

***ANOTO***

QUARTERLY REPORT

Q1/ 2014

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Anoto Group AB is a global leader in digital writing solutions, which enables fast and reliable transmission of handwriting into a digital format. Anoto operates worldwide through a global partner network that delivers user-friendly digital writing solutions for efficient capture, transmission, distribution and storage of data. Anoto is currently in use across multiple business segments, e.g. healthcare, banking and finance, transportation and logistics and education. The Anoto Group has around 100 employees and is headquartered in Lund (Sweden). The company also has offices in Guildford, Basingstoke and Wetherby (UK), Amsterdam (NL), Boston (US) and Tokyo (Japan). The Anoto share is traded on the Small Cap list of NASDAQ OMX Stockholm under the ticker ANOT.

This report was published May 9, 2014 at 08.30 CET

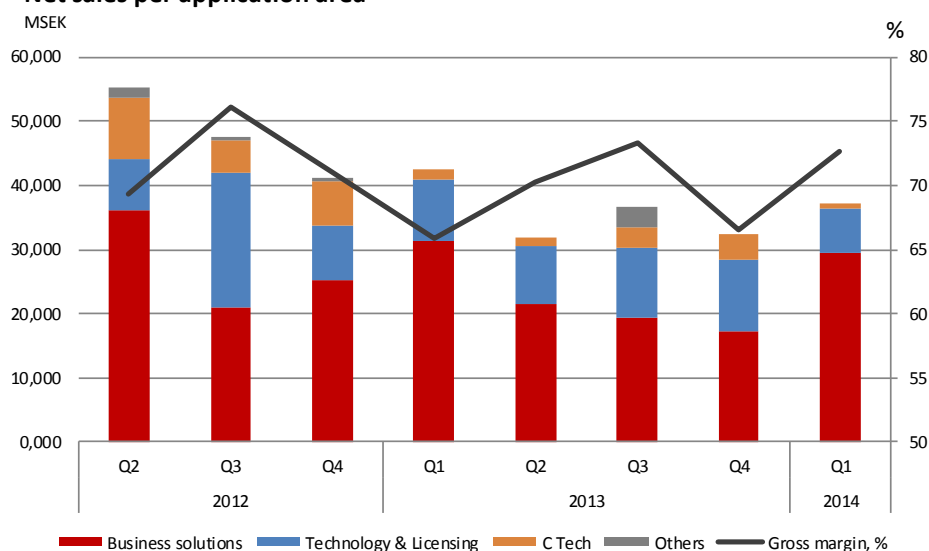
For more information: [www.anoto.com](http://www.anoto.com)

## REPORT JANUARY – MARCH 2014

- Net sales in the period amounted to MSEK 37 (43).
- The Gross margin for the period was 73% (66). Gross profit for the period was MSEK 27 (28).
- Earnings before depreciations and amortizations (EBITDA) for the period was MSEK -8 (-17).
- The Result after tax for the period was MSEK -13 (-21).
- Earnings per share before and after dilution for the period was SEK -0.03 (-0.15).
- Cash flow during the period was MSEK 0 (8). Cash flow from operating activities before changes in working capital in the period was MSEK -9 (-17). Cash flow from financing activities during the period was MSEK 14 (31).

Key ratios	2014	2013	2013
	Jan-Mar	Jan-Mar	Jan-Dec
Net sales, MSEK	37	43	144
Gross profit/loss	27	28	97
Gross margin, %	73	66	68
Operating profit/loss, MSEK	-12	-20	-163
Profit/loss after tax, MSEK	-13	-21	-168
Earnings per share			
before and after dilution, SEK	-0,03	-0,15	-1,03
Cash flow, MSEK	0	8	2
Cash at end of period, MSEK	7	13	7

### Net sales per application area



## Comments from the CEO

### INCREASING MOMENTUM IN HEALTHCARE

Revenues in Q1 were MSEK 37.0 compared to MSEK 33.3 in Q4. Gross margin was 72.7% compared to 61.0% in Q4. Operating expenses were on target MSEK 34.6 in Q1 compared to MSEK 36.3 in Q4. EBITDA was MSEK -7.7 compared to MSEK -16.0 in Q4. Cash flow for the quarter was MSEK 0.4, including MSEK 15 of net proceeds from the private placement in March. Included in working capital at the end of the quarter was a large inventory of 23,200 DP 201 digital pens for Business solutions.

