C Technologies

Interim Report January – March 2002

- Sales increased by 19 % to SEK 52 (44) million with a gross margin of 28%(-0.5%).
- Pre-tax loss amounted to SEK -111 (-125) million.
- Anoto functionality launched on the market in collaboration with Vodafone, Sony Ericsson, 3M and Esselte.
- The subsidiary *Anoto* entered strategic alliances with Microsoft and Logitech, and – subsequent to the end of the reporting period – with Hitachi.
- Proposal to change the Parent Company's name, and thereby the Group's name, to Anoto Group in connection with the Annual General Meeting.
- *Anoto* formed a new company in Japan – Anoto Communications – in order to establish a consortium consisting of a large number of interested industrial parties, preparing for introduction of the *Anoto* concept on the Japanese market.
- C-Pen sales more than doubled in comparison with the same period 2001.
- The subsidiary WeSpot entered, subsequent to the end of the reporting period, an agreement with Japan-based Optex – Asia's largest manufacturer of sensors for automatic doors – and was granted four basic patents.

Operations

Anoto

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 subsidiary *Anoto*, whose operations were announced in April 2000. Since then *Anoto* has, in a remarkably short time, created a global de facto standard uniting pen and paper with the digital world.

The technology developed by *Anoto* enables, among other things, handwritten e-mails, SMS and electronic orders to be transmitted directly from paper by using a digital pen. The first products with *Anoto* functionality have recently become available on the market.

In 2002 *Anoto* signed further significant agreements to cement the above-mentioned global de facto standard. These agreements are of strategic importance for the establishment of the global de facto standard for paper-based digital communication and the Company's long-term commercial growth. In the past year Microsoft, Logitech and Hitachi were added to the list of partners.

The alliance with Microsoft in short implies (1) that Microsoft developers can use Anoto's ADK to create new services for .NET together with Visual Studio.NET; (2) that the Anoto pen will be integrated and automatically installed in Windows XP and in future operating systems; (3) that information generated by the pen may be used and further processed directly by Microsoft Office; and (4) that Anoto's profit-sharing business model - applied to telecom – can also be applied to the PC industry.

Logitech – world-leading producer of PC accessories – will be producing and marketing digital pens enabling *Anoto* functionality adapted to PC environments. This enables handwritten information to be stored directly in the PC and paper and pen to be used in the most frequent PC applications. Logitech is planning to launch digital pens with *Anoto* functionality later this year and, in view of this, has entered strategic partnerships with existing *Anoto* partners including 3M Post-It Notes, MeadWestvaco, Groupe Hamelin and Time/system International. The Company estimates that Logitech's launch will provide pen license revenues ranging between SEK 40 and 80 million in 2002 and 2003. Anoto's profit-sharing business model will be applicable here as well.

In addition to the announced partners, *Anoto* has initiated cooperation with further companies which, on request by the respective partner, for the time being will remain confidential for reasons of secrecy and competition.

At the beginning of 2002 commercial trials began with selected Vodafone subscriber groups in cooperation with Sony Ericsson, followed by a commercial product launch in April, i.e. subsequent to the end of the reporting period, together with the said partners and 3M and Esselte.

Anoto decided to form a new subsidiary in Japan – Anoto Communications – in order to establish the company's de facto standard through a partnership consortium consisting of a large group of interested industrial parties, thereby creating a strong foundation for the market launch in Japan in 2002-2003.

C Technologies

C Technologies' products, of which the scanning pen C-Pen is best known, are based on the integration of digital camera technology with advanced image processing in products with low energy consumption and high speed processing. Since the end of 1988 the Company has established its technology platform on the global market through license and OEM partnerships and sales of proprietary products.

The new marketing strategy, focusing on commercial cooperation with a limited number of partners, was fully implemented and has generated larger sales volumes and orders for customised product development.

Execution of C Technologies largest order so far – from the Company's Korean partner Fusion Road – started during the period. However, compared with previous information, a slight delay in completing delivery is estimated. The total sales value of the order is unchanged at SEK 60 million, and realisation is planned before the end of the year.

