ANOTO

QUARTERLY REPORT

Q1/ 2018

Anoto Group AB is a global leader in digital writing and drawing solutions, having historically used its proprietary technology to develop smartpens and the related software. These smartpens enrich the daily lives of millions of people around the world. Now Anoto is also using its pattern, optics, and image-processing expertise to bridge between the analogue and digital domains through an initiative known as Anoto DNA (ADNA). ADNA makes it possible to uniquely and unobtrusively mark physical objects and then easily identify those individual objects using ubiquitous mobile devices such as phones and tablets. ADNA is enabling exciting possibilities for product innovation, marketing insights, and supply-chain control. Anoto is traded on the Small Cap list of Nasdaq Stockholm under ANOT.

This report was published on April 30, 2018 at 08:45 CET

For more information: www.anoto.com

REPORT JANUARY – MARCH 2018

- Net Sales in this quarter was MSEK 28 (46) and Operating Profit amounted to MSEK 1 (-32).
- The decline in Net Sales is primarily attributable to Forms customers timing their pen orders to coincide with the availability of enterprise quantities of the new Anoto pen (AP-701). In addition, Anoto's pricing policy change in the Forms business has also contributed to this deferral of revenue. The new model lowers upfront hardware costs and establishes recurring revenue streams associated with hardware, software, and Anoto's proprietary microdot pattern.
- This pricing model transition required us to turn down numerous renewal requests based on the old pricing scheme with an unavoidable impact on revenue but the Group expects a substantial increase in revenue in coming quarters with lift provided by rapid adoption of the new pen and broad acceptance of the strategically sound new pricing policy.
- While year-over-year Net Sales for the period decreased by MSEK 18, the Group made an Operating Profit of MSEK 1 (-32) due to higher gross margins and lower operating costs.
- Gross margin in the period increased to 61% (35%) as a result of better margins in the Notetaking business and licensing revenue growing to 43% (7%) of the overall mix.
- Overhead costs in the period were MSEK 16, significantly down from the prior year (MSEK 48), due to the restructuring and cost-reduction efforts across all operations.

Key ratios	**2018 Jan-Mar**	**2017 Jan-Mar**	**2017 Jan-Dec**
Net sales, MSEK*	28	46	173
Gross profit/loss*	17	16	71
Gross margin, %	61%	35%	41%
Operating profit/loss, MSEK	1	-32	-37
Operating margin, %	5%	Neg	Neg
EBITDA, MSEK	2	-28	-21
Profit/loss for the period, MSEK*	6	-37	-53
Earnings per share before and after dilution, SEK*	0.06	-0.34	-0.49
Cash flow for the period, MSEK*	-17	0	26
Cash at end of period, MSEK*	15	6	32

** Defined under IFRS*

CEO COMMENTS

Q1 2018 results are significant in two aspects. One, it marks the fourth straight quarter of operational profit. Q4 2017 showed losses but it was due to the intangible asset amortization related to the Livescribe acquisition. Operationally, this quarter is the close of one full year of operational profit starting in Q2 of 2017. Second, our efforts to boost software and pattern licensing revenue paid off as our gross margin exceeded 61% for the quarter. The 61% gross margin delivered this period demonstrates that Anoto's transition from a hardware company to a solutions company is now a market reality. The combination of increasing recurring revenue from hardware, software, and pattern licensing and dramatically reduced operating costs gives us the enduring strength to drive the kind of growth that aligns with our strategic vision.

A recently concluded agreement with Vodafone to provide Anoto's best-of-breed Forms solution to Welsh Ambulance Services Trust (WAST) evidences that major customers see fair value in the new Anoto model. This transaction delivers in excess of £1 million non-hardware revenue and is representative of the numerous enterprise opportunities actively being managed in the Anoto pipeline.

The shift to direct engagement with some of the largest companies in the world is starting to produce the anticipated results. The sales cycles are long but each global supply agreement established is a gateway to multiple significant transactions around the world providing recurring revenue and valuable intracompany advocacy.

