

# **Anoto Group**

## **January- September 2008 Interim Report**

- In the first nine months of 2008 net sales amounted to MSEK 126 (124). The same period in 2007 included non-recurring revenues of MSEK 37 connected to the settlement when divesting our U.S. subsidiary, as well as revenue from DNP in Japan. Third quarter net sales were MSEK 50 (38).
- The gross margin for January – September was 71% (76) and the gross profit was MSEK 89 (94). Adjusted for the non-recurring revenues, the gross profit increased by MSEK 25. Third quarter gross margin was 68% (83) and the gross profit was MSEK 34 (31).
- Excluding depreciation, write-downs and amortization, the result of the first nine months in 2008 was MSEK -14 (6). For the third quarter it was MSEK 1 (1).
- The loss after tax for the first nine months was MSEK -28 (-5). The third quarter result was MSEK 0 (-1).
- Earnings per share for the first nine months of 2008 were SEK -0.22 (-0.04). The third quarter earnings were SEK 0.00 (-0.01).
- The cash flow during the period January-September amounted to MSEK -94 (-20). The third quarter cash flow amounted to MSEK -37 (-8).

### **Summary of the activities during the third quarter**

- Sales improved by 34% compared to the same period last year.
- The cash position went down due to increase in inventory, accounts receivables and capital expenditures. These increases are mainly due to the acquisition of the Hitachi Maxell digital pen division and the improved sales volume in third quarter.
- Going forward the cash position will improve in conjunction with stronger sales and we see no need for a capital injection.
- The third quarter of 2008 is the first quarter ever that Anoto delivered a break-even result after tax, based on ordinary core-business.

- With effect from the third quarter, Anoto entered into a joint venture agreement with Hitachi Maxell concerning the Japanese and Asian markets and acquired the Hitachi Maxell digital pen division. This will give Anoto increased sales and profits since Anoto now controls the major part of the value chain (pen, license and pattern).
- In accordance with the agreement signed with Group Hamelin, we have commenced our deliveries of pens in September 2008.
- The Anoto Functionality Conference was held at the Hilton Hotel Malmö, on 8-10 September. The participants were Anoto partners, end customers and other key people within the industry. This year's conference attracted close to 200 participants from 29 countries around the world.
- Imaging Technology continues to show strong growth during 2008.

## **Comments from CEO Anders Norling**

### ***Break-even result in Q3 and the turn-around is ongoing***

The turn-around of Anoto, from a technically oriented organisation to an organisation with customer needs in focus is in line with my plans and has been successful. Since the acquisition of the Hitachi Maxell digital pen division last summer, we can now offer our customers and partners complete solutions within our core businesses, Anoto Products and Technology & Licensing.

Our activities during the first nine months of 2008, such as the development of the next generation digital pen, the acquisition of Covelus router technology, acquisition of Hitachi Maxell Digital Pen Division and a substantial increase in working capital have reduced our cash by MSEK 79.

The acquisition of the Hitachi Maxell Digital Pen Division included all their related intellectual property rights, tools and inventory as well as commercial contracts. This has reduced our cash by MSEK 28. A major part of that amount is finished goods in inventory, ready to be delivered.

As I foresee increased sales of pens resulting in a reduction of the inventory and limited capital expenditures, I expect that our cash flow will improve.

During the third quarter great efforts were made transferring know-how and production of the digital pen from Hitachi Maxell to ourselves. The transfer is going according to plan and we expect reduced production costs of goods as well as reduced operational costs. I expect that the OPEX level from next year will be in line with the level we had in 2007.

Excluding the non-recurring revenue of MSEK 37 in the first nine months of 2007, sales rose by 45%. However, operations did not meet our plans during the first two quarters, primarily due to delayed activities in the Japanese market. Sales in the third quarter were in line with our expectations even though the sales in the Japanese market are still a disappointment.

The third quarter of 2008 is the first quarter ever that Anoto delivered a break-even result after tax, based on ordinary core-business. I expect that all the efforts we have put into the turn-around will result in a more steady and profitable phase going forward.

