



**ANUTO**

Bridging the analogue-digital divide

## 2017 Annual Report

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## DIRECTORS REPORT

The Board of Directors and CEO of Anoto Group AB (publ.), Corporate Identity No. 556532-3929, hereby submit the annual accounts and consolidated accounts for the January 1 – December 31, 2017 financial year.

### Group Structure

Anoto Group AB is the parent company in the corporate business group, performing group-wide functions on behalf of its subsidiaries. The operational activities, including sales, are performed by the subsidiaries which consist of Anoto AB, Anoto Korea Corp (previously called Pen Generations), Anoto Ltd, Anoto Inc, Livescribe Inc., and XMS Penvision AB. Hereafter the entire business group is referred to as “Anoto”, unless the context indicates otherwise.

### Enterprise

Anoto is a technology company known globally for innovation in the area of information-rich patterns and the optical recognition of those patterns. It is a leader in digital writing and drawing solutions, having historically used its proprietary technology to develop smart pens and the related software. These smart pens 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 Business Units

#### Enterprise Solutions and Licensing

Enterprise Solutions focuses on systems, products, and services that target businesses, primarily in the field of forms processing, document management, and signature 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 both direct and indirect business models, depending on territory, and partners with system integrators, software developers, and IT consulting firms in specific vertical markets, all of whom offer customized solutions with Anoto technology to their customers.

There was a major shift in the strategy of Anoto Enterprise Solutions in 2017. Coupled with the introduction of the new AP-701 pen, the Enterprise Solutions business established a new pricing model which lowers pen pricing while securing a new recurring revenue stream by charging for pattern and software. In addition, Anoto took a more active role in identifying and servicing large customers directly instead of relying on system integrators and other distributors.

The significant model transformation introduced temporary disruptions to revenue which were compounded by the new pen being in development and not available until the fourth quarter of 2017. As a result, the Enterprise Solutions business had a down year with lower sales and fewer customers. Despite such difficulties, Anoto was successful in securing customers with the potential to order large volumes, such as Cevahir Group in Turkey and several multinational conglomerates.

#### Notetaking Business

Livescribe is the world's leading smartpen brand for notetaking use. Since acquiring Livescribe at the very end of 2015, Anoto continued to enhance operational efficiency, reinforce the supply chain, optimize the distribution channel, and upgrade mobile software competencies for the future.

Anoto also started geographic expansion of the Livescribe business in 2017 to fuel future growth and reduce dependency on US sales. Anoto successfully reenergized the distribution of Livescribe pens in Europe and established a direct relationship with Amazon Europe.

### OEM Business

Anoto Korea was the brightest spot among Anoto's business lines as its revenue increased 104% in 2017.

Due to Anoto Korea's development capability, especially in lowering the manufacturing cost of digital pens for the mass market, Anoto was able to create the most efficient pen to date in terms of manufacturing costs and development time. In addition, with the AP-701, Anoto now has a single pen platform which eliminates the need for redundant investments in firmware, SDKs, software, and mobile apps. One platform now does it all.

With its enhanced development capability, Anoto Korea is in discussions with global companies regarding OEM pen production and it is in the process of transforming into a full-fledged OEM business.

## **ADNA Business**

Anoto launched the ADNA Discovery app to the stores in the third quarter of 2017 and it is currently in discussions with multinational companies with pilot projects in the US and Asia for ADNA applications. Anoto also started ADNA phase two development to expand beyond the Interactive Paper capabilities deployed in phase one.

## **Shares and Shareholders**

On October 4, 2017, Anoto carried out a reverse split (1:30). At the end of 2017, there were 102,067,130 issued Anoto shares. According to Euroclear Sweden AB's statistics, there were 20,388 shareholders on December 31, 2017, representing an increase of 3.7 percent over the past 12 months.

The largest shareholder as at December 31, 2017 was Försäkringsbolaget Avanza Pension owning 7.7 per cent of the votes and capital. There is only one class of share.

## **Corporate Governance Report**

The Corporate Governance Report is located in a separate section after the financial reports in this annual report.

## **Employees**

The average number of employees within the Group decreased from 156 in 2016 to 61 in 2017. The Group had 35 employees (96) at the year-end.

## **Remarks on the Statement of Comprehensive Income**

Despite a 27 percent decline in revenue from MSEK 236 to MSEK 173, the gross margin improved to 41 percent from 34 percent in 2016.

The Net sales decrease is attributable to the temporal effect of new pen introduction in 2017 and a conscious change in pricing strategy. The gross margin increase is associated with the change in product mix as Anoto is beginning to get more license fees, software usage fees, and pattern usage revenue.

The Operating loss for 2017 was MSEK 37, down almost 86 percent from 2016 (260) as a result of significant cost-reductions across all operations. These savings were achieved in spite of the large burden of the final obligations associated with the cessation of active operations in seven Anoto offices around the world.

The results include MSEK 19 of non-recurring items relating to the restructuring process and to cleaning up the balance sheet. Major components of the non-recurring items are MSEK 10 of intangible assets, MSEK 3 of departed executive severances, MSEK 3 relating to closing the Lund and Norrköping offices, and MSEK 2 of bad debt write-off.

Anoto capitalizes non-customer financed development expenses meeting the IAS 38 criteria. A total of MSEK 33 (26) was capitalized in 2017.

The profit before interest, taxes, depreciation, and amortization (EBITDA) in the period was MSEK -21 (-190).

As a part of the annual closing process, Anoto tested the value of the Group goodwill and found that there is no evidence of impairment.

The net loss after tax for the year was MSEK 53 (263).

## **Remarks on the Statement of Financial Position and the Statement of Cash Flows**

The total assets increased by MSEK 10. Liabilities have decreased by MSEK 54 to MSEK 124.

Group Equity at the end of the year amounted to MSEK 276, compared to MSEK 213 in the previous year. The cash flow from operating activities was MSEK -45 (-164). Cash flow from investment activities during the year was MSEK -38 (-48). The cash flow from financing activities was 110 (206), including net proceeds from share issues of 44 MSEK (161) and funding from an issue of Convertible debt 74 MSEK (28). The cash flow for the year was MSEK 26 (-6). Closing cash at end of year was MSEK 32 (6).

## Research and Development

Anoto's R&D efforts are focused on meeting market needs in the three existing business areas (forms, OEM, and notetaking) and on innovation relating to ADNA. The R&D expenses during the year were MSEK 28 (76), equivalent to 26 percent (22) of the total operating expenses. Pursuant to its compliance with IAS 38, the Group capitalized MSEK 33 (26) during 2017. Including capitalization, the Group's R&D expenses totalled MSEK 61 (102) for the year.

