

***ANOTO***

QUARTERLY REPORT

Q3/ 2016

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Anoto Group AB is a global leader in digital writing and drawing solutions. Its technology enables high-precision pen input on nearly any surface. Anoto is present around the world through a global network of strategic licensing partners that deliver user-friendly writing and drawing solutions for effective collection, transfer and storage of data. Anoto is traded on the Small Cap list of Nasdaq Stockholm under ANOT.

This report was published November 25, 2016 at 08.45 CET

For more information: [www.anoto.com](http://www.anoto.com)

## REPORT JANUARY – SEPTEMBER 2016

- Large frame order for 120 000 pens received from TStudy, China, in August. Minimum order value is 4 MUSD.
- Net sales in the period amounted to MSEK 168 (138) and Net sales for the quarter were MSEK 40 (55).
- The Gross margin for the period was 34% (46%) and Gross margin for the quarter was 31% (37%). Gross profit for the period was MSEK 56 (64) and Gross profit for the quarter was MSEK 12 (20). The quarter was affected by a one-time inventory adjustment of -3 MSEK.
- The quarter has also been impacted with costs of 5 MSEK related to cost-reduction activities. The related activities are expected to save approx. 50 MSEK annually. Further to this, the quarter has been affected by write-downs of 37.6 MSEK.
- Earnings before depreciations and amortizations (EBITDA) for the period were MSEK -148 (-59) and EBITDA for the quarter was MSEK -60 (-25).
- The Result after tax for the period was MSEK -208 (-68) and the Result after tax for the quarter was MSEK -106 (-30).
- Earnings per share after dilution for the period were SEK -0.13 (-0.08) and for the quarter SEK -0.05 (-0.03).
- ABLE Investment Advisors Inc., a Korean company, has entered into an agreement to invest 6 MUSD in Anoto, thereby replacing previous agreement with SMark Inc. As per November 25, 1.5 MUSD of the total amount has been received, with a further 3.0 MUSD secured through an issued guarantee from a financial institution.
- Cash flow during the period was MSEK -4 (3) and Cash flow for the quarter was MSEK -34 (0). Cash flow from operating activities before changes in working capital during the period was MSEK -158 (-49) and for the quarter MSEK -70 (-24). Cash flow from financing activities during the period was MSEK 150 (92) and for the quarter MSEK 20 (64).
- At present, Anoto faces a challenging financing situation. For further information, see “Risks and Uncertainties”.

Key ratios	2016	2015	2016	2015	2015
	Jul-Sep	Jul-Sep	Jan-Sep	Jan-Sep	Jan-Dec
Net sales, MSEK*	40	55	168	138	193
Gross profit/loss*	12	20	56	64	86
Gross margin, %	31	37	34	46	44
Operating margin, %	Neg	Neg	Neg	Neg	Neg
Operating profit/loss, MSEK	-104	-28	-206	-65	-106
EBITDA, MSEK	-60	-25	-148	-59	-99
Profit/loss for the period, MSEK*	-106	-30	-208	-68	-108
Earnings per share after dilution, SEK*	-0.05	-0.03	-0.13	-0.08	-0.13
Cash flow for the period, MSEK*	-34	0	-4	3	8
Cash at end of period, MSEK*	8	7	8	7	12

\* Defined under IFRS

## Comments from the CEO

Presently, Anoto is undergoing a period of decisive transformation, characterized by significant cost reduction efforts and refocusing on profitability. In order to achieve profitability, Anoto has taken firm steps to streamline costly development projects and create a small, efficient organization, reducing headcounts and closing offices. Anoto is also re-directing its strategy by reducing dependency on capital intensive hardware business (digital pens and large screens) and instead focusing on a highly profitable pattern-based technology business in the mobile and digital app space.

As a result of such strategic changes, Anoto decided to proactively write-off substantial charges of legacy projects in the third quarter of 2016.

To facilitate this transition, Anoto is leveraging its own proprietary technologies and entering into new partnerships. On July 15, 2016, Anoto entered into a strategic cooperation with Digiworks, a specialist in pattern-based encoding and printing technology. The alliance will complement Anoto's own proprietary pattern IP and pattern generating technology to kick start Anoto DNA business and to further expand Anoto's reach into various Asian markets.

The Anoto DNA business (ADNA) is built on Anoto's exceptional ability to create 600 quintillion unique patterns (hence, DNA) which can be printed onto products and devices. Each pattern has a unique ID and the possibility to add encodable data. With the introduction of ADNA business, Anoto expands the use of its proprietary pattern to ubiquitous mobile devices such as smartphones and tablets.

Anoto DNA has multiple applications and uses, from counterfeit protection to providing critical enabling technology to AR (Augmented Reality) advertising. Anoto is currently talking to a number of multinational companies ranging from consumer to industrial and service companies.

Having the Anoto DNA solution will also enable robust data-mining capabilities. This solution allows manufacturers to apply near-invisible unique patterns to their products, thereby enabling accurate item-level tracking and personalized digital engagement.