The biggest problem area for Q1 results is revenue. It remains sluggish due mainly to two factors: 1) the Forms business is only doing deals with customers who agree to new software and pattern license fees, 2) growth in the Notetaking business is slower than anticipated due to a lack of marketing resources. However, management is fully aware of our need for growth and is doing everything to address these issues. Anoto presently has 36 major projects in various stages of maturation ranging from early exploration to final piloting. These projects are spread across 10 industries giving us the benefits of diversity which include stability and multiple spaces in which to enjoy the steepest segment of the adoption curve. In addition, Anoto recently re-established and expanded its European distribution channels for Livescribe products and we can already see signs of strength in this important region.

OUTLOOK AND FUTURE STRATEGY

The company is continuing its transition to software/applications driven business. Anoto has a great underlying technology, but lacks killer applications that enable users to take advantage of such great technology. Historically, Anoto relied on its partners to do the development of such applications and acquired them when they had software that Anoto wanted. XMS Penvision was such a case. Anoto still uses Anoto Live Forms which was created by XMS. Anoto also has software called ALE which was created by another Anoto partner, Develop IQ, which was also subsequently acquired.

This strategy, in my mind, is ineffective and flawed. The decision to buy such software was proof of Anoto's inability to create its own software and required a very detailed integration process which never happened. The software acquired was created by small system integrators for smaller customers. They fundamentally had a different customer profile than Anoto which deals with much bigger clients on a global scale.

Current management of Anoto found a cheaper and quicker way of building solutions. Anoto hired two key technical management team members; one in software and one in hardware. We have decided to fundamentally move technical development, both hardware and software, to Korea and bolster the team in Korea. These experts bring a wealth of knowledge and talent to Anoto in the areas of software development, firmware, and hardware innovation.

Hojae Hwang, a renowned software architect, joined Anoto as Chief Technology Officer. Mr. Hwang will be responsible for overseeing all of Anoto's software development including mobile apps and SDKs. As Chief Technology Officer, Mr. Hwang is also responsible for extending the Anoto DNA technology and expanding Anoto's IP relating to pattern technology.

Steve Kim is joining as Chief Engineering & Manufacturing Officer. Mr. Kim will be responsible for all hardware development, manufacturing, and supply chain management. He has an impressive background in hardware development and is an expert in hardware system design and manufacturing. Mr. Kim brings significant relevant experience to Anoto having designed and developed a satellite radio, an image processing chip, a DNA detection kit, PDAs, and multimedia signal processors.

Anoto's Management Committee now consists of four members: CEO, Chief Strategy Officer, Chief Technology Officer, and Chief Engineering and Manufacturing Officer. The addition of software and hardware experts is in line with both Anoto's strategy to further upgrade the technological superiority of Anoto and its new focus: killer applications using Anoto pattern technology.

In terms of sales growth, we are continuing to develop clients who are large recurring customers. Working directly with large multinational companies is a long and arduous process. We have to patiently go through many pilot projects before the company finally decides to commercially deploy our technology. However, we firmly believe that many of our existing 36 projects in 10 industries across 5 continents will be translated to future revenue and we will not relax our efforts to further expand our customer base and geographic scope.

Joonhee Won
CEO, Anoto Group AB (publ)

ANOTO GROUP IN THE FIRST QUARTER 2018

Net Sales in the quarter amounted to MSEK 28 (46) and Operating Profit amounted to MSEK 1 (-32).

The structural changes by restructuring and cost-reduction efforts are producing the desired cost savings; the Group has now managed and will continue to do quarterly overhead cost down to less than MSEK 20.

The Group expects to further improve the financial performance through substantial sales growth with the new pen and the new pricing policy, improved gross margin from the increase in the proportion of recurring licensing revenue, and the cost management, going forward.

Net sales per product group	**2018**	**2017**	**2017**
MSEK	**Jan-Mar**	**Jan-Mar**	**Jan-Dec**
Licenses and royalties	12	3	36
Digital Pens	15	33	132
Other	1	10	5
Total	28	46	173

Quarterly Summary	**2018**	**2017**	**2017**	**2017**	**2017**
	1Q	**4Q**	**3Q**	**2Q**	**1Q**
Net sales, MSEK*	28	26	49	46	68
Gross margin, %	61%	48%	43%	35%	34%
Operating costs, MSEK	-16	-29	-14	-48	-77
Operating profit/loss, MSEK	1	-16	7	-32	-33
EBITDA, MSEK	2	-5	7	-27	-42
Profit/loss for the period, MSEK	6	-13	1	-37	-56

** Defined under IFRS*

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 2017 annual report. The accounting policies applied and the judgments in the Interim Report are consistent with those applied in the Annual Report for 2017 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.