Anoto has an extensive patent portfolio. At the end of 2017, the Group had 19 active patent applications and owned 307 registered patents.

## Disputes

In April 2017, the Company reached a comprehensive global settlement of the patent infringement dispute with NeoLAB and Uchida Yoko Co. Ltd. In accordance with the settlement terms, Anoto and NeoLAB each granted the other a comprehensive, royalty-free and non-transferable license to its patent portfolio, as well as a general release and waiver of any and all patent-related claims globally. Anoto received a payment of USD 1 million on April 28 and another USD 1 million on December 28 from NeoLAB.

Anoto has amicably settled its dispute with LeapFrog Enterprises (and its affiliates), a U.S. (Delaware) company headquartered in Emeryville, California ("LeapFrog"), in Sweden, without any admission of liability. LeapFrog has withdrawn, with prejudice, its requests for arbitration filed in both the Stockholm Chamber of Commerce and the International Chamber of Commerce, in Sweden, and Anoto has withdrawn its counterclaim in the SCC proceedings as well. This resolution secures for Anoto the stable supply of a proprietary integrated circuit (IC) supplied by LeapFrog known as DotPos, and the right to a perpetual, royalty-free license to the DotPos IC. In consideration of these rights and assurances by LeapFrog, Anoto will pay LeapFrog a total of USD 750,000 in five installments over a period of four years.

Anoto has also reached a favourable settlement with a former Anoto employee who filed a civil lawsuit against the Company in Los Angeles, CA, alleging wrongful termination, unpaid wages/expenses and gender discrimination, thus avoiding the costs and risks of a federal trial. The employee's claims against Anoto were withdrawn with prejudice, with no admission of wrongdoing on Anoto's part.

Anoto filed a series of claims with Fortis Advisors, the escrow representative, in support of Anoto's allegations of breaches of representations and warranties made by the selling shareholders in conjunction with Anoto's acquisition of Livescribe Inc. in December 2015. In late August 2017 a total of \$375,000 USD was paid to Anoto in satisfaction and settlement of its claims.

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.

## Environment

Anoto does not pursue any activities that require environmental permits. None of its units are environmentally certified.

## Risk Management

### *Liquidity and financing risk*

Anoto's liquid assets, as cash and bank deposits, amounted at the end of 2017 to MSEK 32 (6).

Anoto focuses on monitoring cash flow forecasts to appropriately manage any stresses on working capital and liquidity.

During 2017 the group has raised funds from existing shareholders by way of a rights issue and through the issuing of convertible bonds as follows.

- In May, the Company completed a private placement of 7.1 million new shares at a price of SEK 6.2 per share, for the total proceeds of MSEK 43.9.
- In July and December, Anoto completed a private placement of MSEK 32.5 and MSEK 40.3, respectively, of senior unsecured convertible bonds due 2019. During 2017, an amount of MSEK 67.2, inclusive of MSEK 9.2 that was carried from 2016, has been converted to 16.6 million shares.

In 2017 Anoto Management continued to address a number of risks facing the company. In particular, these risks have included a cost structure that was too high relative to sales and a lack of strategic focus. Multiple cost-cutting activities were carried out since 2016 and the corporate strategy was refined through the imposition of focus.

Taking into consideration the cash-on-hand as at the date of this report, the cleaned up balance sheet, and the improved operating cash flow, it is the opinion of management and the Board of Directors that the existing funds and forecasted cash flow from operating activities provide the liquidity required by Anoto for the coming 12 months.

#### *Currency exposure and credit risk*

Refer to Note 4 for a detailed description of the company's risk management policies, currency exposure, and credit risk

#### *Insurance risk*

Anoto's insurance coverage is reviewed annually with respect to traditional business insurance policies and appropriate coverage is maintained balancing the exposure of the business and the related costs.

#### *Patent risks, etc.*

Anoto carefully curates its patent portfolio and applies for patents on innovations that will enrich that portfolio. Anoto cannot guarantee that all patent applications will be approved or that our intellectual property rights will not be called into question, declared null and void, or circumvented. Third parties have claimed that Anoto infringes their intellectual property rights, and may do so in the future. Defending Anoto against such assertions can be costly in terms of time, money and other resources. Legal disputes can compel Anoto to pay damages or other compensation, to modify its products and technology, and/or to enter into license agreements with licensors. Anoto cannot guarantee that such licenses will be available at all or be possible to obtain on reasonable terms.

#### **Employee Policies**

To realize Anoto's business concepts, we depend on skilled employees who are wholeheartedly engaged in their work and who have a good understanding of the communication between people from different cultures and backgrounds. We strive to make use of all of our employees' competences in the best possible ways. No employee should under any circumstance be discriminated against. We apply a clear policy on gender equality, equal opportunities and anti-discrimination. We strongly encourage an environment of respect and honesty, with open and clear communication by and between all parties involved in Anoto's business.

In a knowledge-based company like Anoto, employee competences are our most important assets. Without constantly adding knowledge to the workforce and allowing the transfer of knowledge between colleagues, the company cannot develop. Competence development is therefore a priority at Anoto. Development plans are determined individually to ensure that the goals and ambitions of both the employees and the company are aligned.

#### **The Board and Its Rules of Procedure**

The Anoto Group AB Board of Directors consists of five members. Refer to the section entitled "Corporate Governance Report" in this annual report for a detailed account of the Board's composition and working methods.

#### **Guidelines on Remuneration for Senior Executives**

Principles for remuneration, fees and other remuneration paid to the Board of Directors, the Chairman, the CEO and other members of Group Management, other statistics and the guidelines regarding remuneration and benefits to Group Management as approved by the Annual General Meeting are specified in Note 9. Remuneration for the CEO and senior executives in 2017 appears in Note 9, "Salaries and other remuneration". The Board has proposed to the Annual General Meeting that the guidelines on remuneration for senior executives remain unchanged in 2018.

#### **Outlook**

Anoto completed all major restructuring and cost cutting activities in 2017 and is entering an era of rebuilding. The key word for the rebuilding process is "transformation." Anoto will transform its hardware focus to an application focus. It will transform its distribution from relying on partners to going direct to large customers. Its sale focus is changed from premium niche to mass market.

With the AP-701 pen that can be sold to the mass market at affordable prices, the management of the company made a conscious decision to increase our capability in creating applications that utilize Anoto pattern and pen technology. Pens and pattern are just underlying technology and unless there is a killer application that uses this technology to form a complete solution, we are not going to be able to sell millions of pens.