The cooperation between Anoto and Digiwork is reinforced by Anoto's investment of 2 MUSD in Digiwork's parent, SMark Co., Ltd. SMark is a Korean listed company on KOSDAQ Korea under "ticker" SMARK. Originally, the parties agreed that SMark in turn would invest 5 MUSD in Anoto at a subscription price of USD 0.029185. However, due to recent KOSDAQ (Korea Stock Exchange) regulations regarding cross-investments, SMark's affiliate company, ABLE Investment Advisors Inc (ABLE), will make the investment. The renegotiated agreement reflects an investment of 6 MUSD at a subscription rate of USD 0.023135. As per November 25, we have received approximately 1.5 MUSD from ABLE, with a further 3.0 MUSD secured through an issued guarantee from a financial institution. The remaining 1.5 MUSD is expected to arrive beginning of December.

While the above partnerships and innovation are opening exciting new markets, the acquisitions of Livescribe and Pen Generations ensure that Anoto retains a relevant footprint in the digital pen business. In addition to providing a diversification of the pen portfolio, these acquired companies also open up the fast-growing pen markets in Asia and Latin America. Pen Generations has a strong network of partnerships, especially in the Education sector in Asia, while Livescribe provides a strengthened presence in the US retail market. As previously communicated, Tstudy China has given Anoto a frame order of 120 000 pens to be delivered within one year – the value of this frame agreement can vary substantially depending on the type of pen Tstudy chooses to buy, but an absolute minimum would be around 4 MUSD annually. Overall, the pen pipeline is very strong, with several large orders for 2017 already in place. As announced on November 16, Anoto has received an 8.4 MUSD order for pens from India for deliveries over three years.

Historically, Anoto has invested heavily in R&D, both in pen development projects but also to develop capital intensive new businesses such as large interactive screens. As a result, the company has made substantial losses – losses which have been financed through share issues. Anoto has now decided to focus on only four business areas, and going forward the company will principally invest in one of these, namely Anoto DNA (ADNA).

Our costly pen developments projects, such as the pen delivery to a Japanese insurance company and the HP Screen pen, are no longer putting any strain on the Group's liquidity. The Japanese pen project has been successfully completed while the HP project is on hold while the commercial aspects are being renegotiated. As for the own branded large screen display development project, Anoto has chosen to discontinue this and will instead seek technology licensing option to existing large display manufacturers.

In conclusion, Anoto is moving in a new strategic direction that innovatively bridges the analogue – digital divide with hardware, software, patterns, and data. This strategy is built around Anoto's proprietary pens, microdot patterns, real-time image processing, big data, and the optic capabilities of mobile devices. It thereby leverages current strengths while delivering dramatically expanded global market presence.

Anoto remains committed to a profitable future, and accordingly further restructuring has been done during Q3. The latest restructuring effort, will result in annual savings of approximately 50 MSEK, affecting 50 FTEs. Related one-time costs amount to 5 MSEK and have been provided for in the Q3 numbers. In total, restructuring programs implemented during 2016 are estimated to save 100 MSEK annually versus present cost levels.

To ensure adequate financing throughout the ongoing transformation period, Anoto is presently negotiating a convertible bond offer of 5 MUSD of which approximately 4 MUSD has already been committed. The Board's opinion is that this additional 5 MUSD gives the Group the required funds to address the future business opportunities. The Board is working on various other alternatives to secure the required cash in case the convertible bond private placement is not fully placed.

## **OUTLOOK**

Anoto expects to close both the next quarter and the full year of 2016 at a loss. 2016 has been a challenging year notable for the tough decisions taken to transform from a hardware-focused organization to one building for a profitable future based on software, proprietary patterns, and robust image processing. Challenges will certainly remain in 2017 but it is expected that the newly efficient pen business will make strong contributions to the financial health of the organization while the pattern-business develops in less predictable but potentially more explosive ways. With costs lowered by 100 MSEK and this exciting portfolio to support growth, Anoto anticipates substantial improvements in its financial performance during 2017.

Joonhee Won  
CEO, Anoto Group AB (publ)

**ANOTO GROUP IN THE THIRD QUARTER 2016**

Total sales for the quarter amounted to 39.8 MSEK (55.3), and Earnings before Interest and Tax (EBIT) amounted to -103.9 MSEK (-27.6). The quarter has been affected by several non-recurring items, such as one-time costs related to a new wave of restructuring, adjustments of inventory values, and high non-capitalised costs related to the HP project. In sum total, these non-recurring items have a negative impact of -21.9 MSEK in the quarter.

Further to this, intangible assets have been tested for impairment during Q3. As a consequence of the ongoing restructuring and repositioning work Anoto is doing, some of these assets will carry less value going forward, and in particular the goodwill values have been assessed based on future organisation and focus. Therefore, the Q3 results also include a write-down of -34.1 MSEK related to goodwill, and -3.5 MSEK related to capitalised expenses.

Adjusted for write-downs and the non-recurring items mentioned above, EBIT for the quarter is -44.4 MSEK, this reflecting low activity in the pen and forms business over the summer and the fact that costs remain too high. The cost issue is being addressed and forecasted costs for 2017 are estimated to be approximately 100 MSEK lower than total costs in 2016. Sales are expected to revert to more normal levels during Q4.

