September)

Cash flow generated by current operations during the period amounted to SEK –142 million (-309). The progress is largely due to the improvement in the consolidated operating loss before depreciation, and the change in working capital.

Cash flow for the period was SEK – 8 million (- 316). The improvement is due to the above, the new share issue in July amounting to SEK 144,6 and the fact that investments are only 25% compared with the preceding year.

During the period cash flow was charged with net investments totalling SEK 12 million (43).

Investments

Net investments for the period were SEK 12 million (43), pertaining primarily to patent expenditures and limited tangible fixed assets, and to a small part development costs. Investments in 2003 will be considerably reduced compared with 2002.

Invoicing and result for the third quarter (July-September)

Invoicing for the third quarter was SEK 52 (44) million, of which SEK 34 million (31) is attributable to C Technologies and SEK 18 million (13) to *Anoto*.

Sales in C Technologies have again increased compared with the second quarter.

Anoto during the quarter showed a growth in sales compared with the third quarter last year and previous quarters this year. Sales are so far not progressing satisfactorily.

The gross margin was 44.8 % (48.7 %). A larger part of revenues being contributed by C Technologies this quarter has resulted in a decreased gross margin compared with the second quarter 2003. Also in comparison with the third quarter of 2002 the gross margin is slightly lower.

Loss before depreciation and amortisation was – 39 million (- 75), showing continuous improvement. The previously described downsizing has produced results.

Operating loss for the third quarter was – 109 million (- 141).

Sales, administration and research costs have continued to decrease and in the third quarter amounted to SEK – 63 million (- 97). Expenses during this quarter were slightly higher than expected, partly due to some minor provisions.

The quarter contains items affecting comparability totalling SEK 50 million. Anoto Group has accomplished cost reductions by reducing staff, premises, etc and has set aside SEK 42 million. A further lump sum write-down of SEK 8 million comprising a stock of obsolete products for C Technologies has been effectuated.

Pre-tax loss for the quarter was SEK – 128 million (- 138). The result has been charged with a SEK 19 million write-down of liability and shares in a subsidiary pertaining to a new share issue.

The quarter was charged with depreciation of goodwill according to plan amounting to SEK – 9,6 million (- 9,6). It was further charged with amortisation and depreciation totalling SEK – 9,0 million (- 11,6).

Cash flow (July-September)

Cash flow generated by current operations in the third quarter was SEK – 59 million (- 99).

Cash flow over the period January to September was SEK – 84 million (- 80), including the new share issue of SEK 144,6 million, and being charged with net investments amounting to SEK 2 million (4).

Financing and liquidity

At the end of the period consolidated liquid assets amounted to SEK 153 million compared with SEK 69 million at the end of the second quarter 2003.

Parent Company

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

Accounting Principles

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

Share Data

The Anoto Group's share is listed on the O list (Attract 40) at the Stockholm Stock Exchange. On expiration of the reporting period there was a total of 117.869.201 shares, and 9.159.027* outstanding warrants.

Ownership Structure

On September 30, 2003 the Anoto Group had a total of 14,237 shareholders. Foreign shareholders held shares equivalent to about 45%. The table below shows the major shareholders at the same point of time.

Owner	No of shares	% of capital & votes
Ericsson	21.138.065	17,9 %
Capital Group	12.426.000	10,5 %
Logitech	12.000.000	10,2 %
Odin Norden	6.938.399	5,9 %
4:e AP-fonden	4.871.794	4,1 %
Christer Fåhraeus and companies	4.867.720	4,1 %
Skandia Carlson funds	4.209.326	3,6 %
Robur funds	3.907.074	3,3 %
DNB A/C Eirik Naess-Ulseth	2.317.540	2,0 %
Hitachi Maxell	2.300.000	2,0 %
Other	42.893.283	36,4 %
Total	117.869.201	100,0 %