Cooperation with med Wistron NeWeb (part of world leading laptop producer Acer), initiated in 2001, is C Technologies' first major step to gain a firm footing in the highly prioritised PC market. The collaboration regards introduction of the new product ”Bz Mate” (in the concept stage presented as ”Magic Stick”) as a laptop accessory. Bz Mate is a further development of the scanning pen C-Pen, supplied with a digital camera and Bluetooth functionality. Wistron is planning to market BzMate together with high-end laptops. Technical development is in its final phase according to plan and Wistron NeWeb is preparing the commercial launch.

C-Pen 10, the Company's latest product to be introduced on the market, has met with keen interest. Sales have been kept down due to a limited delivery capacity during the period. This problem will however be solved as from April, at the same time as the production is moved to Asia which, as a consequence, enables the product to be sold with a very good margin. We have reason to estimate that C-Pen 10 has every chance of becoming C Technologies' most successful product so far, both in terms of volumes and margins.

*WeSpo*t

In the subsidiary WeSpot, applications based on so-called intelligent camera technology, advanced digital image processing, and the Group's proprietary ASIC chip are developed. In addition to the first two commercial contracts signed the previous year with Overhead Door Corporation (part of Japan-based Sanwa Group) in the US and Attendo Senior Care AB in Sweden, and partnership agreements with US-based Visionics Corporation, negotiations with a number of potential customers and partners are ongoing.

Invoicing and results

Invoicing for the first quarter amounted to SEK 52 (44) million, corresponding to a 19 % increase. 66 (44) % of the sales is attributable to C-Pen sales, whereas the remainder refers to OEM and license sales, contracted consultant services and sales of components. In the first quarter C-Pen sales increased by 79 % compared with the first quarter the previous year. 12 % of the sales refer to till *Anoto* and 1% to WeSpot. The gross margin, which was negative for the corresponding period last year, was 28 % for the first quarter.

Consolidated operating loss for the first quarter was SEK -111 (-124) million. In line with previous forecasts, costs in both *Anoto* and C Technologies were significantly reduced compared with the fourth quarter 2001. Sales, administration and research and development expenses for the period were SEK 118 million compared with SEK 182 million for the fourth quarter 2001, a reduction of 35 %. Cleared of extraordinary expenses in the fourth quarter 2001, a correct comparison indicates a reduction of costs by 28 %. Cost savings were effectuated with Anoto's total development resources in intact.

Pre-tax loss for the period was SEK –106 (-60) million. The first quarter 2001 includes a positive result from shares in affiliated companies amounting to SEK 49 million in respect of the Group's profit in connection with new share issues directed at minority holders in subsidiaries after taking the minority share into consideration. The period was further charged with depreciation of goodwill on consolidation according to plan amounting to SEK 10 million. There was no corresponding item the previous year.

Financing and liquidity

Based on authorisation by the Extraordinary General Meeting on January 16, 2002, an offer was directed at the employees of the parent company and wholly owned subsidiaries regarding the acquisition of warrants in the parent company at market price. The offer, which was optional, implied maximum salary cuts of 20 % during a maximum period of 18 months. Around 170 employees accepted and have within the scope of this offer acquired 1,85 million warrants with a duration period of two or three years at an issue price ranging between SEK 46 and SEK 136. Fully subscribed, the parent company will be provided with SEK 123 million. The salary cuts accepted by the employees, in accordance with the above, will during 18 months represent a total cost reduction of just over SEK 15 million for the company.

The Extraordinary General Meeting also resolved to issue 5.170.714 debentures with detachable warrants, to be exercised in connection with an offer directed at holders of outstanding stock warrants in the subsidiary *Anoto*, which, if accepted, entitles the said holder, in connection with subscription for shares in *Anoto*, to exchange these shares for shares in the parent company. Such an exchange shall be made according to the same exchange ratio proportionate to the values applicable when the parent company acquired of Ericsson's minority share in *Anoto* at the end of 2001, whereby 8,195 shares in *Anoto* corresponds to 1 share in the parent company. Should all warrants in *Anoto* be utilised for subscription (and the subsequent exchange for shares in the parent company in accordance with the above take place) the Group will be provided with a total of SEK 247 million. At the end of the reporting period, the remaining lifetime for outstanding stock warrants in *Anoto* ranges between 14 and 24 months.

Shareholders' equity on March 31, 2002 was SEK 694 million compared to SEK 799 million at the beginning of the year, corresponding to 84 % assets ratio (83 % on December 31, 2001 and 75% on March 31, 2001 respectively).