The acquired entities XMS Penvision AB (acquired in August 2015), Livescribe Inc (acquired in December of 2015) and Pen Generations Inc (acquired in June of 2016) have impacted sales in the quarter with 31.6 MSEK with a corresponding EBIT effect of -18.8 MSEK.

Operative cash flow for the quarter was -70 MSEK (-24). Investments in Fixed assets amounted to 26 MSEK (43) including capitalised expenses of 6.2 MSEK (11.6). Cash flow after financial activities was -34 MSEK (0).

**ANOTO GROUP IN THE FIRST NINE MONTHS 2016**

Total sales YTD are 168.0 MSEK (138.0), with an EBIT of -206.1 MSEK (-65.0). Adjusted for the non-recurring items in Q3, previously booked one-time costs and the write-down of intangible assets, EBIT is -141.5 MSEK, reflecting that the present cost structure is too high. As stated above, this is being addressed.

YTD, the acquired entities XMS Penvision AB, Livescribe Inc and Pen Generations Inc have impacted sales with 75.0 MSEK with a corresponding EBIT effect of -39.6 MSEK.

Operative cash flow for the first nine months was -158 MSEK (-49). Investments in Fixed assets amounted to 47 (55) including capitalised expenses of 22.5 MSEK (20.6). Cash flow after financial activities was -4 (3).

### Net sales per product group

MSEK	2016 Jul-Sep	2015 Jul-Sep	2016 Jan-Sep	2015 Jan-Sep	2015 Jan-Dec
Licenses	1	6	5	26	31
Royalty	1	3	4	9	11
Digital pens	35	46	147	94	124
NRE	0	0	0	8	8
Other	3	0	12	0	18
<b>Total</b>	<b>40</b>	<b>55</b>	<b>168</b>	<b>137</b>	<b>193</b>

### ACCOUNTING POLICIES

This interim report was prepared in accordance with IAS 34, Interim Financial Reporting and applicable parts of the Swedish Annual Accounts Act. Disclosures in accordance with IAS 34 are presented either in notes or elsewhere in the report. This interim report for the parent company was prepared in accordance with Swedish Annual Accounts Act chapter 9. For information about the accounting policies applied, refer to the 2015 annual report. The accounting policies applied and the judgments in the Interim Report are consistent with those applied in the Annual Report for 2015 except for disclosure of ESMA's guidelines on alternative performance measures that is applied as of July 3, 2016 and implies disclosures related to financial measures not defined under IFRS.

### INVESTMENTS

As part of the cooperation between Anoto and Digiwork announced on July 18, Anoto has during Q3 invested 2 MUSD in Digiwork's parent, SMark Co., Ltd. SMark is a Korean listed company on KOSDAQ Korea under "ticker" SMARK.

During Q3 Anoto has invested additionally 6.2 MSEK in intangible assets for the Starbase project. This project has as its purpose to deliver a common, future pen platform for the Group.

### RISKFATORS AND UNCERTAINTIES

During 2016, Anoto Management has addressed a number of the operational risks facing the company, primarily that of too much cost in relation to sales. A number of cost-cutting activities have been combined with a refining of the overall strategy, and as announced on November 16, Anoto will narrow its focus going forward, working within four designated business lines. Expectations are that this refocusing, combined with the substantial reduction in costs, will put Anoto in a cash-generating position.

Financing remains Anoto's most urgent concern. Cash-on-hand as per September 30, together with the 6 MUSD investment from ABLE, is not sufficient to see the company through the ongoing transformation period. As per November 25, Anoto has received approximately 1.5 MUSD from ABLE with a further 3.0 MUSD secured by a guarantee issued by a financial institution. The remaining 1.5 MUSD are expected to arrive beginning of December. The entire amount will be used to pay overdue liabilities.

To strengthen its financial position, Anoto is presently negotiating a 5 MUSD convertible bond placement of which 4 MUSD is already committed. It is the opinion of the Board that this additional cash ensures the liquidity required to see Anoto through 2017, including the planned R&D investments in Product DNA. However, should the convertible bond placement not be signed in full, Anoto faces a

challenging financial situation which raises questions as to the viability of the business going forward. While it is the Board's opinion – further supported by the 4 MUSD above – that the convertible bond will be signed in full, it is also looking at various alternatives to secure the financing required to ensure that the Group remains a going concern.

As it is the Board's firm belief the planned financing is sufficient to see the Group through the transition period, this financial report does not reflect any adjustments that could be considered necessary should the Group not be able to continue its operations

### **SEGMENT REPORTING**

During the last few months, the Group has been reorganized so as to become a unified, global player on the market. As a consequence, the previous segments are no longer valid, and instead group expenses are categorized by function and applied to the Group as a whole. Consequently, there is no comparable financial information for the legacy fields of application and the Group has therefore chosen to discontinue this reporting.

### **RELATED PARTY TRANSACTIONS**

As per September 30, Anoto Group AB had loans from Inhye Kim, wife to CEO at Anoto, to a total value of 15.0 MSEK. These loans incur a 3.5% annual interest, are short-term and fall due before year-end 2016.

