



Interim Report January – March 2004

- Total sales decreased by 42 per cent to SEK 44 million (76). Sales in Business Unit Anoto increased by 88 per cent to SEK 30 million (16).
- The Group's gross margin for the period was 82 per cent (37) SEK 36 million (28). The improved gross margin percentage is attributable to increased license revenues in Business Unit Anoto.
- Pre-tax loss before depreciation and amortisation was SEK –6 million (-38).
- Loss after taxes amounted to SEK –23 million (-54).
- Earnings per share amounted to SEK –0,19 (-0,52).
- Cash flow before financing was SEK –19 million (-46).

Q1 2004

- In the first quarter Anoto received an order valued at approx. SEK 130 million by an unnamed new partner. The order consists of advance on royalty and technology and licensing fees. The name of the new partner and information on the application area will be announced later this year.
- Anoto, Dai Nippon Printing, Maxell and WAO launched an education system enabling Anoto functionality used in the educational system in Japan. It is the first commercial system implemented in Japan.
- Anoto concluded a collaboration agreement with Standard Register, leading provider of information, document management and service solutions. The initial SEK 4 million order involves licensing rights and advance on royalty.
- Anoto signed an alliance with Usyston, a China-based enterprise planning to offer digital pens and services enabling Anoto functionality for the China market.



Anoto Group (publ) corporate identity number 556532-3929
Scheelevägen 19 C
SE - 223 70 Lund, Sweden
Telephone: +46 46 540 12 00
www.anotogroup.com

Anoto Group AB is a Swedish high tech company with unique solutions for transmission of handwritten text from paper to digital media and scanning of printed text. All products and services are based on digital camera technology and image processing in real time.

During autumn 2003 Anoto Group underwent structural changes in order to increase efficiency in the Company's business areas. Part of this work was to transfer all C Technologies' operations to Anoto AB, that in 2004 form a separate business unit within Anoto AB.

Business Unit Anoto

Anoto is becoming an increasingly pronounced supplier of technology due to its partners having a more active role in the development of proprietary products and services enabling Anoto functionality.

System Services

Anoto has established co-operation with Standard Register, and has received an initial SEK 4 million order concerning licensing rights and advance on royalty. Standard Register, with headquarters in the US, is a leading provider of document and information management products and services, and forms solutions. Standard Register has announced a product family called ExpeData based on Anoto technology. Since launching Exepdata Standard Register has announced co-operation with Siebel, leading global provider of CRM systems.

Dai Nippon Printing, Hitachi-Maxell and Wao Corporation introduced the first in a succession of commercial services planned in Japan. The introductory application is utilised in education and will be marketed by Wao's sales organisation consisting of 120 sales offices throughout Japan. Commercial implementation at end-users has begun. WAO is a leading Japan-based company providing products and services in the field of education. Dai Nippon Printing, with 35,000 employees, is one of the world's largest comprehensive printing companies, which also offers solutions for document, forms and information management.

Anoto signed a strategic alliance with Usyston, a China-based company that will be offering products and services enabling Anoto functionality. This collaboration is an important step for Anoto in establishing Anoto functionality on the China market. The agreement comprises an initial SEK 10 million order, of which the first phase entails licensing rights to manufacture digital pens and systems for Anoto enabled services. When Usyston has launched commercial products and services royalty on digital pens and service revenues will also be generated.

Since November 2003 HP is selling HP Forms Automation System (HP FAS), a system solution allowing forms with Anoto functionality to be printed on laser printers. HP FAS is used to simplify and reduce the cost of forms based business processes, targeting large and medium-sized enterprises. HP FAS is available for testing as well as large-scale implementations.

Hitachi and Anoto continue sales of the infrastructure product EPLS*, enabling companies to create intranet-based digital forms solutions with Anoto functionality. Hitachi offers comprehensive forms management solutions based on EPLS for the Japanese market. The solution has been favourably received and a number of customer projects are ongoing.