No new or amended standards or interpretations have had an impact on the Group's financial position, results, cash flows or disclosures. The new and revised standards and interpretations that have been issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRIC) but which only come into effect for financial years beginning on or after 1 January 2018 have not yet been applied by the Group.

Goodwill arising on consolidation was reviewed for impairment in Q4 2017. No further provision for impairment of Goodwill was considered necessary in Q4 2017 or Q1 2018.

INVESTMENTS

In Q1 2018 Anoto invested MSEK 1.0 in additional product development costs capitalised as intangible assets. This project has as its purpose to develop new pens and deliver a common future pen platform for the Group.

FINANCING

In this reporting quarter, Anoto converted MSEK 42.3 of bonds issued in the previous quarters and issued 10,587,820 new shares in Anoto Group AB.

RISK FACTORS AND UNCERTAINTIES

The management and the board are of the opinion that the cash flow will support the ongoing business for the next twelve months. The company may seek additional financing in case of new strategic projects.

SEGMENT REPORTING

Throughout last year, the Group has been reorganized to become a more unified global entity, and internal reporting does not yet include any reporting on segments. Internal reporting has been prepared for the group as a whole. The Group will prepare appropriate segmental reporting this year.

EMPLOYEES

As of March 31, 2018, Anoto Group had a total of 33 employees as compared to 35 at year-end 2017.

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. On October 4, 2017, Anoto has carried out a reverse split (1:30). The total number of shares at the end of the period was 112,654,950.

LEGAL ACTIVITIES

Anoto remains a defendant in a lawsuit filed by a technology company, APOLOGIC Information Applications, in the commercial court of St. Malo Commercial Court. Anoto believes that the claim by APOLOGIC, alleging breach of commercial contract, is wholly without merit and furthermore that the court lacks jurisdiction over Anoto. Anoto’s attorneys are optimistic about Anoto’s likelihood of prevailing.

CALENDAR 2018

Annual General Meeting – 15 May, 2018
Q2 Report – 31 July, 2018

Please visit www.anoto.com/investors for the latest investor calendar information.

FOR MORE INFORMATION

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This information is information that Anoto Group AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out above, at 08:45 CET on 30 April 2018.

FINANCIAL REPORTS

Condensed statement of comprehensive income

TSEK	2018 Jan-Mar	2017 Jan-Mar	2017 Jan-Dec
Net sales	28,355	45,791	173,010
Cost of goods and services sold	-10,977	-29,776	-102,088
Gross profit	**17,378**	**16,015**	**70,922**
Sales, administrative and R&D costs	-15,912	-47,718	-107,312
Other operating income/cost	-140	59	-188
Operating profit/loss	**1,326**	**-31,644**	**-36,578**
Other financial items	4,743	-5,784	-19,623
Profit before taxes	**6,069**	**-37,428**	**-56,201**
Taxes	0	-37	3,257
Profit/loss for the period	**6,069**	**-37,465**	**-52,944**
Total Profit/loss for the period attributable to:			
Shareholders of Anoto Group AB	6,058	-37,487	-52,809
Non controlling interest	11	22	-135
Total Profit/loss for the period	**6,069**	**-37,465**	**-52,944**
Other comprehensive income			
Translation differences for the period	243	9,791	9,316
Other comprehensive income for the period	**243**	**9,791**	**9,316**
Total comprehensive income for the period	**6,312**	**-27,674**	**-43,628**
Total comprehensive income for the period attributable to:			
Shareholders of Anoto Group AB	6,301	-27,696	-43,493
Non controlling interest	11	22	-135
Total comprehensive income for the period	**6,312**	**-27,674**	**-43,628**
Key ratios:			
Gross margin	61.3%	35.0%	41.0%
Operating margin	4.7%	Neg	Neg
Earnings per share before and after dilution	0.06	-0.34	-0.49
Average number of shares before and after dilution	105,108,647	81,206,070	89,117,341