Recognizing the importance of solutions, Anoto is now focused on building the next generation of software to drive growth and customer value in the existing businesses and to explore some substantial new markets being evaluated for commercial viability. In parallel, several new smartpens are in various stages of development leveraging the pen platform on which the AP-701 is built. The first new smartpen to be released will be a biometric device with an integrated fingerprint sensor. This will

be another world first for Anoto and enterprise customers are eagerly awaiting availability of this pen. To help make this ambitious work proceed quickly and to a very high standard, Anoto has recently hired three senior technologists who bring with them a wealth of hardware, software, and artificial intelligence experience.

Anoto has also made substantial progress on the ADNA front. For example, we reached an agreement with the company who manufactures the private label golf balls for one of the world's largest members-only warehouse chains to use ADNA on their packaging. In this use case ADNA will provide customers with a freshness indicator and quick ordering capabilities similar in concept to the Amazon Dash buttons. This is a first entry into this world renowned retailer and we hope to convince them to use ADNA in other areas such as food and vitamins. Similar exciting projects are in active discussions with several industry dominating customers in Asia and the USA plus various government agencies in Japan.

### **Biometric Pen**

In Q1 of 2018 we started pre-marketing a biometric smartpen that incorporates a fingerprint sensor and the reception has been overwhelming. Anoto has accepted an invitation from a major Japanese company to exhibit our engineering prototype of this biometric pen in a dedicated booth at their Exposition in April. Commercial production of this pen is scheduled to start in the second half of this year. It was an opportune move to launch the premarketing of the biometric pen in Japan because of the scandal at Nissan Motors which led to a recall of 1.21 million vehicles at a cost of 25 billion yen (USD 222 million). The reason for the recall was due, in Nissan's words, to "discovering final vehicle inspections were not performed by authorized technicians."

With the addition of fingerprint sensors, now our pen knows 1) what one writes, 2) when one writes, and 3) who is writing.

### **Anoto Cocoon**

Perhaps the most interesting developments have been in the "million seller" project described in Anoto's last Q3 report. We now renamed this Anoto Cocoon projects. One such example is an MIT affiliated startup who uses our pen to diagnose Alzheimer's and in the early detection of dementia. It received US FDA clearance in January of 2018 to market its products. We have a revenue sharing model with this company and expect to receive royalties when they start to roll out in 2018. This startup also received The Not Impossible Connectivity Award in 2018. Our Live Pen 2 is now a US FDA registered medical device.

Another Anoto Cocoon example is an online education and test preparation company that has just developed an education platform using Anoto pen-based diagnostic testing. We have initiated discussions with a major US education publisher about selling them this newly developed education platform technology. Similar to the MIT affiliated startup, this company uses predictive analytics and time series data provided by the Anoto pen to accurately profile a student's problem solving skills and knowledge.

A newly incubated project is focused on making the power of ADNA easily available for Augmented Reality (AR) use. ADNA can make important contributions in several areas of AR including marker-based AR and superimposition-based AR. Anoto is in discussions with several AR companies to provide ADNA as a technology platform for AR applications.

### **Software and Mobile Apps technology**

Anoto is also working with world-class software and mobile app companies regarding providing Anoto technology as a paper interface platform. The Microsoft Surface Pro and Apple iPad Pro have pens that interact with the screen but those pens don't work on paper and people certainly do. Anoto is developing connectivity that can be used with OneNote, Google Keep, and other notetaking apps and office software to establish a seamless link between paper and all the most popular applications.

### **People**

We are now at a stage, both financially and product development wise, where capable and professional executives can join the company. We are recruiting a VP of sales for North America and one for Asia. We are also recruiting a product manager for software and Apps and filling gaps in marketing and R&D. The people at Anoto are no longer talking about the present but about the future. Topics such as restructuring and instability are things of past. We are now very much looking forward to a new Anoto. Such changes in corporate culture are also a sign that we are ready to build up our team.

### **Hope and Dream**

Anoto in the past thought it had such a unique technology that it should only be equated with *premium* in terms of pricing and usage. To me, *premium* symbolises a high priced but small niche market. One of my goals was to bring the price of the pen down and make it more affordable and attractive. With the arrival of the AP-701, we now have the basis to start this process. *Cheap* and *mass market* are not dirty words in my dictionary. Anoto technology can have numerous uses that stretch beyond our imaginations. Anoto pattern technology, in particular, is especially suitable for the recent advancements in AR and digital print areas. We are calling this the Anoto Technology Extension phase. We dream that one day, we will be talking about Anoto Everyday, Everywhere.

**Proposed Appropriation of Accumulated Result****Proposed appropriation of accumulated result in the parent company (SEK):**

|                             | <b>SEK</b>         |
|-----------------------------|--------------------|
| Share premium reserve       | 634,465,368        |
| Profit/loss brought forward | -274,912,775       |
| Loss for the year           | -13,367,837        |
| <b>Total</b>                | <b>346,184,756</b> |

The Board of Directors propose that the reserves of SEK 346,184,756 are carried forward. With regard to the financial position of the Group and parent company, refer to the following accounts.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

| (KSEK)                                                                    | Note            | Group<br>2017   | Group<br>2016    |
|---------------------------------------------------------------------------|-----------------|-----------------|------------------|
| Net sales                                                                 | 5               | 173,010         | 235,657          |
| Cost of goods and services sold                                           | 11              | (102,088)       | (156,264)        |
| <b>Gross profit/loss</b>                                                  |                 | <b>70,922</b>   | <b>79,393</b>    |
| Selling expenses                                                          | 8,14,31,33      | (23,959)        | (35,206)         |
| Administrative expenses                                                   | 8,9,10,14,31,33 | (55,073)        | (232,992)        |
| Research & development costs                                              | 8,14,33         | (28,280)        | (76,150)         |
| Other operating income                                                    | 12              | 7,294           | 22,656           |
| Other operating costs                                                     | 13              | (7,482)         | (18,054)         |
| <b>Operating profit/loss</b>                                              | <b>11</b>       | <b>(36,578)</b> | <b>(260,353)</b> |
| Financial income                                                          | 16              | -               | -                |
| Financial cost                                                            | 16              | (19,623)        | (7,317)          |
| <b>Profit/loss before taxes</b>                                           |                 | <b>(56,201)</b> | <b>(267,670)</b> |
| Taxes                                                                     | 17              | 3,257           | 4,445            |
| <b>Profit/Loss for the year</b>                                           |                 | <b>(52,944)</b> | <b>(263,225)</b> |
| <b><u>Total profit/loss for the year attributable to:</u></b>             |                 |                 |                  |
| Shareholders of Anoto Group AB                                            |                 | (52,809)        | (255,625)        |
| Non-controlling interest                                                  |                 | (135)           | (7,600)          |
| <b>Total profit/loss for the year</b>                                     |                 | <b>(52,944)</b> | <b>(263,225)</b> |
| <b><u>Other comprehensive income</u></b>                                  |                 |                 |                  |
| <b><u>Items that may be reclassified to profit/loss for the year:</u></b> |                 |                 |                  |
| Translation differences for the year                                      |                 | 9,316           | (1,283)          |
| <b>Other comprehensive income for the year</b>                            |                 | <b>9,316</b>    | <b>(1,283)</b>   |
| <b>Total comprehensive income for the year</b>                            |                 | <b>(43,628)</b> | <b>(264,508)</b> |
| <b><u>Total comprehensive income for the year attributable to:</u></b>    |                 |                 |                  |
| Shareholders of Anoto Group AB                                            |                 | (43,493)        | (258,182)        |
| Non-controlling interest                                                  |                 | (135)           | (6,326)          |
| <b>Total comprehensive income for the year</b>                            |                 | <b>(43,628)</b> | <b>(264,508)</b> |
| Earnings per share before dilution (SEK) <sup>1)</sup>                    |                 | -0.16           | -4.43            |
| Earnings per share after dilution (SEK) <sup>1)</sup>                     |                 | -0.16           | -4.43            |
| Weighted average number of ordinary shares <sup>1)</sup>                  |                 | 101,111,621     | 59,757,044       |
| Weighted average number of ordinary shares after dilution <sup>1)</sup>   |                 | 101,111,621     | 59,757,044       |

