



## Interim Report January – September 2001

- Sales increased by 104% to SEK 113 (55) million.
- Pre-tax loss amounted to SEK -282 (-76) million.
- Liquid assets including current investments amounted to SEK 142 million at the end of the period.
- C Technologies has secured its largest order to date and established its first partnership agreement, which according to a strategic decision will target C-Pen sales at major markets and effective sales channels.
- The subsidiary WeSpot has secured its initial commercial contract.
- The Board proposes that Ericsson's 30 % minority share in *Anoto* be acquired and paid for in C Technologies stock, thereby making *Anoto* a wholly owned subsidiary. Ericsson will subsequently become the major shareholder of C Technologies.
- The Board proposes to implement a directed new share issue in C Technologies (over-subscribed and by now invested) totalling SEK 450 million.

### Operations

C Technologies is an innovative high tech company within the spheres of digital camera technology, image processing and digital pens. The Company is today best known for its *Anoto* concept. The subsidiary *Anoto* has created a global de facto standard that unites pen and paper with the digital world.

*Anoto* last year presented its electronic pen and paper technology enabling, among other things, transmission of handwritten e-mails and placing electronic orders. Initial products appertaining to the *Anoto* concept are expected to reach the market at the beginning of 2002.

During the third quarter *Anoto* initiated collaboration with Japan-based Matsushita/Panasonic, Hitachi (image processing) and Cap Gemini Ernst & Young (mobile business solutions).

During the first six months *Anoto* initiated collaboration with e.g. Mitsubishi Pencil and Pilot based in Japan, A.T. Cross and Sanford in the U.S. (pens), Kokuyo (paper), Daigo and Nippecraft Ltd in Singapore (calendars), Cybird (mobile services) and Tjiwi Kimia in Indonesia, John Dickinson UK (paper) and with mobile operators BT Wireless, Telefónica Móviles, Europolitan Vodafone and Sonera. Ericsson in June presented Chatpen, the digital pen based on *Anoto* functionality.

Certain agreements of importance to *Anoto* will for the time being remain confidential for reasons of our partners' secrecy and competition. All such agreements are of strategic importance to *Anoto* and are vital steps in establishing the Company's business model.

Prototype production utilising the same equipment to be used later in mass production is presently taking place within *Anoto*. The *Anoto* system is at the moment undergoing trials at Europolitan Vodafone.

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. One of the Company's aims is to establish its innovative technology platform in the global market, which will be achieved through various license and OEM partnerships and the sales of proprietary products.

In the third quarter C Technologies signed its largest order agreement order so far with Fusion Road in Korea, which is also the first partner agreement within the framework of C Technologies' new strategy to target C-Pen sales at large markets and profitable sales channels. The order is estimated to correspond to sales of SEK 60 million during a period of six months. The initial order relating to the above mentioned technology platform was received in the second quarter from C-Channel, a Swiss company specialising in IT solutions for banking and finance

Earlier in the year C Technologies made the first significant move into the prioritised PC market by establishing collaboration with world leading laptop producer Acer regarding a planned launch of Magic Stick as a standard accessory for PC Notebooks.

In the subsidiary WeSpot the project involving development of surveillance cameras that digitally analyse differences in recorded images and trigger an alarm in case anything out of the ordinary occurs, is ongoing.

In the third quarter WeSpot launched a new surveillance camera with enhanced performance, considerably less expensive to produce and only half the size of the previous model. WeSpot furthermore secured its first commercial contract with Overhead Door Corporation (Sanwa Group) regarding a passage control application.

A total of 131 new patent applications were submitted during the period, of which 116 by the subsidiary *Anoto*. Of these, 47 and 39 respectively in the third quarter. The Parent Company furthermore obtained an essential patent in the first quarter. By the end of the period the total number of applications submitted were 344, of which 8 have been approved.