Condensed consolidated balance sheet

TSEK	2018-3-31	2017-3-31	2017-12-31
Intangible fixed assets	256,237	236,754	255,282
Tangible assets	3,166	5,134	3,404
Financial fixed assets	18,331	18,738	18,318
Total fixed assets	**277,734**	**260,626**	**277,003**
Inventories	**51,014**	**42,129**	**51,766**
Accounts receivable	35,955	22,395	27,747
Other current assets	15,339	29,978	11,429
Total short-term receivables	**51,294**	**52,373**	**39,176**
Liquid assets, including current investments	14,609	5,923	31,664
Total current assets	**116,918**	**100,425**	**122,606**
Total assets	**394,652**	**361,051**	**399,609**
Equity attributable to shareholders of Anoto Group AB	324,885	184,321	276,284
Non controlling interest	-572	-426	-583
Total equity	**324,313**	**183,895**	**275,701**
Convertible debt	2,149	29,800	44,449
Long Term Provisions	3,293	11,955	3,289
Other long term liabilities	0	0	0
Total long-term liabilities	**5,442**	**41,755**	**47,737**
Short term provisions	242	0	242
Short term loans	8,993	27,424	11,309
Other current liabilities	55,663	107,977	64,621
Total current liabilities	**64,898**	**135,401**	**76,171**
Total liabilities and shareholders equity	**394,652**	**361,051**	**399,609**

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
Opening balance 1 January 2017	**46,817**	**24**	**1,117,530**	**-11,074**	**-940,039**	**213,258**	**-1,689**	**211,569**
Profit/loss for the year					-52,809	-52,809	-135	-52,944
Other comprehensive income				9,316		9,316		9,316
Total comprehensive income	**0**	**0**	**0**	**9,316**	**-52,809**	**-43,493**	**-135**	**-43,628**
Prior year adjustment					-3,364	-3,364		-3,364
Ongoing acquisition of XMS 1)	57	-24	-1,274			-1,241	1,241	0
Conversion of debt - 8 May	4,415		25,385			29,800		29,800
Private placement - 8 May	4,250		39,673			43,923		43,923
Conversion of debt - 29 Sep.	4,000		22,000			26,000		26,000
Conversion of debt - 31 Oct.	1,701		9,699			11,400		11,400
Closing balance 31 December 2017	**61,240**	**0**	**1,213,013**	**-1,758**	**-996,211**	**276,284**	**-583**	**275,701**
Profit/loss for the year					6,058	6,058	11	6,069
Other comprehensive income				243		243		243
Total comprehensive income	**0**	**0**	**0**	**243**	**6,058**	**6,301**	**11**	**6,312**
Conversion of debt - 16 Jan.	308		1,692			2,000		2,000
Conversion of debt - 6 Mar.	4,800		27,200			32,000		32,000
Conversion of debt - 14 Mar.	1,245		7,055			8,300		8,300
Closing balance 31 March 2018	**67,593**	**0**	**1,248,960**	**-1,515**	**-990,153**	**324,885**	**-572**	**324,313**

Consolidated Cash flow statement

TSEK	2018 Jan-Mar	2017 Jan-Mar	2017 Jan-Dec
Profit/loss after financial items	**6,069**	**-37,468**	**-56,201**
Depreciation, amortisation	352	4,036	15,835
Other items not included in cash flow	-2,551	17,966	14,196
Items not included in cash flow	**-2,199**	**22,002**	**30,031**
Cash flow from operating activities before changes in working capital	**3,870**	**-15,466**	**-26,170**
Change in operating receivables	-9,324	17,809	31,005
Change in inventory	752	7,349	-2,288
Change in operating liabilities	-8,954	-9,407	-47,741
Cash flow from operating activities	**-13,656**	**285**	**-45,194**
Intangible assets	-1,045	0	-38,965
Fixed assets	-24	-235	0
Disposal of associated company	0	0	0
Financial assets	-14	116	538
Cash flow from net capital expenditures	**-1,083**	**-119**	**-38,427**
Total cash flow before financing activities	**-14,739**	**166**	**-83,621**
New share issue	0	0	43,923
Convertible loan	0	1,800	74,449
Change in financial liabilities	-2,316	-1,596	-8,640
Cash flow from financing activities	**-2,316**	**204**	**109,732**
Cash flow for the period	**-17,055**	**370**	**26,111**
Liquid assets at the beginning of the period	31,664	5,553	5,553
Liquid assets at the end of the period	**14,609**	**5,923**	**31,664**