## Organisation

The Anoto organisation is divided into three areas.

- Anoto Products
- Technology and Licensing
- Imaging Technology

### *Anoto Products*

<b>Amounts in MSEK</b>	<b>January-June</b>	<b>July-September</b>	<b>January-September</b>
Net sales 2008	38	17	55
2007	29	27	56
Gross profit 2008	26	13	39
2007	23	24	47

*Anoto Products focuses on systems, products and services that target businesses, primarily in the field of forms processing. Anoto has an indirect business model and markets its products through partners, such as system integrators, software developers and IT consulting firms, all of which offer customised solutions with Anoto technology to their corporate customers. Turnkey products, such as existing scanning and translation pens, as well as newly developed products including Anoto PenPresenter, may also be marketed through other sales and distribution channels.*

Anoto Products continues to grow, although at a slower pace than expected. The main reason is a slower than expected development of the Japanese market, where major projects are being postponed into 2009. On the positive side, we see steady growth in the important health care and pharmaceutical markets as well as within the areas of inspections and audits.

A soft launch in Scandinavia of the Anoto PenPresenter, an interactive meeting room tool and PowerPoint presentations enhancer, has started through selected channels. The European and US rollout is scheduled for the first quarter of 2009.

The third version of the platform (AFS 1.2) was launched at the end of October. Major new features include support for dynamic data printed on form copies, support for Print on Demand as an alternative to batch print and other additional user scenarios.

British Airways uses the Anoto's Digital Pen and Paper technology to help keeping their flight schedule at London's Heathrow airport. The Anoto's digital pens enable aircraft dispatchers to communicate mission-critical information securely from airside directly to the control centre, ultimately allowing the plane to take off on time.

Sales of C Tech's C-Pen and Pay Pen scanning pens are performing according to plan.

## **Technology and Licensing**

<b>Amounts in MSEK</b>	<b>January-June</b>	<b>July-September</b>	<b>January-September</b>
Net sales 2008	11	15	26
2007	43	3	46
Gross profit 2008	10	8	18
2007	33	3	36

*Within Technology and Licensing the Anoto technology is used to develop customer proprietary products. These products, which are based on a combination of digital material (books, cards, etc.) and digital pens that permit immediate feedback by means of speech, sound, etc., have targeted end customers up to this point. The concept supports learning and teaching products that are simple, intuitive and entertaining for the user. Anoto's strategy is to focus on the corporate market rather than the general consumer market.*

LeapFrog Tag Reading System, launched earlier this year, is now available through retail channels and sales have developed well. The product is now available on markets in North America, Europe and Australia. Since Leapfrog has prepaid the royalty, the sales volume has no impact on the Anoto's cash flow.

Development of technology and digital pens toward the area of visual communication products such as whiteboards and flipcharts is proceeding according to plan.

Sales of the Pulse™ smartpen by Anoto Partner Livescribe is reported to be better than expected in channels such as Target, Target.com, Amazon.com, and major college and university bookstores. Anoto receives royalty per pen sold.

Since September we have delivered the majority of pens to Hamelin, a leading European manufacturer of stationery and office supplies, in accordance with the initial contract. The digital pens are the key component of Hamelin's new Papershow product, which turns a paper notepad into an easy-to-use interactive whiteboard.

## **Imaging Technology**

<b>Amounts in MSEK</b>	<b>January-June</b>	<b>July-September</b>	<b>January-September</b>
Net sales 2008	26	18	44
2007	14	8	22
Gross profit 2008	19	13	32
2007	8	3	11

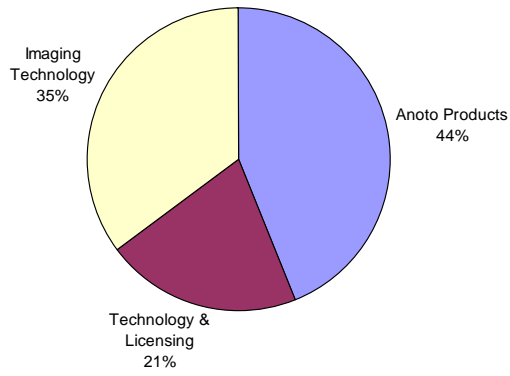
*Imaging Technology develops and markets basic Anoto technology like ASICs and IP blocks. The application area supplies and licenses Imaging Technology modules, components and function blocks for integration with customer products or components; including mobile phones, accessories and their components.*

Sales of mobile phones containing Anoto video technology have ramped up throughout 2008 and are expected to continue to grow in volumes following the market of advanced mobile phones.