60% of total revenues and 76% of Business solutions revenues in Q1 came from the UK of which a vast majority was business in healthcare. Thirty percent of the MGBP 100 Nursing Technology Fund was released for the successful first round of applications. NHS Trusts were granted funds to deploy technologies including digital writing and other options to improve efficiency of their nursing staff. The remaining seventy percent of the Nursing Technology Fund is expected to be released towards the end of the year with a potential positive impact on our business in Q4 this year. There is also an increasing business momentum within healthcare outside the UK. Our partner Phoniro has developed its Health Diary solution around Anoto's digital writing technology. Phoniro Health Diary is being used by hospitals in Sweden to monitor patients with terminal illnesses such as cancer, chronic obstructive pulmonary disease and severe heart conditions. Patients report their state on a daily basis, without the need for a physician or nurse present, making it possible to take care of the patients in their own homes.

Business solutions revenues outside healthcare were disappointing in Q1 although several projects are ongoing, especially within banking in Germany and Turkey as well as within field service (oil & gas) in the US.

Our OEM business within education, consumer, voting and screens has taken longer to establish and did not materialize in higher sales in Q1. We strongly believe though that Anoto has a large future opportunity in these business areas. Digital writing is one of four major human nature interface technologies in a rapidly expanding world of ubiquitous computing, in addition to voice, touch and gesture. The pen is and has always been a preferred communication tool because of its accuracy, backed by rich libraries of symbols, letters and languages embedded in human cultures. For a digital pen to be as useful as a pencil or ballpoint pen, it needs to be as precise as those traditional tools and possess the same touch and feel in addition to offering connectivity.

### OUTLOOK

Total revenues per quarter need to increase approximately 30% compared to revenues in Q1 for Anoto to break-even at the current OPEX level. In the UK we are working to optimize resources between Anoto and 51% owned subsidiary Destiny Wireless and to further capitalize on the success within healthcare. Outside the UK we need to strengthen our presence, marketing and sales as well as establish new partnerships.

We expect more business from OEM partners. Livescribe is positioning their Livescribe 3 to be used with iPhones and iPads and is now selling online and in Apple stores world-wide. TStudy has developed revolutionary interactive learning applications and is now selling in China. Panasonic has started selling 4K Toughpad with Touchpen to professional users within automotive, healthcare, design and construction.

The development of applications for voting has taken longer than expected but is now progressing well. We are constantly focusing on improving cash flow and manage working capital, optimize resources and further reduce costs. We see a potential in aligning interests and realizing synergies with partners Livescribe in the US and Pen Generations in Korea.



Stein Revelsby  
CEO  
Anoto Group

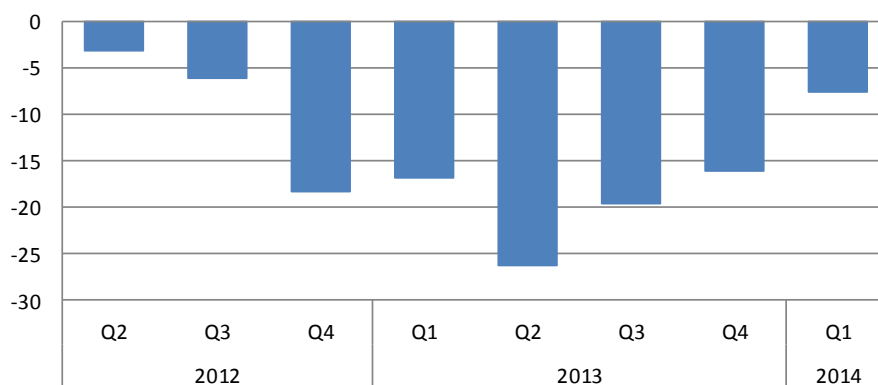
## A PARTNER DRIVEN BUSINESS MODEL

Anoto's business is organized in three business areas: Business Solutions, Technology Licensing (education, note taking, voting, screens) and C Technologies. These three areas generate income in five different categories - licensing, royalty, digital pens, components, NRE (Non Refundable Engineering) and other.