Anoto has previously established a network of partners offering products and services enabling Anoto functionality on various geographical markets, two of which are Destiny Wireless (UK) and Digiwrite (Italy). This allows for intensified activities on the respective markets, and the result so far has been good. Furthermore a large number of additional partners are offering products and solutions based on Anoto functionality.

The interest in forms solutions based on Anoto functionality continues and is increasing. The number of commercial users is relatively low but continuously growing. The growth rate is estimated to gradually increase when more customers change from pilot testing to commercial implementation.

Business Stream System Services focuses on customised services and products targeting enterprises, emphasising primarily forms processing. Anoto partners include system integrators, mobile operators, software developers, IT consultants and IT solution providers, who on their part provide their enterprise customers with tailor-made solutions enabling Anoto functionality. According to Anoto's strategy sales and deliveries are to be conducted via these partners.

* EPLS = Enterprise Paper Look-up Service, is a new product developed, marketed and sold by Anoto and Hitachi. The product enables enterprises to develop customised digital pen and paper-based intranet applications and services using digital pens and digital paper.

Consumer Products

Nokia is today selling its digital pen enabling Anoto functionality, Nokia SU-1B, on a vast number of markets via its retailers. The Nokia Digital Pen is compatible with both mobile applications and PC, with the main focus on personal applications such as notes and mobile messaging services. However, there is also a keen interest in the Nokia Digital Pen for mobile enterprise applications.

Hitachi Maxell is the fourth Anoto partner to offer an Anoto enabled digital pen compatible with PC and mobile phones. Hitachi Maxell's pen targets primarily enterprise solutions.

Sales of the Logitech io Digital Pen has been underway since November 2002. The Logitech io has gradually become available on several markets and Logitech has launched the second generation of its applications software for Logitech io comprising, among others, a function allowing handwritten text to be converted to digital text. Sales volumes are increasing but remain relatively low. Also Logitech has widened its offer to include digital pens for enterprise and forms solutions.

Business Stream Consumer Products focuses on development and sales of products enabling people to improve their daily efficiency and communication. These products are offered through partners and target end users, comprising digital pens and applications for PC and mobile phones. The products and solutions also serve as building stones for services and customised solutions offered by the Company's other business unit.



Anoto Technology

Anoto is witnessing increased interest in utilising its core technology in entirely new applications areas previously not addressed by the Company.

In the first quarter Anoto received an order valued at about SEK 130 million from a new partner intending to utilise Anoto technology in such a novel application area. The order is composed of advance on royalty and license fees. Anoto estimates that the initial order will extend over three years and deliveries will be made continuously. Generated cash flow will be distributed over two years, about SEK 45 million in 2004 and about SEK 85 million in 2005. The name of the new partner and more detailed information on the application area will be unveiled later this year.

Further projects comprising Anoto's core technology based on camera know-how are underway. Sales of Anoto's core technology is carried out in the form of components and function blocks integrated in the customers' own solutions. We hope to be able to supply more information on these projects later in the year.

Business Stream Anoto Technology develops and sells Anoto's core technology. It also includes development and sales of Anoto core technology in entirely new application areas to customers.

C Technologies

C Technologies is now focusing its operations purely on sales of C-Pen and C-Pen technology, and sales of camera modules for mobile phones. In the first quarter camera modules valued at about SEK 7 million were delivered.

The production of C-Pen 600/800 was terminated the previous year and the present stock is now being sold. Sales are low but stable.

Sales of C-Pen 10 and other C-Pen products continue, volumes remain stable but relatively low.

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

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

Invoicing for the first quarter amounted to SEK 44 million (76), of which SEK 30 million (16) is attributable to Anoto and SEK 14 million (60) to C Technologies.

In the first quarter Anoto increased sales by 88 per cent in comparison with the first quarter the previous year. A large part of sales in Anoto are still related to product development for external partners. However revenues generated by royalties and licenses are gradually increasing, starting to have considerable impact on sales and gross margin.