### **Invoicing and results**

Invoicing for the period amounted to SEK 113 million compared with SEK 55 million in the same period a year earlier, which is an increase by 104%. 50% (60%) of the turnover is attributable to C-Pen sales with the remainder referring to OEM and license sales, contracted consultant services and component sales. Invoiced sales for C-Pen have thus increased by 72% during the period compared with the same period last year.

Invoicing in the third quarter amounted to SEK 30 million (SEK 19 million last year), of which 71% (72%) is attributable to C-Pen.

Consolidated operating loss for the period amounted to SEK -417 (-114) million, of which SEK -154 (-55) million in the third quarter, and is largely explained by accelerated

investments in the subsidiary *Anoto* in the first half year, motivated by the extremely positive response the company has received, especially through a number of new partner agreements.

Pre-tax loss for the period amounted to SEK -282 (-76) million, of which SEK -124 (-46) in the third quarter.

### **Financing, liquidity and cash flow**

At the end of the period, consolidated liquid assets, including short-term investments, totalled SEK 142 million compared with SEK 421 million at the beginning of the year, and SEK 511 million at the end of the corresponding period last year.

At the end of the period, shareholders' equity amounted to SEK 169 million in comparison with SEK 503 million (SEK438 million after adjustment due to changed accounting principle) at the beginning of the year and SEK 587 million (SEK 538 million after adjustment) at the end of the same period the previous year, corresponding to an equity assets ratio of 50% (00-09-30: 90%). During the period shareholders' equity was affected by SEK -65 million owing to the change of accounting principle (note 3).

### **Investments**

Net investments during the period amounted to SEK 49 (21) million, of which SEK 20 (18) million refer to intangible fixed assets. SEK 19 million and SEK 8 million respectively refer to investments made in the third quarter.

### **Parent Company**

Parent company sales during the period totalled SEK 95 (61) million, of which SEK 21 (19) million refer to the third quarter. Consolidated operating loss amounted to SEK -123 (-58) million, of which SEK -49 (-22) million refer to the third quarter. Consolidated liquid assets including current investments on September 30, 2001 totalled SEK 69 million compared with SEK 498 million for the corresponding period the previous year.

### **Accounting principles**

The same accounting principles that were used in the Annual Report 2000 have been applied, with the following exception: Effective as of January 1, 2001 the Company has adopted the Swedish Financial Accounting Standards Council's recommendation 15 (RR15), which deals with the accounting of intangible assets. RR15 briefly implies that costs in respect of research are carried as a continuous expense, whereas costs in respect of development are set up as an intangible asset. Depreciation plans over 5 years are started as from market introduction of the respective products.

The Company observes the Swedish Financial Accounting Standards Council's recommendations and statements.

## Share Data

C Technologies' share is listed on OM Stockholm Exchange, Attract 40. At the end of the period there was a total of 45.393.870 shares and 2.880.800 outstanding warrants. Exercised in full these warrants would entail a dilution of existing shares by 6,3%.

## Ownership Structure

The number of shareholders on September 30, 2001 was just over 15.400. Foreign shareholders comprised 28%. The main shareholders on the same date are shown in the table below.

<b>Owner</b>	<b>No. of shares</b>	<b>% of capital votes</b>
Christer Fåhraeus	7.152.870	16%
State Street Bank & Trust Co., U.S.A.	5.445.040	12%
Ericsson Mobile Communications AB	3.466.670	8%
Metallfinans	1.731.700	4%
SEB Private Bank, Luxemburg	966.730	2%
SEB Fonder	950.115	2%
Other	25.680.745	56%
<b>Total</b>	<b>45.393.870</b>	<b>100%</b>

## Significant events after the end of the reporting period

The Board proposes that all Ericsson's shares in *Anoto* be acquired and paid for in C Technologies stock, making *Anoto* a wholly owned subsidiary. The Board further proposes that C Technologies at the same time implements a directed new share issue at major shareholders and investors such as Ericsson, Capital Group, 4:e AP-fonden, Skandia fonder and Robur fonder totalling SEK 450 million. The proposals are subject to authorisation being granted by the Extraordinary General Meeting on November 19, 2001.