### **EMPLOYEES**

As of September 30, Anoto Group had a total of 112 employees as compared to 156 per year-end 2015. Of these, 19 are employed by Pen Generations. Since September, 13 employees have left the Group.

### **OPTION PROGRAM**

At present, Anoto Group has the following valid option programs:

4.6 million share-options have been granted to former CEO Stein Revelsby under the Anoto Incentive Scheme 2014/17 at a subscription price of 0.61 SEK. The share-options will mature during 2017.

The Company's Board of Directors has previously issued up to 3.9 million share-options grant to the Company's expanded management team under the Anoto Employee Incentive Programme 2015 at a subscription price of 0.90 SEK. The share-options will mature during 2018. Due to substantial changes in the expanded management team, this program will be replaced by a new program during Q4 2016.

The Company's Board of Directors has also authorized the issuance of a 9.0 million share-options grant to the Chairman of the Board of Directors Jörgen Durban at a subscription price of 1.43 SEK. The share-options will mature during 2018.

### **PARENT COMPANY**

Anoto Group AB is a pure holding company that has a limited number of corporate functions.

### **SHARE DATA**

The Anoto share is listed on the NASDAQ OMX Nordic Small Cap List in Stockholm. The total number of shares at the end of the period amounts to 2 277 077 468.

### **TRANSACTIONS AND ACTIVITIES AFTER SEPTEMBER 30, 2016**

As reported earlier, on July 18 Anoto Group entered in an agreement with SMark for an investment in Anoto Group of 5 MSEK. Due to restrictions on cross-ownership in Korea, SMark was unable to fulfill the investment, and as announced on October 17, Anoto Group has instead entered in an agreement



with ABLE Investments Ltd, a related party to SMark, to invest 6 MUSD in Anoto, corresponding to 259 349 551 shares. To date, 1.5 MUSD have been received with a further 3.0 MUSD secured by a guarantee issued by a financial institution.

Further to this, Anoto is placing a conditional bond offer of 5 MUSD of which 4 MUSD has already been committed to.

On November 16, Anoto closed a three-year deal with an Indian customer for a total sales value of 8.4 MUSD. In total, 100 000 Livescribe pens are to be delivered over the period.

#### **LEGAL ACTIVITIES**

The Company has filed patent infringement suits in Japan against NeoLAB Corporation (“NeoLAB”), a subsidiary of NeoLAB Convergence, and Uchida Yoko Co. Ltd. Anoto is seeking all available remedies, including but not limited to injunctive relief against importation of NeoLAB’s pen products and notebooks. The lawsuits, filed with the Civil Division of the Tokyo District Court, are based on Anoto’s Japanese patents 4245474, 4928696, and 4613251. The suits are focused on Anoto’s patented methods for digital pen design and optical pattern processing. The lawsuit is ongoing.

Anoto is currently involved in a dispute with LeapFrog Enterprises (and its affiliates), a U.S. (Delaware) company headquartered in Emeryville, California (“LeapFrog”), in both Sweden and the United States.

The dispute is related to two requests for arbitration filed by LeapFrog in Sweden, the first at the Stockholm Chamber of Commerce (“SCC Arbitration”) and the second at the International Chamber of Commerce (“ICC Arbitration”). In both the SCC Arbitration and the ICC Arbitration, LeapFrog is seeking indemnification and defence from Anoto with respect to patent infringement claims filed by Celebrate LLC in U.S. federal court in Delaware. Anoto believes both claims by LeapFrog to be wholly without merit and intends to defend against the claims vigorously.

A former Anoto employee has filed a civil lawsuit against the Company in Los Angeles, CA, alleging wrongful termination, unpaid wages/expenses and gender discrimination. After Anoto successfully removed this case to U.S. federal court, the Parties have commenced pre-trial discovery. Anoto believes the former employee’s claims are meritless and intends to defend the case vigorously.

Anoto Group AB discloses the information provided herein pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication at 08.45 on November 25, 2016.

**CALENDAR 2016**

Q4 report      February 2017

**FOR MORE INFORMATION**

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## Report on review of interim financial statements

To the Board of Directors of Anoto Group AB (publ) org. nr 556532-3929

### *Introduction*

We have reviewed the summary interim financial information (interim report) of Anoto Group AB (publ) for the period January 1, 2016 to September 30, 2016. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

### *Scope of Review*

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not, in all material respects, prepared for the Group in accordance with IAS 34 and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

### *Emphasis of Matter*

Without qualifying our opinion, we want to draw attention to the wording of the interim report under the heading of risk factors and uncertainties, that the Board intends to secure additional financing through a convertible bond placement to secure the necessary funds to manage the operation of the business 2017. In case the company will not receive the remaining investment amount from ABLE or fails to obtain the new funding this indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Malmö, November 25, 2016