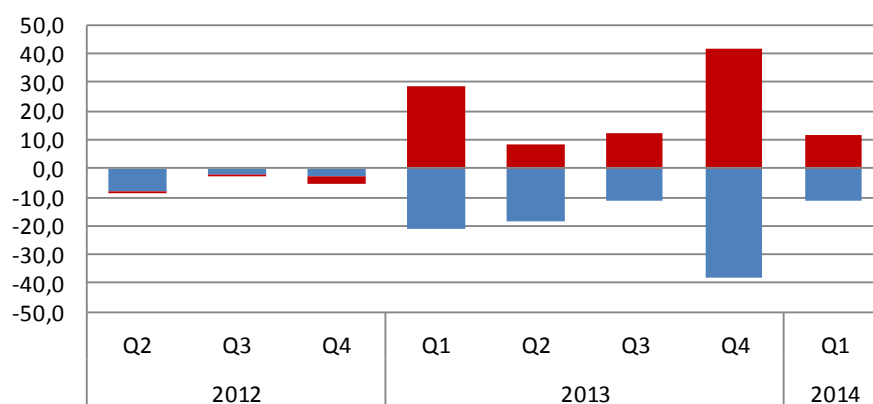
MSEK	2014	2013	2013
	Jan-Mar	Jan-Mar	Jan-Dec
Licenses	12	12	30
Royalty	4	5	19
Digital pens*	16	21	76
NRE	2	4	10
Other	3	1	10
<b>Total</b>	<b>37</b>	<b>43</b>	<b>144</b>

\* Digital pens include the C-Pen

EBITDA 2012-2014 (MSEK)



Cash flow 2012-2014 (MSEK)



■ Cash flow from operating activities ■ Cash flow from other activities

## BUSINESS SOLUTIONS

*Business Solutions focuses on systems, products and services that target businesses, primarily in the field of forms processing and data capture. The offering is Pen Solutions which includes solutions for creating a form in digital format, digital processing of handwritten forms and automatic generation of a digital version of a document with handwritten signatures and notes. 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 customized solutions with Anoto technology to their customers.*

Net sales during the period were MSEK 29, which is MSEK 2 below net sales during the same period last year. We shipped approximately 5,900 pens to partners and customers within business solutions in this quarter. 60% of total revenues and 76% of business solutions revenues in Q1 came from the UK of which a vast majority was business in healthcare.

### EMEA

**UK:** The UK had a strong Q1 delivering MSEK 23 in sales, with the majority of new business being generated from new clients in the NHS. 2,400 pens were shipped in the quarter with the majority of these being deployed for maternity and community nursing applications within the NHS. Anoto also completed the development and deployment of a custom web-portal for Aneurin Bevan Health Board which facilitates the cross-agency sharing of patient data, captured in the community with Anoto Digital Pens. This highly successful project has helped to maintain a high profile for Anoto technology across Wales and the business is developing a strong sales pipeline in this region of the UK.

The Nursing Technology Fund has a further £ 70 million to award later this year (Q4) and Anoto is working hard in the UK to optimize its share of this second wave of government funding.

**Other EMEA countries:** Phoniro entered with their Health Diary solution into the Tele-health market in Sweden. Using Anoto's digital writing technology in combination with Phoniro's Health Diary, patients with terminal illnesses report their condition and levels of pain and discomfort which is transmitted to the hospital as it is written, allowing physicians and care teams to take immediate action should a patient need urgent treatment.

### Emerging markets:

**India:** Our business development efforts in India are paying off resulting in the first pilots in the financial services and healthcare sectors. Our partner InformDS have more than 50 LivePDF users installed for doctor prescription services.

**Turkey:** Our partner XMS/Magicturk received a large contract of more than 1.100 pens from a financial institution to equip their sales force to capturing new contracts in combination with iPads.

### USA

The USA team has achieved compliancy for the Health Insurance Portability and Accountability Act (HIPAA) and is now qualified to offer Anoto Live™ forms as a hosted or locally installed solution to the US healthcare market. HIPAA compliancy means Anoto Inc. has implemented the processes and procedures to regulate the interchange of protected health information (PHI) in order to prevent unlawful disclosure or release of patient information. Anoto's HIPAA compliancy has attracted new Electronic Medical Records (EMR) vendors who will resell Anoto's Live™ forms as mobile patient data capture.

### Japan

Our partner DNP expanded their digital pen base at their key insurance customer where over 10,000 digital pens are being used for mobile contract capture.