The new shares will be issued at SEK 26, implying an issue of 17.307.692 new shares, which corresponds to approx. 23 percent of the total number of shares in C Technologies following the above mentioned transactions. Subsequent to the new share issue and the acquisition of shares in *Anoto*, C Technologies' three major shareholders are Ericsson (24 %), Capital Group (12 %) and Christer Fåhraeus (9 %).

*Anotos'* previously planned new share issue directed at e.g. the Mexican syndicate Penmex has been discontinued. Also the industrial agreement with Penmex has been cancelled.

## Outlook

C Technologies

C Technologies has now completed a number of products already launched or in the process of being launched on the market. The aim is to let a limited number of large partners handle sales and distribution. New projects in the pipeline will be run in cooperation with clients such as Acer. This in conjunction with the synergies of the new structure will enable C

Technologies to gradually reduce costs till approx. SEK 6 million per month with full effect in the first half of 2002.

Earnings are generated mainly by C Pen 600/800, C Pen 10 and OEM projects involving large customers such as Acer and Ericsson.

The forecast outlining positive cash flow during the first half of 2002 remains.

#### *Anoto*

*Anoto* has experienced a busy period in completing the final stages of system and pen 1.0, enabling delivery to the first customers on time, which implies that costs as of Q2 2002 may be reduced to approx. SEK 25 million per month.

As of the beginning of 2002 *Anoto* will receive its initial earnings, with emphasis on pen licenses, PC software licenses, development kits and server software for operators and enterprises. The management estimates that the greater part of earnings will in the long term be generated by profit sharing of partners' services revenues. The *Anoto* concept is being tried in Europolitan Vodafone's network with the aim of running full-scale tests commencing in Q4 2001.

The forecast outlining positive cash flow in the first half of 2003 remains.

#### New Structure

By suggesting to make *Anoto* a wholly owned subsidiary the legal and operational structure of the Company will be reviewed in order to utilise synergies fully. Consequently Christer Fåhraeus will, in connection with the Annual General Meeting in April 2002 at the latest, be appointed CEO by the Board. In addition the Board will propose that the name of the Parent Company be changed to *Anoto AB*.

Lund November 8, 2001

Mats Lindoff  
President

This report has not been subject to review by the Company Auditors.

The year-end report for 2001 will be issued on February 15, 2002.  
The Annual General Meeting 2002 will take place on April 24, 2002.

**Summarised Profit & Loss Account****The Group**

(Amounts in SEK thousand)

	Quarter 3		Accumulated		Year
	July - Sep	July - Sep <sup>1</sup>	Jan - Sep	Jan - Sep <sup>1</sup>	Jan - Dec <sup>1</sup>
	2001	2000	2001	2000	2000
Net sales	30 436	18 784	112 688	55 195	80 014
Costs of goods sold	(30 943)	(16 384)	(111 829)	(47 004)	(84 531)
<b>Gross profit</b>	<b>(507)</b>	<b>2 400</b>	<b>859</b>	<b>8 191</b>	<b>(4 517)</b>
Sales, administration & R&D	(149 033)	(55 878)	(406 035)	(118 739)	(210 486)
Depreciation of intangible assets	(798)	(458)	(3 325)	(1 232)	(1 757)
Depreciation of tangible assets	(3 375)	(1 175)	(8 584)	(2 486)	(4 233)
<b>Operating income (loss)</b>	<b>(153 713)</b>	<b>(55 111)</b>	<b>(417 085)</b>	<b>(114 266)</b>	<b>(220 993)</b>
Income from participation in Group Companies <sup>2</sup>	-	-	59 394	23 188	27 638
Öther financial items	1 442	5 199	7 445	9 278	10 935
Minority share	28 475	4 223	68 731	6 078	13 359
<b>Income (loss) before taxes</b>	<b>(123 796)</b>	<b>(45 689)</b>	<b>(281 515)</b>	<b>(75 722)</b>	<b>(169 061)</b>
Taxes	(91)	(30)	(187)	(730)	(47)
<b>Income (loss) after taxes</b>	<b>(123 887)</b>	<b>(45 719)</b>	<b>(281 702)</b>	<b>(76 452)</b>	<b>(169 108)</b>