<sup>1)</sup> On October 4, 2017, Anoto has carried out a reverse split (1:30).

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

| (KSEK)                                     | Note | Group<br>2017  | Group<br>2016  |
|--------------------------------------------|------|----------------|----------------|
| <b>ASSETS</b>                              |      |                |                |
| <b>Non-current assets</b>                  |      |                |                |
| <b>Intangible fixed assets</b>             |      |                |                |
| Capitalized development expenditures       | 18   | 85,481         | 52,979         |
| Patents                                    | 19   | 277            | -              |
| Goodwill                                   | 22   | 153,206        | 162,704        |
| Brands                                     | 20   | 741            | 874            |
| Other intangible assets                    | 21   | 15,577         | 20,253         |
| <b>Total intangible fixed assets</b>       | 5    | <b>255,282</b> | <b>236,810</b> |
| <b>Property, plant and equipment</b>       |      |                |                |
| Equipment and tools                        | 23   | 3,404          | 8,414          |
| <b>Total property, plant and equipment</b> | 5    | <b>3,404</b>   | <b>8,414</b>   |
| <b>Financial fixed assets</b>              |      |                |                |
| Other long-term securities                 | 25   | 16,962         | 16,962         |
| Other long-term receivables                | 26   | 1,355          | 1,893          |
| <b>Total financial fixed assets</b>        |      | <b>18,317</b>  | <b>18,855</b>  |
| <b>Total non-current assets</b>            |      | <b>277,003</b> | <b>264,079</b> |
| <b>Current assets</b>                      |      |                |                |
| <b>Inventory</b>                           |      |                |                |
| Finished goods and goods for sale          | 40   | 51,766         | 49,478         |
| <b>Current receivables</b>                 |      |                |                |
| Accounts receivable                        | 27   | 27,747         | 34,825         |
| Other receivables                          |      | 8,830          | 24,642         |
| Prepaid expenses and accrued income        | 28   | 2,599          | 10,714         |
| <b>Total current receivables</b>           |      | <b>39,176</b>  | <b>70,181</b>  |
| <b>Cash and bank balances</b>              |      | <b>31,664</b>  | <b>5,553</b>   |
| <b>Total current assets</b>                |      | <b>122,606</b> | <b>125,212</b> |
| <b>TOTAL ASSETS</b>                        |      | <b>399,609</b> | <b>389,291</b> |

| (KSEK)                                                           | Note | Group<br>2017  | Group<br>2016  |
|------------------------------------------------------------------|------|----------------|----------------|
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>                      |      |                |                |
| Share capital                                                    |      | 61,240         | 46,840         |
| Other capital contributed                                        |      | 1,213,013      | 1,117,531      |
| Other reserves                                                   | 37   | (1,758)        | (11,074)       |
| Profit brought forward and Profit/loss for the year              |      | (996,211)      | (940,039)      |
| <b>Equity attributable to the shareholders of Anoto Group AB</b> |      | <b>276,284</b> | <b>213,258</b> |
| <b>Non-controlling interest</b>                                  |      | <b>(583)</b>   | <b>(1,689)</b> |
| <b>Total Equity</b>                                              |      | <b>275,701</b> | <b>211,569</b> |
| <b>Long-term liabilities/Provisions</b>                          |      |                |                |
| Convertible debt                                                 | 43   | 44,449         | 28,000         |
| Deferred tax liabilities                                         | 17   | 3,289          | 6,900          |
| Other Long-term liabilities                                      |      | 0              | 131            |
| <b>Total long-term liabilities/provisions</b>                    |      | <b>47,737</b>  | <b>35,031</b>  |
| <b>Current liabilities</b>                                       |      |                |                |
| Provisions for product warranties                                | 29   | 242            | 1,312          |
| Short-term interest bearing liabilities                          | 32   | 11,309         | 29,018         |
| Accounts payable                                                 |      | 38,857         | 65,576         |
| Advance payments from customers                                  |      | 7,076          | 6,306          |
| Other liabilities                                                |      | 3,319          | 5,722          |
| Accrued expenses and deferred income                             | 30   | 15,368         | 34,757         |
| <b>Total current liabilities</b>                                 |      | <b>76,171</b>  | <b>142,691</b> |
| <b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>                |      | <b>399,609</b> | <b>389,291</b> |