*) 2.517.025 of these are warrants issued in connection with the agreements with holders of stock options in Anoto AB regarding exchange of shares, whereby subscription for new shares based on warrants in Anoto AB entitles the subscriber to 1 new share in the parent company per 7,9383 shares in Anoto AB. Full utilisation of all warrants would provide the Group with SEK164 million. In addition there are 1.688.402 so-called employee warrants in the parent company, of which 55 % only up to now have been offered to employees. Fully utilised the program may provide future subscription payments amounting to SEK 123 million. The salary relinquishment program implemented in the first quarter of this year comprises 1.915.846 warrants, and it is estimated that the remaining warrants authorised by the General Meeting (3.037.754) will not be utilised and consequently do not constitute a potential dilution exposure. Given these conditions, the actual potential dilution exposure at September 30, 2003 will be approx. 4,6 %. (The redemption price for these warrants ranges between SEK 58-136, the subscription period 2003-2005). At the AGM om May 15, 2003 the board of directors was authorised to issue a further 3.500.000 warrants. The dilution is not affected as these warrants replace the warrants programs expiring in 2003.

Significant events after the end of the reporting period

Anoto has initiated collaborations with a new partner Destiny Wireless to launch *Anoto* enabled B2B solutions and services in the UK, Australia and South Africa. Destiny Wireless plc, a provider of wireless communications solutions, is appointed Service Provider and Main Distributor of the *Anoto* product portfolio in the UK, Australian and South African B2B markets. Destiny Wireless will bring solutions to B2B customers and *Anoto* development tools and enabling products to other Anoto partners in these territories. *Anoto* will in the first year receive payment on *Anoto* functionality usage fees, products and consultancy fees totalling a minimum of SEK 6,5 million (EUR 725.000). In exchange for granting the rights for the territories for an initial 3 years, *Anoto* will be offered a five per cent stake in Destiny Wireless.

Sales of the Nokia Digital Pen have been launched in some thirty markets, including Sweden. The Nokia Digital Pen, which is both PC and mobile phone compatible, will be sold together with digital paper enabling *Anoto* functionality. Sales are carried out via Nokia's resellers and the estimated price will be about Euro 250.

Logitech recently started sales of Logitech io Personal Digital Pen in the UK.

Outlook

Anoto

Anoto's unnamed partner the System Product Manufacturer will launch in the fourth quarter. This product is aimed at the enterprise segment.

In the fourth quarter 2003 costs in *Anoto* will be further decreased, cash flow will improve and revenues will increase.

Full effect of the cost-cutting program announced in the third quarter will be achieved as of the second quarter 2004. The downsizing will help to gradually lower group costs to approximately SEK 11 million per month. Downsizing charges, estimated at SEK 42 million, were charged to the third quarter 2003.

The outlook forecasting positive cash flow for the group in the second half of 2004 remains.

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

C Technologies

Sales of C-Pen product C-Pen 10 are expected to remain stable, however at small volumes.

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

Invoicing is expected to decrease in the fourth quarter compared to the third quarter. The closing of C Technologies' camera division will impact revenues and costs as from the fourth quarter 2003.

The Group

Due to the restructuring of the entire Group in the third quarter, the Group's fixed costs are expected to gradually decrease, reaching approx. SEK 11 million per month in the second quarter 2004. On a yearly basis this corresponds to cost savings for the Group amounting to about SEK 100 million.

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

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

For the forth quarter cash flow and operating profit/loss will improve significantly compared to the third quarter.