Deloitte AB

Per-Arne Pettersson

Authorized Public Accountant

## FINANCIAL REPORTS

**Condensed statement of comprehensive income**

TSEK	2016 Jul-Sep	2015 Jul-Sep	2016 Jan-Sep	2015 Jan-Sep	2015 Jan-Dec
Net sales	39 759	55 372	168 040	138 033	192 839
Cost of goods and services sold	-27 263	-34 974	-111 719	-74 233	-107 283
<b>Gross profit</b>	<b>12 496</b>	<b>20 398</b>	<b>56 321</b>	<b>63 800</b>	<b>85 556</b>
Sales, administrative and R&D costs	-111 917	-48 865	-265 606	-129 887	-184 136
Other operating income/cost*	-4 472	852	3 206	1 057	-7 669
<b>Operating profit/loss</b>	<b>-103 893</b>	<b>-27 615</b>	<b>-206 079</b>	<b>-65 030</b>	<b>-106 249</b>
Other financial items	-2 827	-2 180	-4 704	-3 214	-3 710
<b>Profit before taxes</b>	<b>-106 720</b>	<b>-29 795</b>	<b>-210 783</b>	<b>-68 244</b>	<b>-109 959</b>
Taxes	1 109	229	3 225	221	1 604
<b>Profit/loss for the period</b>	<b>-105 611</b>	<b>-29 566</b>	<b>-207 558</b>	<b>-68 023</b>	<b>-108 355</b>
<b>Other comprehensive income</b>					
Translation differences for the period	-6 381	-4 684	-6 137	-1 893	-8 159
<b>Other comprehensive income for the period</b>	<b>-6 381</b>	<b>-4 684</b>	<b>-6 137</b>	<b>-1 893</b>	<b>-8 159</b>
<b>Total comprehensive income for the period</b>	<b>-111 992</b>	<b>-34 250</b>	<b>-213 695</b>	<b>-69 916</b>	<b>-116 514</b>
<b>Total Profit/loss for the period attributable to:</b>					
Shareholders of Anoto Group AB	-103 557	-30 992	-202 987	-65 409	-104 029
Non controlling interest	-2 054	1 426	-4 571	-2 614	-4 326
<b>Total Profit/loss for the period</b>	<b>-105 611</b>	<b>-29 566</b>	<b>-207 558</b>	<b>-68 023</b>	<b>-108 355</b>
<b>Total comprehensive income for the period attributable to:</b>					
Shareholders of Anoto Group AB	-110 013	-36 215	-210 106	-66 591	-109 800
Non controlling interest	-1 979	1 965	-3 589	-3 325	-6 714
<b>Total comprehensive income for the period</b>	<b>-111 992</b>	<b>-34 250</b>	<b>-213 695</b>	<b>-69 916</b>	<b>-116 514</b>
<b>Key ratios:</b>					
Gross margin	31.4%	36.8%	33.5%	46.2%	44.4%
Operating margin	Neg	Neg	Neg	Neg	Neg
Earnings per share after dilution	-0.05	-0.03	-0.13	-0.08	-0.13
Average number of shares after dilution	2 277 077 468	880 977 176	1 625 313 086	813 441 604	857 155 605

\* Including gain of MSEK 6.3 on re-measuring to fair value the existing interest of 19% in Pen Generation Inc on acquisition

## Condensed consolidated balance sheet

TSEK	2016-09-30	2015-09-30	2015-12-31
Intangible fixed assets	271 398	130 985	263 065
Tangible assets	9 812	4 943	5 944
Financial fixed assets	20 824	5 286	7 280
<b>Total fixed assets</b>	<b>302 034</b>	<b>141 214</b>	<b>276 289</b>
Inventories	65 314	16 916	44 589
Accounts receivable	39 534	44 707	65 443
Other current assets	35 175	43 217	51 378
<b>Total short-term receivables</b>	<b>74 709</b>	<b>87 924</b>	<b>116 821</b>
Liquid assets	7 692	6 899	11 629
<b>Total current assets</b>	<b>147 715</b>	<b>111 739</b>	<b>173 039</b>
<b>Total assets</b>	<b>449 749</b>	<b>252 953</b>	<b>449 328</b>
Equity attributable to shareholders' of Anoto Group AB	255 312	141 579	277 926
Non controlling interest	-14 185	-16 614	-9 730
<b>Total equity</b>	<b>241 127</b>	<b>124 965</b>	<b>268 196</b>
Provisions	7 967	0	10 394
Other long term liabilities	147	0	15 399
<b>Total long-term liabilities</b>	<b>8 114</b>	<b>0</b>	<b>25 793</b>
Short term provisions	1 413	4 571	1 756
Loans	38 484	18 566	8 145
Other current liabilities	160 611	104 851	145 438
<b>Total current liabilities</b>	<b>200 508</b>	<b>127 988</b>	<b>155 339</b>
<b>Total liabilities and shareholders' equity</b>	<b>449 749</b>	<b>252 953</b>	<b>449 328</b>