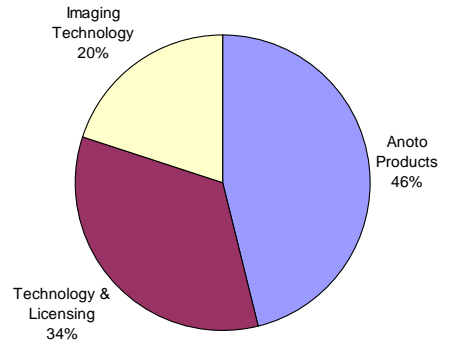
Imaging Technology performed according to plan and sales doubled compared to 2007. The increase is due to greater use of our video technology in mobile phones and other products.

We continue to seek business opportunities in collaboration with new and existing customers and partners.

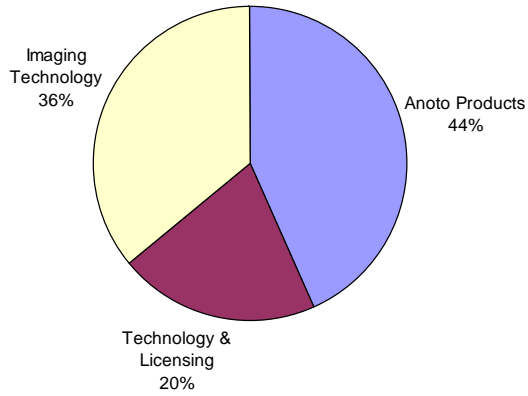
Net sales per application area Jan - Sept 2008



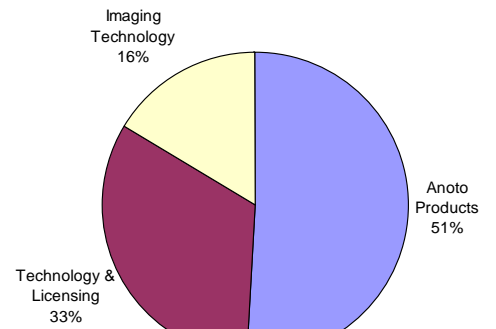
Net sales per applicaton area Jan - Sept 2007



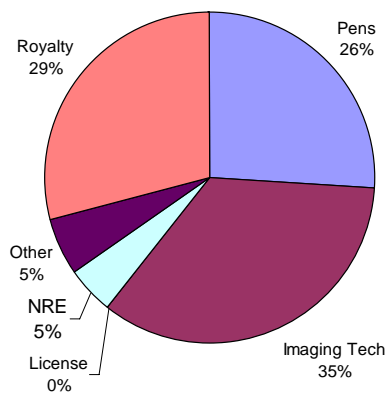
Gross profit per application area Jan - Sept 2008



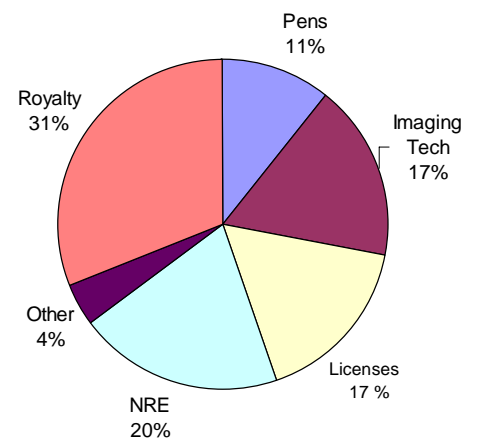
Gross profit per application area Jan - Sept 2007



Net sales per revenue category Jan-Sept 2008



Nets sales per revenue category Jan - Sept 2007



## **Third quarter 2008 in numbers**

### ***Sales and earnings for the third quarter (July-September)***

Third quarter sales were MSEK 50 (38).