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

Financing

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

Interim Reports

Year-end 2003	February 10, 2004

Lund, November 11, 2003

Örjan Johansson
President

Income statement in summary — *The Group*

(Amounts in SEK 000s)	Quarter 3		Accumulated		Full year
	July - Sept 2003	July - Sept 2002	Jan - Sept 2003	Jan - Sept 2002	Jan - Dec 2002
Net sales	52 412	43 728	151 315	125 403	220 972
Costs of goods sold	(28 936)	(22 448)	(82 520)	(80 408)	(145 889)
Gross profit	**23 476**	**21 280**	**68 795**	**44 995**	**75 083**
Sales, administration & research costs	(62 824)	(96 539)	(199 301)	(323 998)	(384 334)
Profit before depreciation	**(39 348)**	**(75 259)**	**(130 506)**	**(279 003)**	**(309 251)**
Depreciation of intangible assets	(14 680)	(13 215)	(46 139)	(36 592)	(55 209)
Depreciation of tangible fixed assets	(3 872)	(7 983)	(12 899)	(16 917)	(21 305)
Items affecting comparability [1, 2]	(49 950)	(44 400)	(86 350)	(44 400)	(44 400)
Result from participation in associated companies [3, 5]	(1 296)	-	(1 296)	-	(74)
Operating profit/loss	**(109 146)**	**(140 857)**	**(277 190)**	**(376 912)**	**(430 239)**
Result from participation in group companies [4]	-	-	19 230	-	-
Result from participation in associated companies [5]	(8 876)	-	(8 876)	-	-
Other financial items	(9 649)	280	(9 067)	3 862	4 554
Minority share	-	3 062	5 489	9 838	13 116
Profit/loss before taxes	**(127 671)**	**(137 515)**	**(270 414)**	**(363 212)**	**(412 569)**
Taxes	(122)	(116)	(311)	(234)	(278)
Profit/loss after taxes	**(127 793)**	**(137 631)**	**(270 725)**	**(363 446)**	**(412 847)**

Key ratios:

Gross margin	44,8%	48,7%	45,5%	35,9%	34,0%
Operating margin	Neg	Neg	Neg	Neg	Neg
Earnings per share(SEK) [6]	(1,09)	(1,78)	(2,51)	(4,74)	(5,08)
Earnings per share after dilution (SEK) [6]	(1,09)	(1,78)	(2,51)	(4,74)	(5,08)

Balance Sheet in summary

(Amounts in SEK 000s)		*The Group*	
	Sep 30, 2003	Dec 31, 2002	Sep 30, 2002
Goodwill	308 208	336 810	346 344
Other fixed assets	111 802	151 524	126 129
Minority share	-	7 264	-
Other current assets	69 911	117 064	107 248
Cash and bank balances, incl. current investments	153 375	171 150	52 359
Total assets	643 296	783 812	632 080
Shareholders' equity	490 622	612 889	467 415
Interest-bearing liabilities	97	5 093	5 845
Other liabilities	152 577	165 830	158 820
Total shareholders' equity and liabilities	643 296	783 812	632 080

Changes in equity		*The Group*	
	Jan 1, 2003- Sep 30, 2003	**Jan 1, 2002- Sep 30, 2002**	**Jan 1,2002- Dec 31, 2002**
Opening balance	**612 889**	**798 963**	**798 963**
New share issues	144 660	24 950	232 088
Issue expenses	-	(1 639)	(11 177)
Subordinated debentures with detachable warrants	-	7 998	8 117
Write-down of receivables from minority share in Wespot AB	-	-	(3 284)
Reversed write-down of receivables from minority in WeSpot AB	3 284	-	-
Translation difference	514	589	1 029
Loss for the year	(270 725)	(363 446)	(412 847)
Closing balance	**490 622**	**467 415**	**612 889**

Cash flow analysis *The Group*

(Amounts in SEK 000s)	Quarter 3 July - Sept 2003	Quarter 3 July - Sept 2002	Accumulated Jan - Sept 2003	Accumulated Jan - Sept 2002	Full year Jan - Dec 2002
Operating profit/loss before depreciation	(39 348)	(75 259)	(130 506)	(279 003)	(309 251)
Adjustment items not included in cash flow:					
WeSpot AB's profit/loss reversed [7]	-	-	11 068	-	-
Change in warranty provision	(2 315)	(60)	(15 497)	82	(924)
Taxes paid	(122)	(116)	(311)	(234)	(278)
Cash flow from operations before change in working capital	**(41 785)**	**(75 435)**	**(135 246)**	**(279 155)**	**(310 453)**
Change in working capital	(17 164)	(24 061)	(7 683)	(29 463)	(34 214)
Cash flow from operations	**(58 949)**	**(99 496)**	**(142 929)**	**(308 618)**	**(344 667)**
Net investments	(1 761)	(3 761)	(12 334)	(43 103)	(82 580)
Total cash flow before financing	**(60 710)**	**(103 257)**	**(155 263)**	**(351 721)**	**(427 247)**
Financing:					
New share issues	144 660	23 311	144 660	23 311	220 911
Change in long-term liabilities	2	-	74	-	(5 064)
Other financial items	1 263	280	2 586	3 862	4 554
Other items	(407)	(527)	336	8 594	9 683
Cash flow for the year	**84 808**	**(80 193)**	**(7 607)**	**(315 954)**	**(197 163)**
Liquid assets at the beginning of the period *	68 567	132 552	171 150	368 313	368 313
Liquid assets in WeSpot AB at the beginning of the period	-	-	(10 168)	-	-
Liquid assets at the end of the period *	**153 375**	**52 359**	**153 375**	**52 359**	**171 150**