Cash flow

Cash flow generated by current operations amounts to SEK –145 (-99) million in the first quarter, affected primarily by a significant – but temporary – negative change in the working capital, where a big reduction of operating liabilities and an increase in accounts receivable have not been balanced by the reduction of inventories. Cash flow for the year is SEK -156 (-32) million for the corresponding periods, reflecting, in addition to the above, net investments of SEK -19 (-14) million.

Consolidated liquid assets, including current investments on March 31, 2002 amounted to SEK 212 million compared to SEK 368 million at the beginning of the quarter. The available assets are expected to cover the total capital requirement until operations in *Anoto* and C Technologies generate positive cash flow, based on the following:

- Cost levels for *Anoto* and C Technologies are, according to plan, approaching levels corresponding to a total monthly burn-rate of SEK 31-33 million for these operations.

- C Technologies has commenced factoring practices regarding accounts receivable, at the same time as the partial relocation of production to Asia implies improved margins and improved payment terms.

- Anoto's new partnership agreements will generate license revenues as well as other revenues in the immediate future.

- As a result the consolidated negative cash flow in Q2 will fall below SEK -70 million and subsequently improve further.

As previously advised, activities to raise funds in WeSpot during the year are ongoing.

Investments

Net investments for the period January-March 2002 in respect of capitalised development and patent expenses and tangible fixed assets were SEK 19 (14) million.

The Parent Company

Subsequent to the legal restructuring of the Group, which was effectuated at the previous turn of the year, the parent company operates solely as a holding company with a limited number of consolidated functions.

New structure

In line with the above and previous information regarding the parent company, operations in the parent company have, as of the turn of the year, been transferred to C Technologies Intressenter AB, whereupon all operations are carried out in subsidiaries.

As previously announced, the Board of Directors will appoint Christer Fåhraeus as new CEO of the parent company at the Annual General Meeting on April 24, 2002, at which time it will also be proposed to change the parent company's name to Anoto Group AB. In connection with this process, the name of C Technologies Intressenter AB will be changed to C Technologies AB.

Christer Fåhraeus will subsequent to the said AGM remain as President of Anoto AB, whereas the present CEO Mats Lindoff will remain as president of C Technologies AB.

Accounting Principles

The Company has in the first quarter applied the same accounting principles that were used in the Annual Report 2001. The Company observes the Swedish Financial Accounting Standards Council's recommendations and statements.

Share Data

C Technologies' share is listed on Stockholmsbörsen's O list (Attract 40). On the expiration of March 2002 there was a total of 76.526.901 and 12.549.364 * outstanding warrants.

Ownership Structure

On March 31, 2002 the number of shareholders in C Technologies was around 15.800. At this time foreign shareholders controlled 24 % of the shares.

Owner	No. of shares	%of capital & votes
Ericsson	18.253.549	23,9 %
Capital Group	9.180.468	12,0 %
Christer Fåhraeus	6.952.870	9,1 %
4:e AP-fonden	3.653.846	4,8 %
Robur Fonder	3.501.808	4,6 %
Livförsäkringsaktiebolaget Skandia	2.475.038	3,2 %
Metallfinans / Sv. Metallind.arb.förbundet	1.809.115	2,4 %
Other	30.700.207	40,0 %
Total	76.526.901	100,0 %

*) 5.170.714 of these are warrants issued in connection with the agreement with holders of stock options in Anoto AB regarding exchange of shares, whereby subscription for new shares based on warrants entitles the subscribers to 1 new share in the parent company per 8,1915 shares in Anoto AB. Fully exercised these warrants would provide the Group with SEK 247 million. Furthermore there are 1.639.225 so-called staff warrants in the parent company, of which only 55 % have been offered to employees up to now. Fully utilised, this program could provide future subscription payments amounting to SEK 123 million. The salary relinquishment program implemented during the reporting period comprises 1.856.440 warrants, of which the remaining number of warrants authorised by the General Meeting (2.943.560) will not be utilised and consequently do not constitute a potential dilution exposure. Effective May 31, 2002, 939.425 warrants in the parent company will mature. The issue price is SEK 300 and, taking the present share price into consideration, they are assumed to constitute a limited potential dilution exposure. On condition that everything else remains unchanged, the total actual dilution exposure will as at June 1, 2002 be approx. 10,4%.