	2014	2013	2011
MSEK	Jan-Mar	Jan-Mar	Jan-Dec
Net sales	29	31	89
Gross profit	21	20	61

## TECHNOLOGY LICENSING (OEM SALES)

Customers within Technology Licensing develop and sell products based on our intellectual property, software, and digital pen products. For many years, Anoto has licensed its technologies to providers of interactive classroom solutions as well as learning aids for children. Productivity tools, such as for note-taking and meeting productivity, are also long-established products in our Technology Licensing segment. Recently, Anoto has established two new application areas through partners: voting solutions and digital design automation. Voting solutions are based on our traditional digital paper technology, while digital design automation solutions help animators and designers unleash the creative power of digital writing with interactive touch displays.

Net sales during the period were MSEK 7, which is MSEK 3 lower than the same period last year.

In the personal productivity segment, Livescribe launched their latest digital offering, the Livescribe 3, for iPhones and iPads, and they are now selling online and in Apple stores world-wide. Sales in Q1 were approximately 40,000 units.

In education, TStudy has developed revolutionary interactive learning applications and is now selling in China. Royalty for the sale of approximately 30,000 pens was invoiced in Q1. Following re-negotiations of our contract with customers within the education market we now invoice royalty instead of hardware for the education market.

In design automation, Panasonic has recently launched the 4K Toughpad with Touchpen to professional users within automotive, healthcare, design and construction. Volumes and market adoption depends on user acceptance, marketing and sales. We expect to get initial feedback and better forecast visibility during Q2.

The development of applications for voting is progressing, albeit more slowly than anticipated due to functional requirements in this segment and the changeover to our latest Live pen platform.

MSEK	2014	2013	2011
	Jan-Mar	Jan-Mar	Jan-Dec
Net sales	7	10	42
Gross profit	6	8	29

## C TECHNOLOGIES

C Technologies develops, manufactures and sells C-Pen®, a handheld scanner solution with character recognition software. The C-Pen captures printed information such as text, numbers and codes, decodes the information and transfers it to computers and smartphones. The products are made available through the C-Pen brand and as OEM-branded versions.

Net sales during the period were MSEK 1 which is MSEK 1 lower than during the first quarter last year.

The business was downsized during last year. C Technologies continues to sell its products to OEM customers as well as within select retail channels.

MSEK	2014	2013	2011
	Jan-Mar	Jan-Mar	Jan-Dec
Net sales	1	2	10
Gross profit	0	1	4

**ANOTO GROUP AB**

As a pure holding company, Anoto Group AB has a limited number of corporate functions.

**ACCOUNTING POLICIES**

This interim report was prepared in accordance with IAS 34, Interim Financial Reporting and applicable parts of the Swedish Annual Accounts Act chapter 9. For information about the accounting policies applied, refer to the 2012 annual report. The accounting policies are unchanged from those applied in 2013.

**RISK FACTORS AND UNCERTAINTIES**

At the close of the quarter, the group's total cash amounted to MSEK 7.5 which is an increase by MSEK 0.5 compared to year-end of 2013.

Following continued weak sales during the quarter except for in the UK, Anoto are faced with continued challenges related to liquidity. Working capital consists of a large amount of pens in inventory and the company's ability to sell these will have a significant impact on cash flow. Unless sales increase significantly in Q2 the company may need to consider options for financing, hence some uncertainty exists regarding going concern.

No significant additional risks are deemed to have arisen beyond those described in the 2013 annual report for the Anoto Group. (Please see Note 4 in the Annual report 2013 for a detailed presentation of the company's risk exposure and management.)

**RELATED PARTY TRANSACTIONS**

The largest shareholder of Anoto, Aurora Investment Ltd (owned by TStone), has been represented in the board of directors since the Annual Meeting in May 2010. Transactions with companies within the TStone group amounts to MSEK 1,6 during 2014. All transactions have been made on normal commercial conditions and at the end of the quarter there are no overdue receivables on entities within the TStone group.

**TRANSACTIONS AND ACTIVITIES AFTER MARCH 31, 2014**

There have been no significant activities or transactions after March 31.

**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, including the private placement of 19,291,639 shares carried out during March, amounts to 453,353,534.

**OPTION PROGRAM**

On July 5, 2013, the EGM decided to authorize the Board the mandate to issue, shares, convertibles and warrants with a maximum dilution of 10%. There are currently no outstanding warrants.

Stein Revelsby  
CEO



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 May 9, 2014.