**CONSOLIDATED STATEMENT OF CASH FLOWS**

| (KSEK)                                                                      | Note     | Group<br>2017   | Group<br>2016    |
|-----------------------------------------------------------------------------|----------|-----------------|------------------|
| <b>OPERATING ACTIVITIES</b>                                                 |          |                 |                  |
| Profit after financial items                                                |          | (56,201)        | (267,670)        |
| <b>Items not affecting cash flow:</b>                                       |          |                 |                  |
| Change in provisions                                                        | 29       | (1,070)         | (444)            |
| Depreciation, amortization and impairment of assets                         | 14,18-23 | 15,835          | 70,736           |
| Other items                                                                 | 39       | 15,265          | (12,422)         |
| <b>Cash flow from operating activities before change in working capital</b> |          | <b>(26,170)</b> | <b>(209,800)</b> |
| <b>Cash flow from change in working capital</b>                             |          |                 |                  |
| Change in operating receivables                                             |          | 31,005          | 63,899           |
| Change in inventory                                                         |          | (2,288)         | 20,298           |
| Change in operating liabilities                                             |          | (47,741)        | (38,209)         |
| <b>Total change in working capital</b>                                      |          | <b>(19,024)</b> | <b>45,988</b>    |
| <b>Cash flow from operating activities</b>                                  |          | <b>(45,194)</b> | <b>(163,812)</b> |
| <b>Cash flow from investment activities</b>                                 |          |                 |                  |
| Capitalized development expenditures                                        | 18       | (32,506)        | (26,001)         |
| Acquisition/disposal of subsidiaries net of cash acquired/disposed          |          | -               | 400              |
| Patents                                                                     | 19       | (476)           | (559)            |
| Brands                                                                      | 20       | -               | -                |
| Other intangible assets                                                     | 21       | (5,983)         | (220)            |
| Equipment and tools                                                         | 23       | -               | (6,817)          |
| Disposal of associated company                                              |          | -               | 1,700            |
| Financial assets                                                            | 25       | 538             | (16,962)         |
| <b>Cash flow from net investment activities</b>                             |          | <b>(38,427)</b> | <b>(48,459)</b>  |
| <b>Total cash flow before financing activities</b>                          |          | <b>(83,621)</b> | <b>(212,271)</b> |
| <b>Financing activities</b>                                                 |          |                 |                  |
| New share issue                                                             |          | 43,923          | 160,539          |
| Convertible loan                                                            | 43       | 74,449          | 28,000           |
| Change in financial liabilities                                             |          | (8,640)         | 17,656           |
| <b>Cash flow from financing activities</b>                                  |          | <b>109,732</b>  | <b>206,195</b>   |
| <b>Cash flow for the year</b>                                               |          | <b>26,111</b>   | <b>(6,076)</b>   |
| Cash and cash equivalents at the beginning of the year                      |          | 5,553           | 11,629           |
| <b>Cash and cash equivalents at the end of the year</b>                     | 39       | <b>31,664</b>   | <b>5,553</b>     |

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| (KSEK)                                              | Share capital | Ongoing new share issue | Other capital contributed <sup>1)</sup> | Translation reserve <sup>2)</sup> | Profit brought forward incl. profit for the year | Shareholders' equity attributable to the shareholders of Anoto Group AB | Non-controlling interest | Total shareholders' equity |
|-----------------------------------------------------|---------------|-------------------------|-----------------------------------------|-----------------------------------|--------------------------------------------------|-------------------------------------------------------------------------|--------------------------|----------------------------|
| <b>Shareholders' equity 01 January 2016</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>             |
| Total profit/loss for the year                      | -             | -                       | -                                       | -                                 | (255,625)                                        | (255,625)                                                               | (7,600)                  | (263,225)                  |
| Other comprehensive income                          | -             | -                       | -                                       | (2,557)                           | -                                                | (2,557)                                                                 | 1,274                    | (1,283)                    |
| <b>Total comprehensive income/cost for the year</b> | <b>-</b>      | <b>-</b>                | <b>-</b>                                | <b>(2,557)</b>                    | <b>(255,625)</b>                                 | <b>(258,182)</b>                                                        | <b>(6,326)</b>           | <b>(264,508)</b>           |
| New share issue                                     | 22,859        | -                       | 137,680                                 | -                                 | -                                                | 160,539                                                                 | -                        | 160,539                    |
| Ongoing new share issue                             | -             | 12                      | 854                                     | -                                 | -                                                | 866                                                                     | (866)                    | -                          |
| Acquisitions <sup>3)</sup>                          | 2,894         | -                       | 35,939                                  | -                                 | -                                                | 38,833                                                                  | -                        | 38,833                     |
| Debt Conversion <sup>4)</sup>                       | -             | -                       | -                                       | -                                 | (6,724)                                          | (6,724)                                                                 | (6,460)                  | (13,184)                   |
| Loss of control <sup>5)</sup>                       | -             | -                       | -                                       | -                                 | -                                                | -                                                                       | 21,693                   | 21,693                     |
| <b>Shareholders' equity 31 December 2016</b>        | <b>46,817</b> | <b>24</b>               | <b>1,117,530</b>                        | <b>(11,074)</b>                   | <b>(940,039)</b>                                 | <b>213,258</b>                                                          | <b>(1,689)</b>           | <b>211,569</b>             |
| Total profit/loss for the year                      | -             | -                       | -                                       | -                                 | (52,809)                                         | (52,809)                                                                | (135)                    | (52,944)                   |
| Other comprehensive income                          | -             | -                       | -                                       | 9,316                             | -                                                | 9,316                                                                   | -                        | 9,316                      |
| <b>Total comprehensive income/cost for the year</b> | <b>-</b>      | <b>-</b>                | <b>-</b>                                | <b>9,316</b>                      | <b>(52,809)</b>                                  | <b>(43,493)</b>                                                         | <b>(135)</b>             | <b>(43,493)</b>            |
| Prior year adjustment                               | -             | -                       | -                                       | -                                 | (3,363)                                          | (3,363)                                                                 | -                        | (3,363)                    |
| Ongoing new share issue                             | 57            | (24)                    | (1,274)                                 | -                                 | -                                                | (1,241)                                                                 | 1,241                    | 0                          |
| New share issue                                     | 4,250         | -                       | 39,673                                  | -                                 | -                                                | 43,923                                                                  | -                        | 43,923                     |
| Conversion of debt                                  | 10,116        | -                       | 57,084                                  | -                                 | -                                                | 67,200                                                                  | -                        | 67,200                     |
| <b>Shareholders' equity 31 December 2017</b>        | <b>61,240</b> | <b>-</b>                | <b>1,213,013</b>                        | <b>-1,758</b>                     | <b>-996,211</b>                                  | <b>276,284</b>                                                          | <b>-583</b>              | <b>275,701</b>             |

1. Includes parent company statutory reserve and premium reserve from shares issues. For changes in these items references to changes in parent company equity.
2. From translation of financial reporting from foreign subsidiaries.
3. Issue of shares when acquiring Pen Generations
4. Effect from reclassification of convertible bond from equity to debt in Destiny Wireless
5. Effect from loss of control of Destiny Wireless. For further information, see notes 13.

