



Year-end Report January – December 2003

- Anoto Group reported decreased sales by 13 per cent to SEK 192M (221), of which SEK 41M (96) in the fourth quarter. The decreased sales are attributable to C Technologies. Sales in Anoto rose by 59 per cent, of which 24 per cent in the fourth quarter.
- The Group's gross margin for the period was 47 per cent (34), of which 54 per cent (32) in the fourth quarter. The increase in gross margin percentage is due to additional licensing, development and royalty revenues. Full-year gross margin increased from SEK 75M to SEK 91M, or 21 per cent, of which Anoto's gross margin in absolute terms increased by 64 per cent.
- Pre-tax loss before depreciation and amortisation was SEK -152M (-309), of which SEK -22M (-30) in the fourth quarter.
- Loss after taxes amounted to SEK -310M (-413), of which SEK -39M (-49) in the fourth quarter.
- Earnings per share amounted to -2,81 (-5,08), of which -0,34 (-0,52) in the fourth quarter.
- Cash flow before financing in the period was SEK -193M (-427), of which SEK -38M (-81) in the fourth quarter.

Fourth quarter 2003:

- HP launched HP Forms Automation System (HP FAS), a system solution enabling laser printouts of forms with Anoto functionality. HP FAS is used to simplify and reduce the cost of forms based business processes. Target groups are medium and large enterprises. Initially HP FAS is available in the United States, Canada and Western Europe.
- Nokia started sales of the Nokia Digital Pen on some thirty markets, one of them Sweden. Sales are carried out via Nokia's resellers. Nokia Digital Pen may be used with Nokia mobile phones and PCs.



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

Anoto Group during the autumn 2003 underwent structural changes in order to run a more efficient operation in the Company's business areas. Transferring all of C Technologies' operations to Anoto AB formed a part of this work, and a separate business unit in Anoto AB was formed. All operations within the Anoto Group are now conducted in the same legal entity, Anoto AB. By this we expect to be able to achieve additional cost reductions without further staff cuts.

C Technologies AB, which no longer conducts business, was sold to an interested party outside the Anoto Group on December 30, 2003. The purchase sum for C Technologies AB, which amounted to SEK 6M, was paid in cash in Q4.

WeSpot AB in Q4 implemented another new share issue in which Anoto Group AB did not participate. Anoto Group AB's participating interest has thus decreased to 18.45 per cent as at December 31, 2003. WeSpot AB is therefore no longer an associated company of the Anoto Group.

Anoto

Anoto is an increasingly pronounced supplier of technology since its partners generally have a more active role regarding the development of proprietary products and services enabling Anoto functionality.

System Services

HP introduced 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, and targets medium and large enterprises. Initially HP FAS is available in the US, Canada and Western Europe.

Anoto initiated collaboration with Destiny Wireless, a company marketing enterprise solutions and services with Anoto functionality in the UK among others. Destiny Wireless plc was appointed service provider and main distributor of Anoto enabled enterprise solutions in the UK.

Anoto also launched the second generation of its development tool, the ADK (Anoto Development Kit), which is used to develop various types of applications and services enabling Anoto functionality. ADK 2.0 comprises the Graphical Design Kit 2.0 for design of digital paper, the Software Development Kit 2.0 for network-based services and the Software Development Kit 2.0 for PC applications. ADK sales are conducted primarily through distribution partners.

Hitachi and Anoto pursued sales of the infrastructure product EPLS*, which enables enterprises to design Anoto enabled intranet based digital forms solutions. The EPLS is sold in Japan through Hitachi Ltd and in Europe through Anoto partners. A number of pilot installations have been set up, and tests performed by both HP and Hitachi in the fourth quarter. Anoto receives NRE (non refundable engineering) revenues from Hitachi for further development of the EPLS product.



Partners such as Vodafone, DW, Medimedia, Fruit, Digiwrite, TIM (Telecom Italia Mobile), Sysnet and others continue to develop and offer services primarily to enterprises. Today there is quite a number of companies having either initiated digital services trials based on Anoto functionality or already operating commercial services. As previously stated this market segment is progressing slower than planned. However the number of companies and users utilising Anoto enabled services are continuously increasing.