**Consolidated changes in shareholders' equity**

TSEK	Share capital	Ongoing share issue	Other capital contributed	Reserves	Profit/loss for the year	Shareholders equity	Non-controlling interest	Total equity
<b>Opening balance 1 January 2015</b>	<b>13 967</b>	<b>0</b>	<b>640 682</b>	<b>-2 746</b>	<b>-573 661</b>	<b>78 242</b>	<b>-16 198</b>	<b>62 044</b>
None controlling interest arising from business combination							2 752	2 752
Profit/loss for the year					-104 029	-104 029	-4 326	-108 355
Other comprehensive income				-5 771		-5 771	-2 388	-8 159
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-5 771</b>	<b>-104 029</b>	<b>-109 800</b>	<b>-6 714</b>	<b>-116 514</b>
Convertible bonds - conversion	983		16 396			17 379		17 379
Private placement 27 march	1 593		31 800			33 392		33 392
Private placement 15 june	400		14 228			14 628		14 628
Private placement 24 july	600		38 491			39 091		39 091
Acquisition of XMS - 8 august	361		25 077			25 438	157	25 595
Private placement 10 & 30 nov	3 160		175 584			178 744		178 744
Debt Conversion etc. - non controlling interest						0	11 085	11 085
Ongoing Acquisition of XMS		12	800			812	-812	0
<b>Closing balance 31 December 2015</b>	<b>21 064</b>	<b>12</b>	<b>943 057</b>	<b>-8 517</b>	<b>-677 690</b>	<b>277 926</b>	<b>-9 730</b>	<b>268 196</b>
Profit/loss for the year					-202 987	-202 987	-4 571	-207 558
Other comprehensive income				-7 119		-7 119	982	-6 137
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-7 119</b>	<b>-202 987</b>	<b>-210 106</b>	<b>-3 589</b>	<b>-213 695</b>
Private placement 27 march	260		10 091			10 351		10 351
Private placement 23 may	21 324		116 118			137 442		137 442
Acquisition of Pen Generation - 31 may	2 894		35 939			38 833		38 833
Ongoing Acquisition of XMS		12	854			866	-866	0
<b>Closing balance 30 September 2016</b>	<b>45 542</b>	<b>24</b>	<b>1 106 060</b>	<b>-15 636</b>	<b>-880 677</b>	<b>255 313</b>	<b>-14 185</b>	<b>241 127</b>

## Consolidated Cash flow statement

TSEK	2016	2015	2016	2015	2015
	Jul-Sep	Jul-Sep	Jan-Sep	Jan-Sep	Jan-Dec
<b>Profit/loss after financial items</b>	<b>-106 720</b>	<b>-29 795</b>	<b>-210 783</b>	<b>-68 244</b>	<b>-109 959</b>
Depreciation, amortisation	44 209	2 923	58 109	5 823	7 321
Other items not included in cash flow	-7 403	2 401	-5 681	13 413	2 627
Items not included in cash flow	<b>36 806</b>	<b>5 324</b>	<b>52 428</b>	<b>19 236</b>	<b>9 948</b>
<b>Cash flow from operating activities before changes in working capital</b>	<b>-69 914</b>	<b>-24 471</b>	<b>-158 355</b>	<b>-49 008</b>	<b>-100 011</b>
Change in operating receivables	-2 243	-30 060	52 620	-29 425	-59 927
Change in inventory	3 500	-7 506	4 578	2 032	-24 036
Change in operating liabilities	40 526	41 143	-5 749	41 875	99 192
<b>Cash flow from operating activities</b>	<b>-28 131</b>	<b>-20 894</b>	<b>-106 906</b>	<b>-34 526</b>	<b>-84 782</b>
Intangible assets	-6 477	-39 577	-27 482	-50 035	-39 378
Tangible fixed assets	-2 418	-3 366	-6 345	-4 828	-5 655
Acquisition of subsidiaries net of cash					-130 500
Financial assets	-16 969		-13 268		
<b>Cash flow from net capital expenditures</b>	<b>-25 864</b>	<b>-42 943</b>	<b>-47 095</b>	<b>-54 863</b>	<b>-175 533</b>
<b>Total cash flow before financing activities</b>	<b>-53 995</b>	<b>-63 837</b>	<b>-154 001</b>	<b>-89 389</b>	<b>-260 315</b>
New share issue	-847*	64 529	147 793	112 550	265 855
Change in financial liabilities	21 011	-369	2 271	-20 171	2 180
<b>Cash flow from financing activities</b>	<b>20 164</b>	<b>64 160</b>	<b>150 064</b>	<b>92 379</b>	<b>268 035</b>
<b>Cash flow for the period</b>	<b>-33 831</b>	<b>323</b>	<b>-3 937</b>	<b>2 990</b>	<b>7 720</b>
Liquid assets at the beginning of the period	41 523	6 576	11 629	3 909	3 909
<b>Liquid assets at the end of the period</b>	<b>7 692</b>	<b>6 899</b>	<b>7 692</b>	<b>6 899</b>	<b>11 629</b>

\*Refers to additional costs for previous share issues

## Key ratios

TSEK	2016	2015	2016	2015	2015
	Jul-Sep	Jul-Sep	Jan-Sep	Jan-Sep	Jan-Dec
<b>Cash flow for the period</b>	<b>-33 831</b>	<b>323</b>	<b>-3 937</b>	<b>2 990</b>	<b>7 720</b>
Cashflow / share after dilution (SEK) <sup>1</sup>	-0.01	0.00	0.00	0.00	0.01
Equity/assets ratio	56.8%	56.0%	56.8%	56.0%	61.9%
Number of shares	2 277 077 468	895 193 827	2 277 077 468	895 193 827	1 053 193 827
Shareholders' equity per share (kr)	0.11	0.16	0.11	0.16	0.26

<sup>1</sup> Based on the weighted average number of shares and outstanding warrants for each period. Only warrants for which the present value of the issue price are lower than the fair value of the ordinary share are included in the calculation.