**INCOME STATEMENT – PARENT COMPANY**

| (KSEK)                                   | Note            | Parent Company<br>2017 | Parent Company<br>2016 |
|------------------------------------------|-----------------|------------------------|------------------------|
| Net sales                                |                 | -                      | 13,681                 |
| <b>Gross profit/loss</b>                 |                 | -                      | <b>13,681</b>          |
| Administrative expenses                  | 8,9,10,14,31,33 | (12,062)               | (13,294)               |
| Other operating income                   | 12              | -                      | 153                    |
| Other operating costs                    | 13              | (23)                   | (43)                   |
| <b>Operating profit/loss</b>             |                 | <b>(12,085)</b>        | <b>497</b>             |
| Profit/loss on shares in group companies | 15              | (100)                  | (151,000)              |
| Interest and similar income              | 16              | 3,704                  | 2,146                  |
| Interest and similar expenses            | 16              | (4,887)                | (1,398)                |
| <b>Profit/loss before taxes</b>          |                 | <b>(13,368)</b>        | <b>(149,755)</b>       |
| Taxes                                    | 17              | -                      | -                      |
| <b>Profit/loss for the year</b>          |                 | <b>(13,368)</b>        | <b>(149,755)</b>       |

**STATEMENT OF COMPREHENSIVE INCOME– PARENT COMPANY**

| (KSEK)                                              | Note | Parent Company<br>2017 | Parent Company<br>2016 |
|-----------------------------------------------------|------|------------------------|------------------------|
| <b>Profit/loss for the year</b>                     |      | <b>(13,368)</b>        | <b>(149,755)</b>       |
| Other comprehensive income/cost                     |      | -                      | -                      |
| <b>Total comprehensive income/cost for the year</b> |      | <b>(13,368)</b>        | <b>(149,755)</b>       |

**BALANCE SHEET – PARENT COMPANY**

| (KSEK)                               | Note | Parent<br>Company<br>2017 | Parent<br>Company<br>2016 |
|--------------------------------------|------|---------------------------|---------------------------|
| <b>ASSETS</b>                        |      |                           |                           |
| <b>Non-current assets</b>            |      |                           |                           |
| <b>Intangible fixed assets</b>       |      |                           |                           |
| Patents                              | 19   | 11                        | 22                        |
| Brands                               | 20   | 21                        | 25                        |
| Other intangible assets              | 21   | 5,983                     | -                         |
| <b>Total intangible fixed assets</b> |      | <b>6,015</b>              | <b>47</b>                 |
| <b>Financial fixed assets</b>        |      |                           |                           |
| Other long-term securities           | 25   | 16,962                    | 16,962                    |
| Shares in group companies            | 24   | 72,531                    | 70,344                    |
| Receivables - group companies        |      | 210,535                   | 334,606                   |
| <b>Total financial fixed assets</b>  |      | <b>300,028</b>            | <b>421,912</b>            |
| <b>Total non-current assets</b>      |      | <b>306,043</b>            | <b>421,959</b>            |
| <b>Current assets</b>                |      |                           |                           |
| Current receivables                  |      | -                         | -                         |
| Receivables - group companies        |      | 269,743                   | 230,761                   |
| Other receivables                    |      | 832                       | 376                       |
| Prepaid expenses and accrued income  | 28   | 213                       | 210                       |
| <b>Total current receivables</b>     |      | <b>270,788</b>            | <b>231,347</b>            |
| <b>Cash and bank</b>                 |      | <b>13,911</b>             | <b>303</b>                |
| <b>Total current assets</b>          |      | <b>284,699</b>            | <b>231,650</b>            |
| <b>TOTAL ASSETS</b>                  |      | <b>590,742</b>            | <b>653,609</b>            |

| (KSEK)                                              |      | Parent<br>Company<br>2017 | Parent<br>Company<br>2016 |
|-----------------------------------------------------|------|---------------------------|---------------------------|
|                                                     | Note |                           |                           |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>         |      |                           |                           |
| <b>Restricted equity</b>                            |      |                           |                           |
| Share capital                                       |      | 61,240                    | 46,817                    |
| Ongoing new share issue                             |      | -                         | 24                        |
| Statutory reserve                                   |      | 123,031                   | 123,031                   |
| <b>Total restricted equity</b>                      |      | <b>184,271</b>            | <b>169,872</b>            |
| <b>Non restricted equity</b>                        |      |                           |                           |
| Share premium reserve                               |      | 634,466                   | 538,975                   |
| Profit brought forward and Profit/loss for the year |      | (288,281)                 | (263,533)                 |
| <b>Total non-restricted equity</b>                  |      | <b>346,185</b>            | <b>275,442</b>            |
| <b>Total Equity</b>                                 |      | <b>530,456</b>            | <b>445,314</b>            |
| <b>Non-current liabilities</b>                      |      |                           |                           |
| Convertible debt                                    | 43   | 44,449                    | 28,000                    |
| <b>Current liabilities</b>                          |      |                           |                           |
| Accounts payable                                    |      | 7,075                     | 3,807                     |
| Loan notes                                          |      | -                         | 15,138                    |
| Liabilities to group companies                      |      | 6,902                     | 153,549                   |
| Other liabilities                                   |      | 178                       | 324                       |
| Accrued expenses and prepaid income                 | 30   | 1,682                     | 7,477                     |
| <b>Total current liabilities</b>                    |      | <b>15,837</b>             | <b>180,295</b>            |
| <b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>   |      | <b>590,742</b>            | <b>653,609</b>            |

**CASH FLOW STATEMENT – PARENT COMPANY**

| (KSEK)                                                                      | Note      | Parent<br>Company<br>2017 | Parent<br>Company<br>2016 |
|-----------------------------------------------------------------------------|-----------|---------------------------|---------------------------|
| <b>OPERATING ACTIVITIES</b>                                                 |           |                           |                           |
| Profit after financial items                                                |           | (13,368)                  | (149,755)                 |
| <b>Items not affecting cash flow:</b>                                       |           |                           |                           |
| Depreciation and amortization of assets                                     | 14, 18-23 | 15                        | 30                        |
| Impairment of shares in group companies                                     | 15        | 100                       | 151,000                   |
| <b>Cash flow from operating activities before change in working capital</b> |           | <b>(13,253)</b>           | <b>1,275</b>              |
| <b>Cash flow from change in working capital</b>                             |           |                           |                           |
| Change in operating receivables                                             |           | (42,960)                  | (109,768)                 |
| Change in operating liabilities                                             |           | (149,320)                 | 158,265                   |
| <b>Total change in working capital</b>                                      |           | <b>(192,280)</b>          | <b>48,497</b>             |
| <b>Cash flow from operating activities</b>                                  |           | <b>(205,533)</b>          | <b>49,772</b>             |
| <b>Investment activities</b>                                                |           |                           |                           |
| Contributions to capital in group companies                                 | 15        | -                         | (151,000)                 |
| Acquisition of long term securities                                         | 25        | -                         | (16,962)                  |
| Acquisition of shares in Group companies                                    |           | -                         | -                         |
| Other intangible assets                                                     | 21        | (5,983)                   | -                         |
| <b>Cash flow from investment activities</b>                                 |           | <b>(5,983)</b>            | <b>(167,962)</b>          |
| <b>Total cash flow before financing activities</b>                          |           | <b>(211,516)</b>          | <b>(118,190)</b>          |
| <b>Financing activities</b>                                                 |           |                           |                           |
| Convertible debt                                                            |           | 74,449                    | 28,000                    |
| Loan notes                                                                  |           | (5,938)                   | 15,138                    |
| New share issues                                                            |           | 43,923                    | 160,539                   |
| Long term receivable group companies                                        |           | 112,690                   | (85,797)                  |
| <b>Cash flow from financing activities</b>                                  |           | <b>225,124</b>            | <b>117,880</b>            |
| <b>Cash flow for the year</b>                                               |           | <b>13,608</b>             | <b>(310)</b>              |
| Cash and cash equivalents at beginning of the year                          |           | 303                       | 613                       |
| <b>Cash and cash equivalents at end of the year</b>                         | 39        | <b>13,911</b>             | <b>303</b>                |