Business Unit System Services focuses on customised services and products and targets enterprises. Customers include operators, system integrators, software developers, IT consultants and infrastructure companies, who on their part provide their enterprise customers with tailor-made solutions enabling Anoto functionality. A greater part of sales are now conducted through 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 Internet applications and services.

Consumer Products

Business Unit Consumer Products reported continued positive growth, however at a somewhat slower rate than expected.

In the fourth quarter Nokia started sales of the Nokia Digital Pen on some thirty markets. The Nokia Digital Pen is compatible with both PC and mobile phones and is sold in a package containing digital paper enabling Anoto functionality. Sales are conducted through Nokia's retailers.

Hitachi Maxell is the fourth Anoto partner to offer an Anoto enabled digital pen. Maxell's digital pen was available primarily to enterprise customers in the fourth quarter of 2003.

Anoto's collaboration with Logitech has been announced earlier and sales have taken place since November 2002. In the fourth quarter sales of Logitech io began on the UK market. Logitech launched the second generation of its PC software for Logitech io. This generation has significantly enhanced functionality and comprises character recognition software enabling handwritten notes to be converted to digital text.

Business Area Consumer Products focuses on development and sales of products enabling people to improve their daily efficiency and communication. These products, which are offered through partners and target end users, comprise 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.

C Technologies

The number of new development projects for ASIC chips used in snap on cameras for mobile phones have gradually decreased during the year, and a considerable staff reduction was initiated in the third quarter. C Technologies is now focusing purely on technology sales of ASIC chips and sales of C-Pen and C-Pen technology.

In 2003 ASIC chips valued at SEK 85M were delivered, intended primarily for camera modules for mobile phones.

The low level C-Pen 600/800 sales continue, but remain stable.

C-Pen 10 and other novel C-Pen products being developed are still generating interest, but volumes are not significant.



Business Unit 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.

WeSpot

In the fourth quarter WeSpot AB implemented another new share issue in which the Anoto Group did not participate. Anoto Group AB's participating interest has thus decreased to 18,45 per cent as at December 31, 2003. WeSpot AB is therefore no longer an associated company of the Anoto Group.

Invoicing and result for the full year (January-December)

Invoicing for the full year amounted to SEK 192M (221), of which SEK 119M (173) is attributable to sales in C Technologies, SEK 73M (46) to Anoto and SEK 0M (2) to WeSpot.

In C Technologies SEK 85M (75) represents sales of ASIC chips for camera modules. When sold to end customers each camera module will also generate royalty income.

Income from product development for external partners still account for a major part of the sales in Anoto. However royalty and licensing income is gradually increasing, having a considerable impact on sales.

The Group's gross margin was 47,2 per cent (34,0). As revenues for Anoto increase, Anoto's comparative part increases and thus the Group's gross margin. In absolute terms, Anoto's gross margin increased by 64 per cent.

Consolidated operating loss for the period was SEK -323M (-430) including items affecting comparability amounting to SEK -95M (-44).

Sales, administration and research costs amounted to SEK -243M (-384). The improvement is a result of the cost cutting measures effectuated late 2002 and in 2003.

Consolidated pre-tax loss for the period was SEK -310M (-413).

Depreciation of goodwill on consolidation amounted to SEK -38M (-38) and amortisation and depreciation totalled SEK -36M (-38).

The Group is accounting a profit arising from the deconsolidation of WeSpot and the selling of C Technologies AB totalling SEK 25,1M, and a write-down of liability and shares in subsidiaries in connection with a new share issue in the company amounting to SEK 19M.

Cash flow (January-December)

Cash flow from current operations during the period amounted to SEK -186M (-345). The favourable development reflects the improvement in operating loss before depreciation.

Cash flow before financing amounted to SEK -193M (-427) for the period.

Cash flow for the year was SEK -45M (-197). The improvement is due to the above-mentioned, the new share issue in July raising SEK 144,6M and that net investments were only 8 per cent compared with the previous year.

Cash flow for the period was charged with SEK 7M (83) for net investments.



Investments

Net investments in the period totalled SEK 7M (83) and referred primarily to patent expenditures and limited tangible fixed assets, and to a lesser part development costs. Sale of the shares in C Technologies represented a positive impact of SEK 6M.

Invoicing and results for the fourth quarter (October-December)

Invoicing in the fourth quarter totalled SEK 41M (96), of which SEK 16M (75) is attributable to C Technologies and SEK 25M (20) to Anoto.