Significant events after the end of the reporting period

The subsidiary *Anoto* signed a strategic partnership agreement with Hitachi regarding mutual further development of the *Anoto* concept, ”the Enterprise Paper Look-up Service (EPLS)”. EPLS will provide the necessary functionality for intranet solutions based on handwritten information, such as forms processing. Development will begin in April with the aim of starting production and sales in 2003. The finished EPLS infrastructure will be owned by *Anoto* and marketed and sold globally by Anoto partners, of which Hitachi initially will prioritise the Japanese market.

Anoto functionality has been commercially launched on the market in cooperation with Vodafone, Sony Ericsson, 3M and Esselte.

The subsidiary WeSpot signed an agreement with Japan-based Optex, Asia’s largest producer of sensors for automatic doors, and has been granted four basic patents.

Outlook

Anoto

Following the heavy focus on development in 2001, completing and delivering server systems and the first generation of the digital pen and the digital paper as scheduled, *Anoto* has gradually entered a commercial phase. Income in 2002 will be generated primarily by the development tool for new services (ADK), server software and pen licenses. Profit sharing will also generate income, however it is estimated that this source of income will represent a minor part in 2002 and experience increasing growth over the years, becoming increasingly predominant.

In proportion to the previously expressed objective for the year to establish further agreements with one or several leading pen partners in the telecom and PC industries, the year 2002 started satisfactorily through the agreements with Microsoft, Logitech and Hitachi. The aim of getting five to ten operators with pen-based services operating before the end of the year is still considered feasible, as is the ambition to present yet another telecom pen partner for launch in 2002.

The effects of the significant cost savings program implemented in the latter part of 2001 are beginning to show. The result will be in line with previous forecasts, implying monthly costs as from the second quarter 2002 of approx SEK 25 million. Cost savings were effectuated with development resources intact.

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

C Technologies

Up to now, one of the two new launches planned for the year has been carried out, in the form of C-Pen 10. The result so far is decidedly satisfactory and the inflow of orders is stable and increasing. As from May C-Pen 10 will, as previously stated, via manufacturing in Asia be sold by a good margin and without being restricted by the initial lack of components that caused considerably limited output capacity in the first quarter. This launch, in combination with the effects of the adjustment of the organisation carried out at the end of 2001, are now quite noticeable, providing the foundation for maintaining the forecasted positive cash flow at the end of the first half of 2002. In accordance with previous forecasts, the gradual reduction of costs to approx. SEK 6 million per month will be met already in the first quarter, which is faster than previously estimated. Furthermore, continued product and sales cooperation with Sony Ericsson regarding camera modules for mobile phones is expected.

The Group

In the coming two quarters the negative cash flow is expected to settle on a considerably lower level than in Q1, based primarily on the steps taken to reduce the capital tied up, the expected sales growth and the commercial launch of the Anoto functionality.

The Group is expected to achieve positive cash flow in the first half of 2003.

Lund, April 24, 2002

Mats Lindoff
President

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

The Annual General Meeting of 2002 will be held on April 24, at 17.00 hrs in Lund.
Interim Report Q2 will be published on August 22 and Interim Report Q3 on October 30.

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

(Amounts in SEK thousands)	**Quarter 1**		**Year**
	Jan - Mar 2002	Jan - Mar 2001	Jan - Dec 2001
Net sales	51 946	43 514	156 204
Costs of goods sold	(37 445)	(43 731)	(141 506)
Gross profit	**14 501**	**(217)**	**14 698**
Sales, administration and R&D	(117 730)	(120 728)	(587 537)
Depreciation of intangible assets	(11 002)	(1 565)	(10 809)
Depreciation of tangible assets	(4 271)	(2 167)	(12 735)
Other income	7 392	-	-
Operating income (loss)	**(111 110)**	**(124 677)**	**(596 383)**
Income from participation in Group companies [1]	-	49 377	68 210
Other financial items	1 436	3 255	7 938
Minority share	3 396	12 073	80 042
Income (loss) before taxes	**(106 278)**	**(59 972)**	**(440 193)**
Taxes	(1)	(50)	(488)
Income (loss) after taxes	**(106 279)**	**(60 022)**	**(440 681)**

Key ratios:

Gross margin	27,9%	-0,5%	9,4%
Operating margin	Neg	Neg	Neg
Earnings per share (SEK) [3]	(1,39)	(1,32)	(8,97)
Earnings per share after dilution (SEK) [3]	(1,24)	(1,25)	(8,50)

Balance Sheet (summarised)

(Amounts in SEK thousands)	***The Group***		
	Mar 31, 2002	Dec 31, 2001	Mar 31, 2001
Goodwill	365 412	374 946	814
Other fixed assets	120 881	107 933	50 920
Other current assets	129 033	111 388	76 551
Liquid assets incl. Current investments	211 830	368 313	389 704
Total assets	827 156	962 580	517 989
Shareholders' equity	693 504	798 963	389 608
Minority interests	-	2 568	28 116
Interest-bearing liabilities	5 000	5 417	1 667
Other liabilities	128 652	155 632	98 598
Total shareholders' equity and liabilities	827 156	962 580	517 989

Changes in Equity

	The Group		
	Jan 2002- March 2002	**Jan 2001- March 2001**	**Jan 2001- Dec 2001**
Opening balance according to the adopted balance sheet for the previous year	**798 963**	**503 055**	**503 055**
Effect of change of accounting principle [3]	-	(68 545)	(68 545)
Minority share	-	3 979	3 979
Opening balance adjusted according to the new accounting principles	**798 963**	**438 489**	**438 489**
New share issue	-		450 000
Non-cash issue	-		347 016
Issue expenses	-		(12 638)
Redemption of warrants	-	975	975
Subordinated debentures with detachable warrants	606	1 274	1 733
Minority share of submitted stockholders' share in subsidiaries	-	(382)	(573)
Minority share of result for the year not recorded in the profit and loss statement [2]	-	11 396	16 928
Translation differencies	214	(2 122)	(2 286)
Loss for the year	(106 279)	(60 022)	(440 681)
Closing balance	**693 504**	**389 608**	**798 963**

Cash flow Analysis ***The Group***

(Amounts in SEK thousand)	Jan - Mar 2002	Jan - Mar 2001	Jan – Dec 2001
Operating income before depreciation	(103 229)	(120 945)	(572 839)
Minority share of profit/loss	3 396	12 073	80 042
Change in warranty provision	602	718	(60)
Taxes paid	(1)	(50)	(488)
Change in operating funds	(45 653)	9 393	32 775
Cash flow before investments	**(144 885)**	**(98 811)**	**(460 570)**
Net investments	(18 687)	(13 725)	(84 308)
Operating cash flow after investments	**(163 572)**	**(112 536)**	**(544 878)**
Result from participation in Group companies	-	49 377	68 210
Other financial items	6 269	3 255	7 938
Financing	820	28 402	415 837
Cash flow after financing	**(156 483)**	**(31 502)**	**(52 893)**
Liquid assets at the beginning of the year *	368 313	421 206	421 206
Liquid assets at year-end *	**211 830**	**389 704**	**368 313**

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

Key Ratios ***The Group***

	Jan - Mar 2002	Jan – Mar 2001	Jan – Dec 2001
Cash flow (kSEK)	(156 483)	(31 502)	(52 893)
Cash flow/share (SEK) [3]	(2,04)	(0,69)	(1,08)
Cash flow/ share (SEK) after dilution [3]	(1,82)	(0,66)	(1,02)

	March 31, 2002	March 31, 2001	Dec 31, 2001
Equity/Assets ratio	83,8%	83,0%	75,2%
Number of shares [3]	89 076 265	47 946 020	79 225 551
Equity per share (SEK) [3]	7,79	16,66	4,92

Notes

[1] During the previous year the Group made a profit through a new share issue in the subsidiary Anoto AB directed at Ericsson Mobile Communications AB. This profit amounted to 49 377 after taking the minority share into consideration. The Group made a similar profit the previous year through new share issues directed at minority holders in the subsidiary WeSpot AB.
The profit in this case amounted to 18 833 after taking the minority share into consideration.

[2] 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% in the profit and loss statement has 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% became a positive item in the Group's equity.
Effective Nov 1, 2001 Anoto AB is fully consolidated.
Similarly the increasing minority share in the subsidiary WeSpot AB in the previous year has been taken into consideration.

[3] Incl. Outstanding warrants (March 31, 02: 12 549 364; Dec 31, 01: 2 698 650 ; March 31, 01: 2 552 150).