**CHANGES IN SHAREHOLDERS' EQUITY – PARENT COMPANY**

| (KSEK)                                              | Share<br>capital | Ongoing<br>new share<br>issue | Other<br>capital<br>contributed | Share<br>premium<br>reserve | Profit<br>brought<br>forward incl.<br>profit for the<br>year | Shareholders'<br>equity attributable<br>to the<br>shareholders of<br>Anoto Group AB |
|-----------------------------------------------------|------------------|-------------------------------|---------------------------------|-----------------------------|--------------------------------------------------------------|-------------------------------------------------------------------------------------|
| <b>Shareholders' equity 01 January 2016</b>         | <b>21,064</b>    | <b>12</b>                     | <b>123,031</b>                  | <b>364,502</b>              | <b>(125,159)</b>                                             | <b>383,450</b>                                                                      |
| Total profit/loss for the year                      | -                | -                             | -                               | -                           | (149,755)                                                    | (149,755)                                                                           |
| Other comprehensive income/cost                     | -                | -                             | -                               | -                           | -                                                            | -                                                                                   |
| <b>Total comprehensive income/cost for the year</b> | <b>-</b>         | <b>-</b>                      | <b>-</b>                        | <b>-</b>                    | <b>(149,755)</b>                                             | <b>(149,755)</b>                                                                    |
| Revaluation of net investment in foreign currency   | -                | -                             | -                               | -                           | 11,381                                                       | 11,381                                                                              |
| New share issue                                     | 25,753           | -                             | -                               | 173,619                     | -                                                            | 199,372                                                                             |
| Ongoing new share issues                            | -                | 12                            | -                               | 854                         | -                                                            | 866                                                                                 |
| <b>Shareholders' equity 31 December 2016</b>        | <b>46,817</b>    | <b>24</b>                     | <b>123,031</b>                  | <b>538,975</b>              | <b>(263,533)</b>                                             | <b>445,314</b>                                                                      |
| Total profit/loss for the year                      | -                | -                             | -                               | -                           | (13,368)                                                     | (13,366)                                                                            |
| Other comprehensive income/cost                     | -                | -                             | -                               | -                           | -                                                            | -                                                                                   |
| <b>Total comprehensive income/cost for the year</b> | <b>-</b>         | <b>-</b>                      | <b>-</b>                        | <b>-</b>                    | <b>(13,368)</b>                                              | <b>(13,368)</b>                                                                     |
| Revaluation of net investment in foreign currency   | -                | -                             | -                               | -                           | (11,381)                                                     | (11,381)                                                                            |
| New share issue                                     | 4,250            | -                             | -                               | 39,673                      | -                                                            | 43,923                                                                              |
| Ongoing new share issues                            | 57               | -24                           | -                               | -1,274                      | -                                                            | (1,241)                                                                             |
| Conversion of debt                                  | 10,116           | -                             | -                               | 57,084                      | -                                                            | 67,200                                                                              |
| <b>Shareholders' equity 31 December 2017</b>        | <b>61,240</b>    | <b>-</b>                      | <b>123,031</b>                  | <b>634,466</b>              | <b>288,281</b>                                               | <b>530,456</b>                                                                      |

Changes in the number of shares and their par value, see below.  
All shares are fully paid and entitle the holder to an equal dividend percentage.

| Share issues – Number of shares                                        | 2017                 | 2016                 |
|------------------------------------------------------------------------|----------------------|----------------------|
| <b>Registered opening balance</b>                                      | <b>2,340,832,108</b> | <b>1,053,193,826</b> |
| Private Placement, February 2016 <sup>1)</sup>                         |                      | 13,000,000           |
| New issue, May 2016 <sup>2)</sup>                                      |                      | 1,066,193,826        |
| New issue Anoto Korea Inc., June 2016 <sup>3)</sup>                    |                      | 144,689,816          |
| Private Placement, October 2016 <sup>4)</sup>                          |                      | 43,224,750           |
| Private Placement, October 2016 <sup>5)</sup>                          |                      | 20,529,890           |
| Ongoing Acquisition XMS Penvision AB, March 2017 <sup>6)</sup>         | 2,869,884            |                      |
| Conversion of debt, May 2017 <sup>7)</sup>                             | 220,740,740          |                      |
| Private Placement, May 2017 <sup>8)</sup>                              | 212,500,000          |                      |
| Conversion of debt, September 2017 <sup>9)</sup>                       | 200,000,000          |                      |
| <b>Balance before reverse split (1:30)</b>                             | <b>2,976,942,732</b> |                      |
| <b>Balance after reverse split (1:30), October 2017 <sup>10)</sup></b> | <b>99,231,424</b>    |                      |
| Conversion of debt, October 2017 <sup>11)</sup>                        | 2,835,706            |                      |
| <b>Registered closing balance</b>                                      | <b>102,067,130</b>   | <b>2,340,832,108</b> |
| <b>Par value (SEK)</b>                                                 | <b>0.60</b>          | <b>0.02</b>          |

1) Private Placement, price SEK 0.83

2) New issue, price SEK 0.15

3) New issue Anoto Korea Inc., price SEK 0.269

4) Private Placement, price SEK 0.214

5) Private Placement, price SEK 0.214

6) Ongoing acquisition of shares in XMS Penvision AB, price SEK 0.15

7) Conversion of convertible bonds, converted at SEK 0.135

8) Private Placement, price SEK 0.20

9) Conversion of convertible bonds, converted at SEK 0.13

10) Reverse split (1:30)

11) Conversion of convertible bonds, converted at SEK 0.13

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 – General Accounting policies

The consolidated accounts of Anoto Group AB (publ) (Anoto) have been prepared in compliance with the Swedish Annual Accounts Act, International Financial Standards (IFRS), interpretation from IFRS Interpretations Committee as accepted by EU and the Swedish Financial Reporting Board recommendations RFR 1 “Complementary accounting rules for group accounting”.