Key ratios

TSEK	2018 Jan-Mar	2017 Jan-Mar	2017 Jan-Dec
Cash flow for the period	-17,055	370	26,111
Cashflow / share before and after dilution (SEK) 1	-0.16	0.00	0.29
Average number of shares before and after dilution	105,108,647	81,206,070	89,117,341

	2018-3-31	2017-3-31	2017-12-31
Equity/assets ratio	82.3%	51.1%	69.1%
Number of shares	112,654,950	78,123,400	102,067,130
Shareholders' equity per share (kr)	2.88	2.36	2.71

[1] *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	2018 Jan-Mar	2017 Jan-Mar	2017 Jan-Dec
Net sales	**2,598**	**0**	**0**
Gross profit	**2,598**	**0**	**0**
Administrative costs	-2,474	-1,949	-12,085
Operating profit	**124**	**-1,949**	**-12,085**
Profit/loss from shares in Group companies	0	0	-100
Financial items	884	113	-1,183
Profit for the period	**1,008**	**-1,836**	**-13,368**

Parent company, balance sheet in summary

TSEK	2018-3-31	2017-3-31	2017-12-31
Intangible fixed assets	6,011	45	6,015
Financial fixed assets	301,971	457,237	300,028
Total fixed assets	**307,982**	**457,282**	**306,043**
Other short-term receivables	279,424	203,412	270,788
Liquid assets, including current investments	4,754	2,721	13,911
Total current assets	**284,178**	**206,133**	**284,699**
Total assets	**592,160**	**663,415**	**590,742**
Equity	575,678	439,748	530,456
Other long term liabilities	2,353	155,928	2,353
Convertible Debt	2,149	29,800	44,449
Short term loans	0	14,004	0
Other current liabilities	11,980	23,935	13,484
Total liabilities and shareholders equity	**592,160**	**663,415**	**590,742**

Note 1 - Financial instruments

Group 31 March 2018	Loans and receivable	Available for sale financial assets	Other financial liabilities	Total book value	Total fair value
Investments				0	0
Long-term receivables	1,369			1,369	1,369
Accounts receivable	35,955			35,955	35,955
Other receivables				0	0
Cash	14,609			14,609	14,609
Long-term investments and securities		16,962		16,962	16,962
Assets	**51,934**	**16,962**	**0**	**68,896**	**68,896**
Borrowings			11,142	11,142	11,142
Accounts payable			30,045	30,045	30,045
Other liabilities			12,088	12,088	12,088
Liabilities	**0**	**0**	**53,275**	**53,275**	**53,275**

Group 31 March 2017	Loans and receivable	Available for sale financial assets	Other financial liabilities	Total book value	Total fair value
Investments				0	0
Long-term receivables	1,776			1,776	1,776
Accounts receivable	22,395			22,395	22,395
Other receivables				0	0
Cash	5,923			5,923	5,923
Long-term investments and securities				0	0
Assets	**30,094**	**0**	**0**	**30,094**	**30,094**
Borrowings			27,424	27,424	27,424
Accounts payable			49,280	49,280	49,280
Other liabilities			18,362	18,362	18,362
Liabilities	**0**	**0**	**95,066**	**95,066**	**95,066**

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 belives 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 as a percentage of net sales.

CASH FLOW PER SHARE
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 approximates the underlying operating cash flow by elimination of depreciation and amortisation. A reconciliation from group operating profit/loss is set out below.

	2018	2017	2017
TSEK	**Jan-Mar**	**Jan-Mar**	**Jan-Dec**
Operating profit/loss	1,326	-31,644	-36,578
Depreciation and amortisation	352	4,036	15,835
EBITDA	**1,678**	**-27,608**	**-20,743**