Sales in C Technologies decreased significantly due to a reduction in orders for ASIC chips for digital cameras. During the quarter sales in Anoto increased by 24 per cent compared with the fourth quarter the previous year. Sales in Anoto during the year increased every quarter, but the pace is still not satisfactory.

The gross margin was 53,8 per cent (31,5).

Loss before depreciation and amortisation was SEK -22M (-30), reflecting a continuous improvement. The previously described downsizing has produced the desired result.

Operating loss for the fourth quarter was SEK -46M (-53).

Sales, administration and research costs continued to decrease, amounting in the fourth quarter to SEK -44M (-60).

The quarter contains items affecting comparability totalling SEK 9M (-). In connection with the transfer of the assets and liabilities of C Technologies AB to Anoto AB, the Company recorded a write-down of intellectual property and stock.

Pre-tax loss for the quarter was SEK -39M (-49).

The quarter was charged with depreciation of goodwill according to plan totalling SEK -9,6M (-9,6). The quarter was further charged with amortisation and depreciation of SEK -6,1M (-13,4).

Cash flow (October-December)

Cash flow from current operations in the fourth quarter amounted to SEK -43M (-41).

Cash flow before financing in the fourth quarter was SEK -38M (-81).

Cash flow for the fourth quarter was SEK -37M (119).

Financing and liquidity

Consolidated liquid assets at the end of the period amounted to SEK 116M (171).

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. The Company has during the period in other respects applied the same accounting principles as 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 the total number of shares was 117.869.201, and 8.768.843* outstanding warrants.

Ownership Structure

The total number of shareholders in Anoto Group at the end of the reporting period was 13 568. Foreign shareholders owned approximately 45 per cent of the shares. Major shareholders at the same time are listed below.

<u>Owner</u>	<u>No. of shares</u>	<u>% of capital & votes</u>
Ericsson	21.138.065	17,9 %
Capital Group	13.426.000	11,4 %
Logitech	12.000.000	10,2 %
Robur fonder	6.173.762	5,2 %
Odin Norden	6.098.399	5,2 %
Skandia Carlson funds	5.081.592	4,3 %
4:e AP-fonden	4.871.794	4,1 %
Christer Fähræus and companies	3.867.720	3,3 %
DNB A/C Eirik Naess-Ulseth	3.172.273	2,7 %
Hitachi Maxell	2.300.000	2,0 %
Other	39.739.596	33,7 %
Total	117.869.201	100,0 %

*) 509.595 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. Subscription period up to and including March 31, 2004, subscription price SEK 65,09. Full utilisation of all warrants would provide the Group with SEK 43M. In addition there are 1.688.402 so-called employee options in the parent company, of which only 19 % are being offered to employees. Subscription period up to and including December 15, 2005, subscription price SEK 72,70. Fully utilised this program may provide future subscription payments amounting to SEK 123M. The salary relinquishment program implemented in the first quarter of 2002 utilised 1.915.846 warrants, and the remaining warrants authorised by the General Meeting (3.037.754) were not utilised and will thus not constitute a potential dilution exposure. The subscription price for these ranges between SEK 44 - 92 for the subscription period up to and including January 31, 2004 and SEK 56 - 132 for the subscription period up to and including January 31, 2005. At the AGM on May 15, 2003 the board of directors were authorised to issue a further 4.655.000 warrants, so-called employee options, of which 3.500.000 were allocated to employees in Q4 2003. Subscription period up to and including May 31, 2006, subscription price SEK 11,45 - 13,09. Fully utilised this program may provide SEK 57M. Given these prerequisites, the actual potential dilution exposure on December 31, 2003 was approx. 6,3 %.



Significant events after the end of the reporting period

Anoto received an order valued at about SEK 130M from a new partner operating in a new application area. The order consists of advance on royalty and licensing fees. Anoto estimates this 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 approx. SEK 45M in 2004 and approx. SEK 85M in 2005. The name of the new partner and more detailed information on the third application area will be unveiled later this year.