As a result of reduced camera module sales, sales in C Technologies decreased substantially, of which SEK 7 million (9) is attributable to C-Pen and SEK 7 million (51) to camera modules. When sold to end-users the camera modules also generate royalty per unit sold.

The Group's gross margin for the period was 82 per cent (37) SEK 36 million (28). Considerable Anoto related sales account for the considerably improved gross margin.

Consolidated operating loss for the period was SEK -23 million (-57).

Sales, administration and research expenses amounted to SEK -42 million (-66). The improvement is a result of the downsizing and cost cutting measures implemented in 2003.

Consolidated pre-tax loss for the period was SEK -23 million (-54).



The Group was charged with depreciation of goodwill amounting to SEK -9,6 million (-9,6), and amortisation and depreciation totalling SEK -7,4 million (-10,0).

Cash flow (January-March)

Cash flow from current operations for the period amounted to SEK -17 million (-39). The improvement is entirely attributable to the improved operating loss before depreciation. Disbursements were made relating to provisions previously made, which impacted the result negatively by SEK -12 million (-5).

Cash flow before financing was SEK -19 million (-46).

This year's cash flow for the period totalled SEK -18 million (-46). The improvement is according to the above, and to the fact that net investments are only 18 per cent compared with the previous year.

Cash flow for the period was charged with SEK 1 million (7).

Investments

Net investments for the period amounted to SEK 1 million (7), pertaining primarily to patent expenses and limited tangible fixed assets.

Financing and liquidity

Consolidates liquid assets at the end of the period amounted to SEK 98 million (125).

Parent Company

The parent company is a pure holding company comprising a limited number of corporate functions and staff.

Accounting Principles

The Company follows the general guidelines, statements and recommendations issued by the Swedish Financial Accounting Standards Council and the Swedish Institute of Authorised Public Accountants. The Company has during the period applied the same accounting principles as in the Annual Report 2003.

Share Data

The Anoto Group share is listed on the O list (Attract 40) at the Stockholm Stock Exchange. On expiration of the reporting period the total number of shares was 117,869,201, and in addition 7,748,415 outstanding warrants, of which 4,655,000 are estimated to be of value on March 31, 2004.

Ownership Structure

The total number of shareholders in Anoto Group at the end of the reporting period was 13 364. Foreign shareholders owned 43 per cent of the shares. Institutional and industrial owners controlled 87 per cent of the shares. Major shareholders at the reporting period were Ericsson, Capital Group funds, Logitech, Robur funds, Fjärde AP-fonden and Odin Norden, together controlling 54 per cent of the shares in Anoto Group.



Option program

Within the framework of an incentive program the Parent Company has issued options. Current options programs are listed below.

Options program	No. of options	Right to subscribe for no. of shares per option	Providing number of shares	Subscription price SEK	Subscription period up to and incl.	Fully subscribed the program could provide MSEK	
Employee option program 2001	1 639 225	1,03	1 688 402	72,70	2005-12-15	123	1)
Salary relinquishment program 2002/ warrants	1 454 190	1,032	1 500 724	56,20 - 131,80	2005-01-31	100	2)
Employee option program 2003	4 655 000	1	4 655 000	11,45-13,09	2006-05-31	57	3)
Total number	7 748 415		7 844 126				

1) Only 14% offered to employees.

2) The extraordinary general meeting of January 16, 2002 resolved to authorise the Board to issue warrants to be used in an offering to employees to acquire these warrants on market conditions in return for a voluntary reduction in pay over a maximum of 18 months. The offering comprises several programs extending over two and three years respectively, at the subscription prices stated above. Options extending over two years have expired.

3) The Annual General Meeting of May 15, 2003 authorised the Board to issue 4.655.000 options, so-called employee options. 3.500.000 were allocated to employees in quarter 4 2003 and 1.155.000 options were allocated to the Company to hedge social costs.