The gross profit was MSEK 34 (31), and the gross margin was 68% (83).

Excluding depreciations amortization and write-downs, the profit was MSEK 1 (1).

Selling and administrative expenses, as well as research costs, amounted to MSEK -41 (-33), of which depreciations amortization and write-downs accounted for MSEK -4 (-3).

The third quarter operating loss was MSEK -3 (-2).

### ***Cash flow for the third quarter (July-September)***

Cash flow from operating activities totalled MSEK -25 (-3) for the third quarter.

Net cash flow amounted to MSEK -37 (-8), whereof net investment affected the quarter's cash flow of MSEK -13 (-7) and the increased inventory by MSEK -17 ( - 2).

### ***Financing and liquidity***

At the close of the third quarter, the group's cash amounted to MSEK 37 (160), inventory MSEK 37 (5), accounts receivable MSEK 39 (15) and accounts payable MSEK 15 (11).

### ***Anoto Group AB***

As a pure holding company, Anoto Group AB has a limited number of corporate functions and employees. Third quarter sales were MSEK 7 (5), while the pre-tax profit was MSEK 1 (0). At the close of the quarter, liquid assets, including current investments, amounted to MSEK 1 (90). Investments came to MSEK 0 (0).

## **Accounting policies**

This interim report was prepared in accordance with IAS 34, Interim Financial Reporting. For information about the accounting policies applied refer to the 2007 annual report. The accounting policies are unchanged from those applied in 2007.

## **Risk factors and uncertainties**

No significant additional risks are deemed to have arisen beyond those described in the 2007 annual report for the Anoto Group. (Please see Note 2 for a detailed presentation of the company's risk exposure and management.)

## **Share data**

The company's share is listed on the OMX Nordic Small Cap Index in Stockholm. Shares numbered 128,583,867 at the end of the second quarter, in addition to which 3,515,500 warrants were outstanding, of which 0 were deemed to have a value as of 30 September 2008.

## **Option programmes**

The parent company has issued options as part of various incentive programmes. Full exercise of all remaining programmes would result in dilution of about 2.7%.

## **Outlook**

***Anders Norling, CEO***

I foresee a promising future with increased profits and an improved cash flow due to the fact that we now are close to complete a major and costly turn-around of the business of Anoto. The acquisition of the digital pen business, the restructuring from a technically to a customer orientated company, packaged products offerings, have moved the company higher up in the valuechain. We can now offer our customers more complete products, including technical solutions, a software platform and the digital pen.



## **Reporting schedule**

2008 year-end report	10 February 2009
Annual General Meeting	14 May 2009

Proposals for the Annual General Meeting 2009 shall be made to the Anoto's Board, preferably by email to [AGM.2009@anoto.com](mailto:AGM.2009@anoto.com), by 17 March 2009 in order to be part of the notice of the meeting.

The Anoto Group AB's 2007 annual report is available at [www.anoto.com](http://www.anoto.com). A printout of the digital version may be ordered from the company.

Lund, 7 November 2008

Anders Norling  
CEO

This report has not been reviewed by the company auditors.

*Anoto Group AB may be required to disclose the information provided herein pursuant to the Securities Markets Act. The information was submitted for publication at 08.30 on 7 November 2008.*

## **For more information**

You are welcome to participate in Anoto's teleconference for financial analysts and the media at 10.00 CET on 7 November 2008.