**Balance Sheet (summarised)**

(Amounts in SEK thousand)

	The Group		
	Sep 30, 2001	Dec 31, 2000 <sup>1</sup>	Sep 30, 2000 <sup>1</sup>
Fixed assets <sup>3</sup>	79 005	41 741	30 591
Öther current assets	113 489	73 070	59 179
Liquid assets and investments	141 958	421 206	510 645
<b>Total assets</b>	<b>334 452</b>	<b>536 017</b>	<b>600 415</b>
Shareholders' equity <sup>3</sup>	168 612	438 489	538 397
Minority interests	(26 850)	12 139	4 302
Interest-bearing liabilities	833	2 084	4 500
Öther liabilities	191 857	83 305	53 216
<b>Total shareholders' equity and liabilities</b>	<b>334 452</b>	<b>536 017</b>	<b>600 415</b>

**Changes in Equity**

	<b>The Group</b> Jan-Sep 2001	<b>The Group</b> Jan-Sep 2000	<b>The Group</b> Jan-Dec 2000
<b>Opening balance according to the adopted Balance Sheet for the previous year</b>	<b>503 055</b>	<b>43 204</b>	<b>43 204</b>
Effect of change of accounting principle <sup>3</sup>	(68 545)	(28 290)	(28 290)
Minority share	3 979	86	86
<b>Opening balance adjusted according to the new Accounting Principles</b>	<b>438 489</b>	<b>15 000</b>	<b>15 000</b>
New share issue	-	150 000	150 000
New share issue	-	437 500	437 500
Costs of new share issue	(205)	(27 324)	(27 324)
Redemption of warrants	975	38 846	39 878
Subordinated debentures with subscribed options	1 732	1 477	7 223
Minority share of submitted stockholders' share	-	-	(253)
Minority share of directed new share issue <sup>6</sup>	-	-	(13 911)
Minority share of submitted stockholder's share in Subsidiaries	(588)	(300)	(351)
Minority share of result for the year not recorded in the Profit and Loss statement <sup>4</sup>	12 684	(275)	(67)
Translation difference	(2 773)	(75)	(98)
Loss for the year	(281 702)	(76 452)	(169 108)
<b>Closing balance</b>	<b>168 612</b>	<b>538 397</b>	<b>438 489</b>

**Cash Flow Analysis**

	<b>The Group</b>				
(Amounts in SEK thousand)	Juli - Sep 2001	Juli - Sep <sup>1</sup> 2000	Jan - Sep 2001	Jan - Sep <sup>1</sup> 2000	Jan - Dec <sup>1</sup> 2000
Operating income before depreciation	(149 540)	(53 478)	(405 176)	(110 548)	(215 003)
Minority share of profit/loss	28 475	4 223	68 731	6 078	13 359
Change in warranty provision	549	461	1 798	1 311	2 014
Taxes paid	(91)	(30)	(187)	(730)	(47)
Change in operating funds	1 584	(8 959)	12 649	(27 735)	(11 800)
<b>Operating cash flow before investments</b>	<b>(119 023)</b>	<b>(57 783)</b>	<b>(322 185)</b>	<b>(131 624)</b>	<b>(211 477)</b>
Net investments	(19 450)	(11 586)	(49 173)	(21 105)	(34 526)
<b>Operating cash flow after investments</b>	<b>(138 473)</b>	<b>(69 369)</b>	<b>(371 358)</b>	<b>(152 729)</b>	<b>(246 003)</b>
Result from participation in Group Companies	-	-	59 394	23 188	27 638
Öther financial items	1 442	5 199	7 445	9 278	10 935
<b>Operating cash flow after net financial activities</b>	<b>(137 031)</b>	<b>(64 170)</b>	<b>(304 519)</b>	<b>(120 263)</b>	<b>(207 430)</b>
Financing	23 219	254	25 271	600 287	598 015
<b>Cash flow after financing</b>	<b>(113 812)</b>	<b>(63 916)</b>	<b>(279 248)</b>	<b>480 024</b>	<b>390 585</b>