Full utilisation of all options will result in a total deferred dilution of about 6,7per cent on March 31, 2004.

Significant events after the end of the reporting period

Anoto has appointed leading system integrator Pink Roccade, www.pinkroccade.nl as the main distributor of its functionality in the Netherlands. PinkRoccade is a well-established company with 8,000 employees and strong local presence. As partner Anoto will gain access to a powerful distribution channel and PinkRoccade's extensive partner network and customer base. PinkRoccade will primarily be selling standardised and customised forms solutions.

Standard Register announced co-operation with Siebel, leading global provider of CRM systems. As part of this alliance, Standard Register is providing its ExpeData(TM) digital pen and paper technology to function as a front-end data capture tool for Siebel CRM solutions.



Outlook

Business Unit Anoto

In 2004 revenues in Anoto will continue to climb. The three new orders announced in the first quarter will yield revenues.

Present and potential industrial partners continue to demonstrate strong interest.

Business Unit C Technologies

Sales of C Technologies' products are expected to remain stable but low.

C Technologies is expected to achieve positive result and cash flow for the full year of 2004.

The Group

The Group's fixed costs are expected to gradually decrease, however the estimated target of SEK 11 million per month as from the second quarter will not be fully achieved. The Group's fixed costs are expected to gradually decrease, however the goal of about SEK 11 million per month in the second quarter of 2004 will not be reached. Estimated costs of SEK 12 million per month will be achieved around the turn of the year. The increase is due to expenses in connection with new business ventures.

Sales in Anoto will increase for the full year whereas sales in C Technologies are expected to decrease compared with 2003.

The gross margin is expected to significantly improve in comparison with the prior year, both in respect of percentage and absolute terms since license and royalty revenues are increasing.

Anoto Group's aim of achieving positive cash flow at some point during the second half of 2004 remains.

Interim Reports

Semi-annual report	August 18, 2004
Q3 Report	November 3, 2004
Year-end Report 2004	February 10, 2005

Lund, May 11, 2004

Örjan Johansson
CEO



Income statement in summary

The Group

(Amounts in SEK 000)

	Quarter 1		Full year
	Jan - Mar	Jan - Mar	Jan - Dec
	2004	2003	2003
Net sales	44 276	75 891	192 368
Costs of goods sold	(8 112)	(47 648)	(101 487)
Gross profit	36 164	28 243	90 881
Sales, administration and research costs	(42 433)	(66 100)	(242 924)
Profit before depreciation	(6 269)	(37 857)	(152 043)
Depreciation of intangible assets	(14 403)	(15 660)	(60 878)
Depreciation of tangible fixed assets	(2 576)	(3 938)	(13 826)
Items affecting comparability	-	-	(95 118)
Result from share in associated companies	-	-	(1 321)
Operating profit/loss	(23 248)	(57 455)	(323 186)
Result from share in group companies	-	-	25 121
Result from share in associated companies	-	-	(8 876)
Other financial items	636	347	(8 407)
Minority share	-	3 041	5 489
Profit/loss before taxes	(22 612)	(54 067)	(309 859)
Taxes	(1)	(71)	(360)
Profit/loss after taxes	(22 613)	(54 138)	(310 219)
Key ratios:			
Gross margin	81,7%	37,2%	47,2%
Operating margin	Neg	Neg	Neg
Earnings per share (SEK) ¹	(0,19)	(0,52)	(2,81)
Earnings per share after dilution (SEK) ¹	(0,19)	(0,52)	(2,81)



Balance Sheet in summary³

(Amounts in SEK 000)