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## Profit & Loss Statement

	(SEK thousand)	Note	Q3		Jan - Sept		Year	
			Jul - Sept 2008	Jul - Sept 2007	Jan - Sept 2008	Jan - Sept 2007	Jan - Dec 2007	Jan - Dec 2006
Net sales			50 350	37 551	125 950	123 748	168 771	108 725
Costs of goods and services sold			(15 869)	(6 426)	(36 682)	(29 461)	(39 657)	(30 321)
<b>Gross profit/loss</b>			<b>34 481</b>	<b>31 125</b>	<b>89 269</b>	<b>94 287</b>	<b>129 114</b>	<b>78 404</b>
Sales, administrative and research costs			(40 908)	(32 647)	(120 284)	(101 116)	(138 319)	(210 223)
Other operating income			3 757	-	3 087	-	(459)	-
<b>Operating profit/loss</b>			<b>(2 670)</b>	<b>(1 522)</b>	<b>(27 928)</b>	<b>(6 829)</b>	<b>(9 664)</b>	<b>(131 819)</b>
Writedown of shares in associated companies			-	-	(1 686)	(123)	(252)	(769)
Other financial items			1 331	1 260	580	2 649	3 269	794
<b>Profit/loss after financial items</b>			<b>(1 339)</b>	<b>(262)</b>	<b>(29 033)</b>	<b>(4 303)</b>	<b>(6 647)</b>	<b>(131 794)</b>
Minority share			966	(212)	1 512	(289)	(110)	41
<b>Profit/loss before taxes</b>			<b>(373)</b>	<b>(474)</b>	<b>(27 521)</b>	<b>(4 592)</b>	<b>(6 757)</b>	<b>(131 753)</b>
Taxes			3	(344)	(856)	(708)	(791)	(1 208)
<b>Profit/loss for the period</b>			<b>(370)</b>	<b>(818)</b>	<b>(28 377)</b>	<b>(5 300)</b>	<b>(7 548)</b>	<b>(132 961)</b>
<i>Profit/loss from ongoing operations</i>			(370)	(818)	(28 377)	(5 300)	(7 548)	(80 602)
<i>Profit/loss for the period from closed operations</i>		1	-	-	-	-	-	(51 879)
<b>Key ratios</b>								
Gross profit			68,5%	82,9%	70,9%	76,2%	76,5%	72,1%
Operating margin			Neg	Neg	Neg	Neg	Neg	Neg
Earnings per share (SEK) <sup>1</sup>			(0,00)	(0,01)	(0,22)	(0,04)	(0,06)	(1,03)
Earnings per share after dilution (SEK) <sup>1</sup>			(0,00)	(0,01)	(0,22)	(0,04)	(0,06)	(1,03)

<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 is lower than the fair value of the ordinary share are included in the calculation.

## Summary of Balance Sheet

(SEK thousand)	2008-09-30	2007-09-30	2007-12-31	2006-12-31
Intangible fixed assets	363 706	336 414	339 473	343 324
Tangible assets	6 704	3 614	4 046	3 512
Financial fixed assets	5 347	8 999	8 560	5 080
Inventories	36 952	4 865	5 960	1 936
Accounts receivable	39 456	15 405	24 062	27 615
Other current assets	47 940	40 577	51 132	15 669
Liquid assets, including current investments	37 094	159 854	131 301	179 841
<b>Total assets</b>	<b>537 200</b>	<b>569 728</b>	<b>564 534</b>	<b>576 977</b>
Equity attributable to shareholders of Anoto Group AB	425 489	454 280	452 809	458 237
Equity attributable to minority interests	502	2 289	2 069	1 959
Long-term provisions	-	-	-	4 150
Long-term liabilities	44 160	51 992	50 088	63 721
Current provisions	686	3 154	1 627	1 529
Other current liabilities	66 363	58 013	57 941	47 381
<b>Total liabilities and shareholders' equity</b>	<b>537 200</b>	<b>569 728</b>	<b>564 534</b>	<b>576 977</b>