A webcast of the Q4 report will be available from 09.00 on May 9 and a Q&A session via audiocast will be held at 11.00 the same day. For more information, see [www.anoto.com/investors](http://www.anoto.com/investors).

**CALENDAR 2014**

AGM	22 May, 2014
Q2 report	15 Aug, 2014
Q3 report	7 Nov, 2014
Q4 report	February 2015

**FOR MORE INFORMATION**

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## FINANCIAL REPORTS

### Condensed statement of comprehensive income

	Note	2014	2013	2013
TSEK		Jan-Mar	Jan-Mar	Jan-Dec
Net sales		37 074	42 628	144 306
Cost of goods and services sold		-10 138	-14 526	-46 832
<b>Gross profit</b>		<b>26 936</b>	<b>28 102</b>	<b>97 474</b>
Sales, administrative and R&D costs		-38 622	-50 799	-185 417
Other operating income/cost		-419	2 269	-75 508
<b>Operating profit/loss</b>		<b>-12 105</b>	<b>-20 428</b>	<b>-163 451</b>
Other financial items		-793	-613	-4 839
<b>Profit before taxes</b>		<b>-12 898</b>	<b>-21 041</b>	<b>-168 290</b>
Taxes		-6	-	-12
<b>Profit/loss for the period</b>		<b>-12 904</b>	<b>-21 041</b>	<b>-168 302</b>
<b>Other comprehensive income</b>				
Translation differences for the period		-302	3 226	5 194
<b>Other comprehensive income for the period</b>		<b>-302</b>	<b>3 226</b>	<b>5 194</b>
<b>Total comprehensive income for the period</b>		<b>-13 206</b>	<b>-17 815</b>	<b>-163 108</b>
<b>Total Profit/loss for the period attributable to:</b>				
Shareholders of Anoto Group AB		-13 639	-21 220	-166 231
Non controlling interest		735	179	-2 071
<b>Total Profit/loss for the period</b>		<b>-12 904</b>	<b>-21 041</b>	<b>-168 302</b>
<b>Total comprehensive income for the period attributable to:</b>				
Shareholders of Anoto Group AB		-13 027	-18 941	-161 226
Non controlling interest		-179	1 126	-1 882
<b>Total comprehensive income for the period</b>		<b>-13 206</b>	<b>-17 815</b>	<b>-163 108</b>
<b>Key ratios:</b>				
Gross margin		72,7%	65,9%	67,5%
Operating margin		Neg	Neg	Neg
Earnings per share before and after dilution		-0,03	-0,15	-1,03
Average number of shares before and after dilution		428 752 205	137 037 081	162 858 591

## Consolidated balance sheet in summary

TSEK	2014-03-31	2013-12-31
Intangible fixed assets	69 820	71 318
Tangible assets	2 743	3 084
Financial fixed assets	3 653	3 605
<b>Total fixed assets</b>	<b>76 216</b>	<b>78 007</b>
Inventories	22 167	27 985
Accounts receivable	28 628	27 502
Other current assets	20 158	31 347
<b>Total short-term receivables</b>	<b>48 786</b>	<b>58 849</b>
Liquid assets, including current investments	7 464	7 008
<b>Total current assets</b>	<b>78 417</b>	<b>93 842</b>
<b>Total assets</b>	<b>154 633</b>	<b>171 849</b>
Equity attributable to shareholders of Anoto Group AB	84 792	82 657
Non controlling interest	-16 214	-16 770
<b>Total equity</b>	<b>68 578</b>	<b>65 887</b>
Loans	0	1 011
<b>Total long-term liabilities</b>	<b>0</b>	<b>1 011</b>
Provisions	466	493
Loans	16 907	16 313
Other current liabilities*	68 682	88 145
<b>Total current liabilities</b>	<b>86 055</b>	<b>104 951</b>
<b>Total liabilities and shareholders equity</b>	<b>154 633</b>	<b>171 849</b>