## Parent company, summary of income statement

TSEK	2016	2015	2016	2015	2015
	Jul-Sep	Jul-Sep	Jan-Sep	Jan-Sep	Jan-Dec
Net sales	2 547	1 244	8 716	5 857	7 014
<b>Gross profit</b>	<b>2 547</b>	<b>1 244</b>	<b>8 716</b>	<b>5 857</b>	<b>7 014</b>
Administrative costs	-2 743	-1 356	-8 076	-4 676	-5 748
<b>Operating profit</b>	<b>-196</b>	<b>-112</b>	<b>640</b>	<b>1 181</b>	<b>1 266</b>
Profit/loss from shares in Group companies*	-150 000	0	-150 000	0	-90 000
Financial items	730	-95	156	-741	-819
<b>Profit/loss for the period</b>	<b>-149 466</b>	<b>-207</b>	<b>-149 204</b>	<b>440</b>	<b>-89 553</b>

\*2016 figures includes a write down of the shares in Anoto AB of MSEK 150.

## Parent company, balance sheet in summary

TSEK	2016-09-30	2015-09-30	2015-12-31
Intangible fixed assets	54	95	77
Financial fixed assets	448 087	295 904	389 268
<b>Total fixed assets</b>	<b>448 141</b>	<b>295 999</b>	<b>389 345</b>
Other short-term receivables	730	750	384
Liquid assets, including current investments	1 898	71	613
<b>Total current assets</b>	<b>2 628</b>	<b>821</b>	<b>997</b>
<b>Total assets</b>	<b>450 769</b>	<b>296 820</b>	<b>390 342</b>
Equity	425 606	293 287	383 450
Other long term liabilities	2 353	1 200	2 353
Loans	14 982	0	0
Other current liabilities	7 828	2 333	4 539
<b>Total liabilities and shareholders' equity</b>	<b>450 769</b>	<b>296 820</b>	<b>390 342</b>

Comparison numbers for prior periods regarding Financial fixed assets and Other short term receivables has been restated to increase comparison.



## Note 1 - Acquisitions 2016

### Pen Generation Inc.

On May 31, 2016 Anoto Group AB (publ) acquired the remaining 81% shares and votes in the company Pen Generation Inc. for MSEK 38,9. Pen Generations Inc. which is active within Anoto Enterprise Solutions has been a long standing Anoto Partner. Anoto has consolidated the acquired entity as from June 1, 2016.

Through this acquisition Anoto enhances its hardware product portfolio and hardware development capabilities.

During the period June 1 through September 30 Pen Generations contribution to Net sales was MSEK 13.6 and loss was MSEK -5.6.

From the period from January 1, 2016 through September 30, 2016 Pen Generation had Net sales of MSEK 31.1 and a net loss of MSEK -12.7.

### Effects from acquisitions

The acquired company's net assets at the time of acquisition:

#### (TSEK)

Intangible assets	394
Tangible assets	952
Other Non-current assets	276
Inventory	25 303
Current assets	19 720
Liquid assets	6
Interest bearing liabilities	-11 286
Current liability	-20 921
Other Non-current liabilities	<u>-1 530</u>
<b>Net identifiable assets and liabilities</b>	<b>12 914</b>

Group goodwill	<u>35 137</u>
<b>Consideration</b>	<b><u>48 051</u></b>

Revaluation on previous investment (19%) in Pen Generation Inc results in a gain of MSEK 6.3.

### Goodwill

The goodwill value includes additional sales resources and an increased presence on the Asian market.

No part of the goodwill is expected to be tax deductible.

### Acquisition related expenses

Expenses related to the acquisition amounts to 80 KSEK and includes fees to consultants in relation to the due diligence.

These expenses have been accounted as operating expenses in the Condensed statement of comprehensive income.

### Consideration

#### (TSEK)

Fair value on previous investment	9 130
Issued shares	38 922
<b>Total consideration</b>	<b><u>48 051</u></b>

Fair value of the 144 689 816 shares issued as part of the total consideration paid for the shares in Pen Generation Inc is based on the price for the Anoto share on the day of the transaction.

## Note 2 - Goodwill

(TSEK)	30-sep-16	31-dec-15
<b>Accumulated historical costs</b>		
Opening accumulated historical costs	481 325	368 193
Acquisitions for the year	35 137	120 815
Translation difference	642	-7 683
<b>Closing accumulated historical costs</b>	<b>517 104</b>	<b>481 325</b>
<b>Accumulated historical costs</b>		
Opening accumulated write downs	-298 674	-298 674
Write downs for the year	-34 095	0
<b>Closing accumulated write downs</b>	<b>-332 769</b>	<b>-298 674</b>
<b>Closing net balance</b>	<b>184 335</b>	<b>182 651</b>

The total reported amount of goodwill is externally acquired.