Anoto established strategic collaboration with USYS, a China-based company intending to offer digital pens and services based on Anoto functionality for the Chinese market. The agreement consisted of an initial order of SEK 10M. The order for the initial phase regards licensing rights to manufacture digital pens enabling Anoto functionality and certain systems for Anoto enabled services. Additional revenues for ongoing development work will be added. When USYS has launched commercial products and services, royalties on digital pens and service revenues will also be generated.

Anoto signed a collaboration agreement with Standard Register and received an initial SEK 4M order regarding licensing rights and advance on royalties. Standard Register, with headquarters in the US, is a leading provider of information solutions specialising in document management systems and services. Using Anoto functionality, Standard Register will provide a wide range of services and products to streamline document intensive processes.

Outlook

Anoto

During 2004 revenues in Anoto will continue to increase. The new orders to be unveiled after the fourth quarter will provide revenues starting in the first quarter. Together these three orders are the largest in Anoto's history.

The interest by industrial partners remains high.

C Technologies

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

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

The Group

As a result of the cost cutting measures effectuated across the Group in the third quarter, it is expected that the Group's fixed charges will gradually be reduced with the aim of reaching about SEK 11M per month in the second quarter of 2004.

The year of 2004 points to a stronger sales development in Anoto whereas sales in C Technologies are expected to decrease compared with 2003.

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

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



Interim Reports

Q1 and AGM Report
Semi-annual Report
Q3 Report
Year-end Report 2004

May 11, 2004
August 18, 2004
November 3, 2004
February 10, 2005

Lund, February 10, 2004

Örjan Johansson
President

Review Report

Anoto Group AB (publ) Corporate Identity Number 556532-3929

I have reviewed this interim report in accordance with the recommendations issued by the Swedish Institute of Authorised Public Accountants.

A review is considerably limited in scope compared with an audit.

Nothing has come to attention that causes me to believe that the interim report does not comply with the requirements of the Securities and Clearing Operations Act and the Annual Accounts Act.

Lund, February 10, 2004

DELOITTE & TOUCHE AB

Per-Arne Pettersson
Authorised Public Accountant



Income statement in summary

The Group

(Amounts in SEK 000s)

	Quarter 4		Accumulated	
	Oct - Dec 2003	Oct - Dec 2002	Jan - Dec 2003	Jan - Dec 2002
Net sales	41 053	95 569	192 368	220 972
Costs of goods sold	(18 967)	(65 481)	(101 487)	(145 889)
Gross profit	22 086	30 088	90 881	75 083
Sales, administration & research costs	(43 623)	(60 336)	(242 924)	(384 334)
Profit before depreciation	(21 537)	(30 248)	(152 043)	(309 251)
Depreciation of intangible assets	(14 739)	(18 617)	(60 878)	(55 209)
Depreciation of tangible fixed assets	(927)	(4 388)	(13 826)	(21 305)
Items affecting comparability ^{1,2}	(8 768)	-	(95 118)	(44 400)
Result from participation in associated companies ^{3,5}	(25)	(74)	(1 321)	(74)
Operating profit/loss	(45 996)	(53 327)	(323 186)	(430 239)
Result from participation in group companies ⁴	5 891	-	25 121	-
Result from participation in associated companies ⁵	-	-	(8 876)	-
Other financial items	660	692	(8 407)	4 554
Minority share	-	3 278	5 489	13 116
Profit/loss before taxes	(39 445)	(49 357)	(309 859)	(412 569)
Taxes	(49)	(44)	(360)	(278)
Profit/loss after taxes	(39 494)	(49 401)	(310 219)	(412 847)
Key ratios:				
Gross margin	53,8%	31,5%	47,2%	34,0%
Operating margin	Neg	Neg	Neg	Neg
Earnings per share (SEK) ⁶	(0,34)	(0,52)	(2,81)	(5,08)
Earnings per share after dilution (SEK) ⁶	(0,34)	(0,52)	(2,81)	(5,08)



Balance Sheet in summary

(Amounts in SEK 000s)	The Group	
	Dec 31, 2003	Dec 31, 2002
Goodwill	298 674	336 810
Other fixed assets	97 590	151 524
Minority share	-	7 264
Other current assets	56 223	117 064
Cash and bank balances, incl. current investments	116 033	171 150
Total assets	568 520	783 812
Shareholders' equity	451 248	612 889
Interest-bearing liabilities	97	5 093
Other liabilities	117 175	165 830
Total shareholders' equity and liabilities	568 520	783 812