## 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
Opening balance 1 January 2013	2 741	0	471 420	2 464	-345 934	130 691	-14 888	115 803
Profit/loss for the year					-166 231	-166 231	-2 071	-168 302
Other comprehensive income				5 005		5 005	189	5 194
<b>Total comprehensive income</b>				<b>5 005</b>	<b>-166 231</b>	<b>-161 226</b>	<b>-1 882</b>	<b>-163 108</b>
New share issue	5 056		97 091			102 147		102 147
Ongoing new share issue		884	10 161			11 045		11 045
<b>Closing balance 31 December 2013</b>	<b>7 797</b>		<b>578 672</b>	<b>7 469</b>	<b>-512 165</b>	<b>82 657</b>	<b>-16 770</b>	<b>65 887</b>
Profit/loss for the year					-12 904	-12 904	735	-12 169
Other comprehensive income				-123		-123	-179	-302
<b>Total comprehensive income</b>				<b>-123</b>	<b>-12 904</b>	<b>-13 027</b>	<b>556</b>	<b>-12 471</b>
Share issue	386		14 776			15 162		15 162
<b>Closing balance 31 Mar 2014</b>	<b>8 183</b>	<b>0</b>	<b>593 448</b>	<b>7 346</b>	<b>-525 069</b>	<b>84 792</b>	<b>-16 214</b>	<b>68 578</b>

## Consolidated Cash flow statement in summary

TSEK	2014	2013	2013
	Jan-Mar	Jan-Mar	Jan-Dec
<b>Profit/loss after financial items</b>	<b>-12 898</b>	<b>-21 041</b>	<b>-168 290</b>
Depreciation & amortisation	3 571	3 363	12 332
Writedowns	843	225	72 379
Other items not included in cash flow	-27	247	341
<b>Cash flow from operating activities before changes in working capital</b>	<b>-8 511</b>	<b>-17 206</b>	<b>-83 238</b>
Change in operating receivables	10 063	-7 853	-15 192
Change in inventory	5 818	5 604	2 931
Change in operating liabilities	-18 819	-1 577	6 097
<b>Cash flow from operating activities</b>	<b>-11 449</b>	<b>-21 032</b>	<b>-89 402</b>
Cash flow from net capital expenditures	-2 016	-2 464	-3 946
<b>Total cash flow before financing activities</b>	<b>-13 465</b>	<b>-23 496</b>	<b>-93 348</b>
New share issue	15 162	32 673	94 800
Change in long-term receivables	-1 241	-1 290	97
<b>Cash flow from financing activities</b>	<b>13 921</b>	<b>31 383</b>	<b>94 897</b>
<b>Cash flow for the period</b>	<b>456</b>	<b>7 887</b>	<b>1 549</b>
Liquid assets at the beginning of the period	7 008	5 459	5 459
<b>Liquid assets at the end of the period</b>	<b>7 464</b>	<b>13 346</b>	<b>7 008</b>

## Key ratios

TSEK	2014	2013	2013
	Jan-Mar	Jan-Mar	Jan-Dec
<b>Cash flow for the period</b>	456	7 887	1 549
Cashflow / share before and after dilution (SEK) <sup>1</sup>	0,00	-0,04	-0,13
		<b>2014-03-31</b>	<b>2013-03-31</b>
Equity/assets ratio		54,8%	48,1%
Number of shares		453 353 534	389 882 641
Shareholders equity per share (kr)		0,19	0,21

<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.

## Parent company, summary of income statement

TSEK	2014	2013	2013
	Jan-Mar	Jan-Mar	Jan-Dec
Net sales	1 326	697	6 804
<b>Gross profit</b>	<b>1 326</b>	<b>697</b>	<b>6 804</b>
Administrative costs	-1 201	-583	-5 565
<b>Operating profit</b>	<b>125</b>	<b>114</b>	<b>1 239</b>
Profit/loss from shares in Group companies		-	-143 604
Financial items	-5	-51	-583
<b>Profit for the period</b>	<b>120</b>	<b>63</b>	<b>-142 948</b>

## Parent company, balance sheet in summary

TSEK	2014-03-31	2013-12-31
Intangible fixed assets	203	221
Tangible assets	0	0
Financial fixed assets	114 385	114 385
<b>Total fixed assets</b>	<b>114 588</b>	<b>114 606</b>
Other short-term receivables	37 926	103 862
Liquid assets, including current investments	1 748	3 933
<b>Total current assets</b>	<b>39 674</b>	<b>107 795</b>
<b>Total assets</b>	<b>154 262</b>	<b>222 401</b>
Equity	147 246	131 711
Other current liabilities	7 016	90 690
<b>Total liabilities and shareholders equity</b>	<b>154 262</b>	<b>222 401</b>