### Impairment testing

When assessing the value in use of the cash generating units, a discount factor of 15 % has been used which is consistent with prior years. The 2017 numbers used in the cash flow estimations prepared by Management reflect substantial growth, which is verified by the existing pipeline, as well as a marked drop in costs, reflecting the cost reductions implemented during 2016. For the following years, cash flow estimations reflect a 3-5% growth on base business, with an inflationary increase of costs of 1.5%. Additionally, incremental volume for three specified customers/projects have been discounted. Despite ongoing activities to improve margins, no such upsides have been discounted in the financial forecasts.

Of the five entities tested, two require write-downs. The goodwill for XMS Penvision, 18.3 MSEK, has been written down in full, while the goodwill for Anoto Ltd has been reduced by 15.8 MSEK. The total write-down is 34.1 MSEK.

The closing balance for goodwill includes the value for Anoto Ltd of 18.7 MSEK, Destiny of 26.1MSEK, Pen Generation Inc 38.1 MSEK and Livescribe 101.4 MSEK.

## Note 3 - Financial instruments

	Loans and accounts receivable	Available for sale financial assets	Other financial liabilities	Total book value	Total fair value
<b>Group 2016</b>					
Investments				2 251	2 251
Long-term receivables	1 611			1 611	1 611
Accounts receivable	39 534			39 534	39 534
Other receivables					0
Cash	7 962			7 962	7 962
Short-term investments and securities		16 962		16 962	16 962
<b>Assets</b>	<b>49 107</b>	<b>16 962</b>	<b>0</b>	<b>68 320</b>	<b>68 320</b>

Borrowings			38 484	38 484	38 484
Accounts payable			65 289	65 289	65 289
Other liabilities			13 291	13 291	13 291
<b>Liabilities</b>	<b>0</b>	<b>0</b>	<b>117 064</b>	<b>117 064</b>	<b>117 064</b>

	Loans and accounts receivable	Available for sale financial assets	Other financial liabilities	Total book value	Total fair value
<b>Group 2015</b>					
Investments				2 251	2 251
Long-term receivables	3 035			3 035	3 035
Accounts receivable	44 707			44 707	44 707
Other receivables					
Cash	6 898			6 898	6 898
Short-term investments and securities					
<b>Assets</b>	<b>54 640</b>	<b>0</b>	<b>0</b>	<b>56 891</b>	<b>56 891</b>

Borrowings			10 210	10 210	10 210
Accounts payable			38 201	38 201	38 201
Other liabilities			24 803	24 803	24 803
<b>Liabilities</b>	<b>0</b>	<b>0</b>	<b>73 214</b>	<b>73 214</b>	<b>73 214</b>

### Disclosures on fair value classification

Level 1: According to listed prices on an active market for similar instruments

Level 2: According to directly or indirectly observable market data not included in level 1

Level 3: According to indata not observable on the market

### Estimation of fair value

#### Accounts receivable and accounts payable

For accounts receivable and accounts payable with a remaining life of less than six months, recorded amount is deemed to reflect fair value. Accounts receivable and accounts payable with a due time over six months are discounted at the time of determining the fair value.

#### Financial assets that can be sold

Financial assets that can be sold are valued on the basis of level 1.

#### Borrowings

Borrowings are measured at amortized cost.

## Alternative performance measures

Anoto Group presents certain financial measures in this interim report that are not defined under IFRS. Anoto Group believes that these measures provide useful supplemental information to investors and the group's management as they allow evaluation of the company's performance. Because not all companies calculate these financial measures similarly, these are not always comparable to measures used by other companies. These financial measures should not be considered a substitute for measures defined under IFRS.

Definitions of alternative measures used by Anoto Group that are not defined under IFRS are presented below.

### GROSS MARGIN

*Gross profit as a percentage of net sales. Gross profit is defined as net sales less cost of goods sold*

### OPERATING PROFIT/LOSS

*Gross profit less costs for sales, administrative, R&D and other operating income/costs.*

### OPERATING MARGIN

*Operating profit/loss after depreciation and amortisation as a percentage of net sales*

### CASH FLOW PER SHARE FOR THE YEAR

*Cash flow for the year divided by the weighted average number of shares during the year.*

### EQUITY /ASSETS RATIO

*Equity attributable to shareholders of Anoto Group AB as a percentage of total assets*

### EBITDA

*Operating profit/loss before depreciation and amortisation.*

EBITDA is considered to be a useful measure of the group's performance because it approximate the underlying operating cash flow by elimination depreciation and amortisation. A reconciliation from group operating profit/loss is set out below.

	2016	2015	2016	2015	2015
TSEK	Jul-Sep	Jul-Sep	Jan-Sep	Jan-Sep	Jan-Dec
Operating profit/loss	-103 893	-27 615	-206 079	-65 030	-106 249
Depreciation and amortisation	44 209	2 923	58 109	5 823	7 321
EBITDA	-59 684	-24 692	-147 970	-59 207	-98 928