**Key Ratios****The Group**

	Juli - Sep 2001	Juli - Sep <sup>1</sup> 2000	Jan - Sep 2001	Jan - Sep <sup>1</sup> 2000	Jan - Dec <sup>1</sup> 2000
Gross margin	Neg	12,8%	0,8%	14,8%	Neg
Operating margin	Neg	Neg	Neg	Neg	Neg
Cash flow (kSEK)	(113 812)	(63 916)	(279 248)	480 024	390 585
Cash flow / share (SEKr) <sup>5</sup>	(2,40)	(1,33)	(5,80)	11,30	9,19
Earnings per share	(2,73)	(1,01)	(6,21)	(1,98)	(4,36)
Earnings per share after dilution <sup>5</sup>	(2,61)	(0,95)	(5,86)	(1,80)	(3,98)
	<u>2001-09-30</u>	<u>2000-12-31<sup>1</sup></u>	<u>2000-09-30<sup>1</sup></u>		
Equity/Asset ratio	50,4%	81,8%	89,7%		
Number of employees	321	180	133		
Number of shares <sup>5</sup>	48 274 670	47 946 020	47 946 020		
Equity per share (SEK) <sup>5</sup>	3,49	9,15	11,23		

**Notes**

<sup>1</sup> Previous periods have been translated with regard to the performed change of accounting principle as at Jan 2001 (see note below 3). The change of accounting principles regarding R&D costs has effected the operating profit/loss for quarter July 1, 2000 - Sep 30, 2000 negatively by -11 370 and for the period Jan 1, 2000 – Sep 30, 2000 negatively by -21 793. For the entire year Jan 1, 2000- Dec 31, 2000 the change of accounting principles has effected the operating profit/loss negatively by -40 256.

<sup>2</sup> During the period the Group made a profit through a share issue in the subsidiary Anoto AB directed at Ericsson Mobile Communications AB. This profit amounts to 49 377 after the minority share has been taken into consideration.

<sup>3</sup> As of Jan 1, 2001 the Group has changed accounting principle in respect of R&D and patent costs. Effective as of Jan 1, 2001 the Swedish Financial Accounting Standards Council's Recommendation RR 15 (Intangible assets) is applied. The principle according to RR 15 briefly implies that costs in respect of research are carried as a continuous expense. Costs in respect of development are set up as an intangible asset. C Technologies Group starts a depreciation plan based on an economic life of five years as from market introduction of the respective Product. With regard to transitional regulations a lump sum write-down of historical capitalised R&D costs through Dec 31, 2000 in the Amount of 68 545 has been effectuated. The accumulated effect (64 566 after the minority holding has been taken into account) of the Change of accounting principle is recorded as an adjustment entry in the equity opening balance as of Jan 1, 2001 in accordance with the Swedish Financial Accounting Standards Council's RR 5 Recommendation (change of accounting principle).

<sup>4</sup> The minority share in Anoto AB increased from 15% to 30% at the end of March 2001. In order to give a more true and fair View of the profit and loss statement, 15% has in the profit and loss statement been used when eliminating the minority share of the Result for the period Jan 1, 2001-March 31, 2001. The effect of the remaining 15% becomes a positive item of the Group's equity.

<sup>5</sup> Incl. outstanding warrants (Sep 30, 01: 2 880 800; Dec 31, 00: 2 602 150; Sep 30, 00: 2 673 150).

<sup>6</sup> Refers to a new share issue in group company Anoto AB directed at the majority shareholder C Technologies AB.