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

Key ratios *The Group*

	July - Sept 2003	July - Sept 2002	Jan - Sept 2003	Jan - Sept 2002	Jan - Dec 2002
Cash flow for the year (SEK 000s)	84 808	(80 193)	(7 607)	(315 954)	(197 163)
Cash flow / share (SEK) [6]	0,73	(1,04)	(0,07)	(4,12)	(2,43)
Cash flow / share (SEK) after dilution [6]	0,67	(1,04)	(0,07)	(4,12)	(2,43)

	Sep 30, 2003	Dec 31, 2002	Sep 30, 2002
Equity/assets ratio	76,3%	78,2%	73,9%
Number of shares [8]	127 028 228	115 546 842	89 286 840
Equity per share (SEK) [8]	3,86	5,30	5,23

Notes (SEK 000s)

1. In Q2 2003, there were write-downs recorded as items affecting comparability. Total write-downs amount to SEK 36 400 thousand distributed as follows: Anoto AB; stock write-down SEK 8 200 thousand, C Technologies AB; stock write-down SEK 9 759 thousand, write-down of intangible fixed assets SEK 14 794 thousand, write-down of tangible fixed assets SEK 3 647 thousand. In Q3 3 2003 write-downs and restructuring work have been carried out, recorded as items affecting comparability. The reason for this item is the reduction of personnel announced in September. The item amounts to SEK 49 950 thousand distributed as follows: Anoto AB; personnel expenses SEK 21 158 thousand, rental charges SEK 7 632 thousand, other SEK 7 039 thousand. Anoto Group AB; personnel expenses SEK 1 815 thousand. C Technologies AB; personnel expenses SEK 4 306 thousand, stock write-down SEK 8 000 thousand.

2. The item "Items affecting comparability", not applied in the reports submitted for Q3 and Q 4 2002, was not adopted until the annual report 2002. Figures for the comparative periods have thus been recalculated in this report.

3. In 2002 Anoto AB acquired 45% of the shares in Anoto Communications Ltd, Japan.

4. In connection with a directed new share issue on May 31, 2003 in WeSpot AB, Anoto Group AB reduced its participating interest to 31,31%, and effective as from June 1, 2003 WeSpot AB is thus handled as an associated company. The directed new share issue and deconsolidation of WeSpot AB have resulted in a positive outcome amounting to SEK 19.230 thousand for Anoto Group AB. At the time when WeSpot AB changed to an associated company, the recoded value for WeSpot AB was 0.

5. Effective September 30, 2003 a new share issue in WeSpot AB was implemented, in which Anoto Group participated by converting a promissory note held by WeSpot AB to shares. In addition to Anoto Group AB a number of other owners participated. Subsequent to this issue, Anoto Group AB's participating interest is 33,44%.

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

7. During the period January-September 2003 WeSpot AB is included as subsidiary up to and including May 31, 2003, i.e. the time when the participation in WeSpot AB changed from subsidiary (54,73%) to associated company (31,31%). WeSpot AB's result during the period January-May 2003 is reversed since WeSpot is not included in the balance sheet at the end of the period, thus not affecting liquid assets.

8. Including outstanding warrants (Sep 30, 03: 9 159 027; Dec 31, 02: 11 977 641; Sep 30, 02: 11 609 939).