	The Group		
	<u>March 31, 2004</u>	<u>March 31, 2003</u>	<u>Dec 31, 2003</u>
Intangible fixed assets	366 190	446 574	380 041
Tangible fixed assets	9 480	27 649	11 298
Financial assets	5 417	1 668	4 924
Minority share	-	7 264	-
Other current assets	43 739	105 291	56 224
Cash and bank balances incl. current investments	<u>97 735</u>	<u>125 342</u>	<u>116 033</u>
Total assets	<u>522 561</u>	<u>713 789</u>	<u>568 520</u>
Shareholders' equity	428 531	555 937	451 248
Provisions	42 272	32 882	54 550
Interest-bearing liabilities	49	5 094	97
Other liabilities	<u>51 709</u>	<u>119 876</u>	<u>62 625</u>
Total shareholders' equity and liabilities	<u>522 561</u>	<u>713 789</u>	<u>568 520</u>

Changes in equity

	The Group		
	Jan 1, 2004- Mar 31, 2004	Jan 1, 2003- Mar 31, 2003	Jan 1, 2003- Dec 31, 2003
Opening balance	451 248	612 889	612 889
New share issue	-	-	144 660
Subordinated debentures with detachable warrants	-	50	-
Write-down of receiv. from min. share in WeSpot AB	-	(3 041)	-
Reversed write-down of receivables from minority share in WeSpot AB	-	-	3 284
Translation differences	(104)	177	634
Loss for the year	<u>(22 613)</u>	<u>(54 138)</u>	<u>(310 219)</u>
Closing balance	428 531	555 937	451 248



Cash flow analysis

The Group

(Amounts in SEK 000)	Jan - Mar	Jan - Mar	Jan - Dec
	2004	2003	2003
Operating profit/loss before depreciation	(6 269)	(37 857)	(152 043)
Adjustment for items not included in cash flow:			
WeSpot AB's profit/loss reversed	-	-	11 068
Change in warranty provision	(12 278)	(5 295)	2 696
Taxes paid	(1)	(71)	(360)
Cash flow from operations before change in working capital	(18 548)	(43 223)	(138 639)
Change in working capital	1 161	3 998	(47 591)
Cash flow from operations	(17 387)	(39 225)	(186 230)
Net investments	(1 310)	(7 208)	(6 814)
Total cash flow before financing	(18 697)	(46 433)	(193 044)
Financing:			
New share issues	-	-	144 660
Change in long-term liabilities	(48)	-	74
Other financial items	636	348	3 246
Other items	(189)	277	115
Cash flow for the year	(18 298)	(45 808)	(44 949)
Liquid assets at the beginning of the period *	116 033	171 150	171 150
Liquid assets in WeSpot AB at the beg. of the period	-	-	(10 168)
Liquid assets at the end of the period *	97 735	125 342	116 033

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

Key ratios

The Group

	Jan - Mar	Jan - Mar	Jan - Dec
	2004	2003	2003
Cash flow for the year (SEK 000)	(18 298)	(45 808)	(44 949)
Cash flow / share (SEK) ¹	(0,16)	(0,44)	(0,41)
Cash flow / share (SEK) after dilution ¹	(0,16)	(0,44)	(0,41)
	<u>March 31, 2004</u>	<u>March 31, 2003</u>	<u>Dec 31, 2003</u>
Equity/assets ratio	82,0%	77,9%	79,4%
Number of shares ²	122 524 201	103 569 201	122 524 201
Equity per share (SEK) ²	3,50	5,37	3,68



1. Key ratios pertaining to Earnings per share and Cash flow per share are based on the weighted average number of shares and outstanding warrants for the respective period. Only warrants estimated to have a value are included in the calculation.
2. Incl. outstanding warrants (Mar 31, 04: 4 655 000; Mar 31, 03: 0; Dec 31, 03: 4 655 000).
The value for Mar 31, 03 has been recalculated in compliance with the applicable accounting principle, implying that only warrants estimated to have a value are included in the calculation.
3. Intangible assets, tangible assets, financial assets and provisions are accounted for individually for the first time in the report for the first quarter 2004. Previous periods have been changed accordingly. Earlier classifications that included these new classifications have been removed.