Changes in equity

	The Group	
	Jan 1, 2003 - Dec 31, 2003	Jan 1, 2002- Dec 31, 2002
Opening balance	612 889	798 963
New share issues	144 660	232 088
Issue expenses	-	(11 177)
Redemption of warrants	-	-
Subordinated debentures with detachable warrants	-	8 117
Write-down of receiv. from min. share in WeSpot AB	-	(3 284)
Reversed write-down of receivables from minority share in WeSpot AB	3 284	-
Translation difference	634	1 029
Loss for the year	(310 219)	(412 847)
Closing balance	451 248	612 889



Cash flow analysis

The Group

(Amounts in SEK 000s)	Quarter 4		Accumulated	
	Oct - Dec	Oct - Dec	Jan - Dec	Jan - Dec
	2003	2002	2003	2002
Operating profit/loss before depreciation	(21 537)	(30 248)	(152 043)	(309 251)
Adjustment items not included in cash flow:				
WeSpot AB's profit/loss reversed ⁷	-	-	11 068	-
Change in warranty provision	18 193	(1 006)	2 696	(924)
Taxes paid	(49)	(44)	(360)	(278)
Cash flow from operations before change in working capital	(3 393)	(31 298)	(138 639)	(310 453)
Change in working capital	(39 908)	(9 822)	(47 591)	(34 214)
Cash flow from operations	(43 301)	(41 120)	(186 230)	(344 667)
Net investments	5 520	(39 477)	(6 814)	(82 580)
Total cash flow before financing	(37 781)	(80 597)	(193 044)	(427 247)
Financing:				
New share issues	-	197 499	144 660	220 911
Change in long-term liabilities	-	752	74	(5 064)
Other financial items	660	692	3 246	4 554
Other items	(221)	445	115	9 683
Cash flow for the year	(37 342)	118 791	(44 949)	(197 163)
Liquid assets at the beginning of the period*	153 375	52 359	171 150	368 313
Liquid assets in WeSpot AB at the beginning of the period	-	-	(10 168)	-
Liquid assets at the end of the period *	116 033	171 150	116 033	171 150

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

Key ratios

The Group

	Oct - Dec	Oct - Dec	Jan - Dec	Jan - Dec
	2003	2002	2003	2002
Cash flow for the year (SEK 000s)	(37 342)	118 791	(44 949)	(197 163)
Cash flow / share (SEK) ⁶	(0,32)	1,25	(0,41)	(2,43)
Cash flow / share (SEK) after dilution ⁶	(0,32)	1,11	(0,41)	(2,43)
	Dec 31, 2003	Dec 31, 2002		
Equity/assets ratio	79,4%	78,2%		
Number of shares ⁸	122 524 201	115 546 842		
Equity per share (SEK) ⁸	3,68	5,30		



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 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 51 950 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 10 000 thousand. In Q4 2003, write-downs were made in C Technologies as part of the transfer of assets and liabilities within the Group. The write-downs refer to intangible fixed assets amounting to SEK 8,768 thousand.
2. The item "Items affecting comparability" was not applied in the report submitted for Q4 2002, as it was not adopted until the annual report 2002. Figures for the comparative periods have thus been recalculated in this report.
3. Anoto AB controls 45% of the shares in Anoto Communications Ltd, Japan. Result from participation in associated company refers to Anoto Communications Ltd and to WeSpot AB for the period of time in 2003 when WeSpot AB was an associated company of the Anoto Group.
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. In Q4 2004, WeSpot AB implemented another new share issue in which Anoto Group AB (publ) did not participate. Anoto Group AB's participating interest has thus decreased to 18.45% as at Dec 31, 2003. WeSpot AB is consequently no longer an associated company of the Anoto Group. As at Dec 30, 2003 Anoto Group AB disposed of the previously wholly owned C Technologies. The sale resulted in a positive outcome amounting to SEK 5,891 thousand for Anoto Group.
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. The shares in WeSpot AB were written down to 0.
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 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 (Dec 31, 2003: 4 655 000; Dec 31, 2002: 11 977 641). As from December 31, 2003 Anoto Group AB is changing the basis of calculation for the outstanding warrants. Only warrants estimated to have value will be included in the calculation.