## Change in shareholders' equity

	Jan - Sept 2007	Jan - Sept 2007	Jan - Dec 2007	Jan - Dec 2006
<b>Opening balance</b>	<b>454 878</b>	<b>460 196</b>	<b>460 196</b>	<b>555 690</b>
Issue of new shares	-	-	-	28 596
Changes in minority interest	(1 567)	330	151	1 959
Costs of granting options	55	3 398	3 766	7 896
Translation differences	183	(2 055)	(1 687)	(980)
Profit/loss for the period	(28 377)	(5 300)	(7 549)	(132 965)
<b>Closing balance</b>	<b>425 172</b>	<b>456 569</b>	<b>454 878</b>	<b>460 196</b>

## Cash Flow Statement

(SEK thousand)	Q3		Jan - Sept		Year	
	Jul - Sept 2008	Jul - Sept 2007	Jan - Sept 2008	Jan - Sept 2007	Jan - Dec 2007	Jan - Dec 2006
Profit/loss after financial items	(1 339)	(262)	(29 033)	(4 303)	(6 647)	(131 798)
Adjustment for items not included in cash flow	-	-	-	-	-	-
Change in provisions	290	(1 175)	(1 021)	(2 883)	(4 330)	(26 215)
Depreciation, amortisation and write-downs	3 716	2 724	13 817	12 631	15 912	28 317
Profit on shares in Group and associated companies	-	-	-	-	252	4
Costs of granting options	(19)	634	55	3 398	3 766	7 896
Other financial items	(1 331)	(1 260)	(580)	(2 649)	(3 269)	(794)
Taxes paid	3	(344)	(856)	(708)	(791)	(295)
<b>Cash flow from operating activities before change in working capital</b>	<b>1 320</b>	<b>317</b>	<b>(17 618)</b>	<b>5 486</b>	<b>4 893</b>	<b>(122 885)</b>
Change in working capital	(26 563)	(2 857)	(42 811)	(16 352)	(38 031)	73 642
<b>Cash flow from operating activities</b>	<b>(25 243)</b>	<b>(2 540)</b>	<b>(60 429)</b>	<b>(10 866)</b>	<b>(33 138)</b>	<b>(49 243)</b>
Net investments	(13 229)	(6 631)	(36 011)	(9 760)	(16 402)	(14 190)
<b>Total cash flow before financing activities</b>	<b>(38 472)</b>	<b>(9 171)</b>	<b>(96 440)</b>	<b>(20 626)</b>	<b>(49 540)</b>	<b>(63 433)</b>
<b>Financing activities</b>						
Issues of new shares	-	-	-	-	-	28 596
Change in long-term liabilities	97	7	1 499	(14)	(6)	578
Capital from minority interests	-	-	-	-	-	2 000
Other financial items	1 331	1 260	580	2 649	3 269	794
Other items	62	(99)	154	(1 996)	(2 263)	(184)
<b>Cash flow for the period</b>	<b>(36 982)</b>	<b>(8 003)</b>	<b>(94 207)</b>	<b>(19 987)</b>	<b>(48 540)</b>	<b>(31 649)</b>
Liquid assets at the beginning of the period*	74 076	167 857	131 301	179 841	179 841	211 490
<b>Liquid assets at the end of the period*</b>	<b>37 094</b>	<b>159 854</b>	<b>37 094</b>	<b>159 854</b>	<b>131 301</b>	<b>179 841</b>
<i>Cash flow from ongoing operations</i>	<i>(36 982)</i>	<i>(8 003)</i>	<i>(94 207)</i>	<i>(19 987)</i>	<i>(48 540)</i>	<i>17 686</i>
<i>Cash flow from closed operations</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(49 335)</i>

\*Cash, bank balances and current investments with a duration of less than 6 months

**Key ratios**
**The Group**

	Jul - Sept 2008	Jul - Sept 2007	Jan - Sept 2008	Jan - Sept 2007	Jan - Dec 2007	Jan - Dec 2006
Cash flow for the year (KSEK)	(36 982)	(8 003)	(94 207)	(19 987)	(48 540)	(31 649)
Cash flow per share (SEK) <sup>2</sup>	(0,29)	(0,06)	(0,73)	(0,16)	(0,38)	(0,25)
Cash flow per share after dilution (SEK) <sup>2</sup>	(0,29)	(0,06)	(0,73)	(0,16)	(0,38)	(0,25)

	2008-09-30	2007-09-30	2007-12-31	2006-12-31
Equity/assets ratio	79,2%	79,7%	80,2%	79,4%
Number of shares <sup>3</sup>	128 583 867	128 583 867	128 583 867	128 583 867
Shareholders' equity per share (SEK) <sup>3</sup>	3,31	3,53	3,52	3,56

2 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 is lower than the fair value of the ordinary share are included in the calculation.

3 Including outstanding warrants (08-09-30: 0; 07-09-30: 0; 07-12-31: 0; 06-12-31: 0)

Only warrants for which the present value of the issue price is lower than the fair value of the ordinary share are included in the calculation.

**Parent Company**
**Profit & Loss Statement**

(SEK thousand)	Jul - Sept 2008	Jul - Sept 2007	Jan - Sept 2008	Jan - Dec 2007	Jan - Dec 2007	Jan - Dec 2006
Net sales	6 911	5 006	21 768	19 977	26 155	41 513
<b>Gross profit</b>	6 911	5 006	21 768	19 977	26 155	41 513
Administrative costs	(6 252)	(5 428)	(19 805)	(20 276)	(26 507)	(32 473)
<b>Operating profit</b>	659	(422)	1 963	(299)	(352)	9 040
Financial items	(26)	858	28	2 786	9	(120 906)
<b>Profit after financial items</b>	633	436	1 991	2 487	(343)	(111 866)
Taxes	4	-	-	-	-	-
<b>Profit after taxes</b>	637	436	1 991	2 487	(343)	(111 866)
Earnings per share before dilution (SEK)	0,00	0,00	0,02	0,02	(0,00)	(0,87)
Earnings per share after dilution (SEK)	0,00	0,00	0,02	0,02	(0,00)	(0,87)

**Parent Company**
**Summary of Balance Sheet**

(SEK thousand)	2008-09-30	2007-09-30	2007-12-31	2006-12-31
Intangible fixed assets	716	800	804	792
Tangible assets	404	136	366	190
Financial fixed assets	344 700	344 700	344 700	344 700
Other current assets	112 977	24 534	44 553	3 615
Liquid assets, including current investments	617	90 026	67 896	143 570
<b>Total assets</b>	<b>459 413</b>	<b>460 196</b>	<b>458 319</b>	<b>492 867</b>
Equity	452 728	453 567	450 737	451 080
Provisions	-	-	-	-
Other current liabilities	6 685	6 629	7 582	41 787
<b>Total liabilities and shareholders' equity</b>	<b>459 413</b>	<b>460 196</b>	<b>458 319</b>	<b>492 867</b>

**Group**
**Note 1 Closed operations - Profit & Loss**

	Jul - Sept 2008	Jul - Sept 2007	Jan - Sept 2008	Jan - Sept 2007	Jan - Dec 2007	Jan - Dec 2006
Net sales	-	-	-	-	-	752
Costs from operations	-	-	-	-	-	(52 151)
Loss from disposal of assets	-	-	-	-	-	-
<b>Loss before taxes</b>	-	-	-	-	-	<b>(51 399)</b>
Income tax	-	-	-	-	-	(480)
	-	-	-	-	-	-
<b>Loss for the year from closed operations</b>	-	-	-	-	-	<b>(51 879)</b>

**Note 2 Closed operations - Cash flow**

	Jul - Sept 2008	Jul - Sept 2007	Jan - Sept 2008	Jan - Sept 2007	Jan - Dec 2007	Jan - Dec 2006
Profit/loss after financial items	-	-	-	-	-	(51 399)
Depreciation	-	-	-	-	-	1 107
Costs of granting options	-	-	-	-	-	4 937
Taxes paid	-	-	-	-	-	(480)
Investments	-	-	-	-	-	(3 500)
	-	-	-	-	-	-
<b>Cash flow for the period</b>	-	-	-	-	-	<b>(49 335)</b>