The parent company's annual accounts have been prepared in accordance with the Swedish Annual Accounts Act (ARL) and the Swedish Financial Reporting Board recommendation RFR2, “Reporting for legal entities”. The consolidated and annual accounts, which are specified in thousands of Swedish kronor (SEK Thousand), refer to January 1 – December 31 for income statement items and December 31 for balance sheet items.

The annual report and consolidated accounts have been approved for distribution by the Board and the CEO on April 6, 2018. The Group's statement of comprehensive income and statement of financial position, and the parent company's income statement and balance sheet, will be subject to approval by the Annual General Meeting on May 15, 2018.

### NOTE 2 – Anoto's accounting policies

#### THE GROUP

Other than the revaluation of certain financial instruments, assets and liabilities are based on historical cost. The parent company's functional currency, Swedish kronor (SEK), is also the reporting currency for the Group.

Below is a summary of the accounting principles used by the Group. The accounting principles have, with the exceptions described, been applied consequently to all periods presented, in the Group's financial reports.

#### Accounting judgement and sources of estimation uncertainty

Preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed periodically. Changes in estimates are recognized in the period in which it is revised if the revision affects only that period, or the period in which the revision is made and future periods if the revision affects both current and future periods.

#### Classification etc.

Fixed assets and financial liabilities consist of amounts expected to be recovered or settled after more than twelve months after the reporting period. Current assets and current liabilities consist of amounts to be recovered or paid within twelve months after the reporting period

#### Basis of consolidation

The consolidated accounts incorporate the financial statements of Anoto Group AB (publ.) and entities controlled by the parent company and its subsidiaries. Control is achieved when the parent company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its return. In determining whether control exists, potential voting rights are considered.

The consolidated accounts have been prepared in accordance with the acquisition method. Acquisition of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values on the acquisition date of assets transferred, liabilities incurred to the former owners, and the equity instruments that Anoto has issued in exchange for control in the acquired unit. Transaction costs that arise, with the exemption of transaction costs arising from issues of equity instruments or debt instruments, are recognized directly in profit or loss for the year.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except for deferred taxes, liabilities or equity instruments related to share-based payments arrangement, and assets classified as held for sale.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquisition, and the fair value of the acquirer's previously held equity interest in the acquisition (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

When the difference is negative, a so called *bargain purchase*, this is recognized directly in profit or loss for the year.

Transferred consideration in connection with the acquisition does not include payments that apply to settlement of previous business relations. This type of settlement is recognized in profit or loss.

Contingent considerations are measured at fair value on the acquisition date. In cases where a contingent payment is classified as an equity instrument, no revaluation is done at subsequent reporting dates, and its subsequent settlement is accounted for in equity. Other contingent payments are remeasured at fair value at every reporting date, and the change is recognized in profit or loss for the year.

Non-controlling interests may be initially measured either as the proportionate share of net assets or at fair value meaning that goodwill is included in the non-controlling interest. The choice of method can be made individually for each acquisition.

Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee.

In cases where the subsidiary's accounting policies do not comply with Group accounting policies, adjustments are made to the Group's accounting policies. Losses attributable to non-controlling interest is distributed even in cases where non-controlling interest will be negative.

### Non-controlling interest

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners).

### Elimination of intra-Group transactions

All intra-Group transactions are eliminated in the consolidated accounts. Intragroup transactions include internal sales, profits and balances, as well as shareholders' contributions to Group companies and impairment losses on participations in Group companies.

### Transactions in foreign currencies

A functional currency is assigned to each foreign subsidiary. The functional currency is the currency of the primary economic environment in which the companies carry out their business. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate in effect on the balance sheet date. Exchange rate differences arising from translation are recognized against profit or loss for the year. Non-monetary assets and liabilities recognized at historical costs are translated at the exchange rate at the time of the transaction. Non-monetary assets and liabilities recognized at fair value are translated at the functional currency at the exchange rate applicable at the time of valuation to fair value.

The financial reports of the foreign subsidiaries that have a different functional currency than Anoto's functional currency (the Swedish krona) are recalculated at the exchange rate on the balance sheet date for all balance sheet items, including goodwill and other consolidated surpluses and deficits and at the average exchange rate for all items included in the result. Exchange differences arising are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in the revaluation reserve in equity in respect of that operation attributable to the owners of Anoto are reclassified to profit or loss.

### Revenue recognition

Revenue is received from product sales, licenses, royalties, and development projects. Revenue from product and license sales is recognized when essentially all risks and rights associated with ownership have been transferred to the purchaser, normally at the time of delivery.

Royalties are reported during the same month as the partner makes the actual sale.

Revenue from services relates to software/hardware and development of customer products. Revenue from services is recognized by reference to the stage of completion of the contract. The stage of completion is determined by the proportion of costs incurred to date compared to the estimated total costs of the transaction.

## Financial income and expenses

Financial expenses comprise interest expense on borrowings, the effect of dissolving the present value of provisions, revaluation losses on financial assets valued at fair value through profit or loss, and impairment of financial assets. Borrowing costs are recognized in earnings using the effective interest method, except to the extent they are directly attributable to the acquisition, construction, or production of assets that take a substantial period of time to get ready for intended use or sale, in which case they are added to the cost. Exchange gains and losses are reported net.

## Intangible assets

### Goodwill

Goodwill, which is reported in connection with the acquisition of subsidiaries in accordance with the above, is initially reported as an asset at cost as established at the date of acquisition of the business. As described in note 22 the Group has three cash-generating units for which the goodwill value is impairment-tested. Goodwill is not amortized but subject to an impairment test annually or whenever needed by calculating the recoverable amount of the corresponding cash-generating unit. The recoverable amount is defined as the asset's net realizable value or value in use, whichever is higher. Goodwill is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. An impairment loss is recognized if the value of the unit reported by the Group exceeds the recoverable amount. The impairment loss is recognized directly in profit or loss.

### Research and development

Expenses for research related to acquiring new scientific or technical knowledge are expensed immediately as they occur. Expenses for development, where the results from research or other knowledge are applied to achieve new or improved products, are reported as an asset in the statement of financial position if it is technically possible to complete the product, if there is an intention to complete and use or sell the product and if it is likely that the product will generate future economic benefits. The cost includes all directly attributable expenses, such as material and services, payroll, and registration of legal rights. Other expenses related to development are expensed directly as they occur. In the statement of the financial position development expenses are reported at cost less accumulated amortization and write-downs.

Amortization of capitalized development expenses begins in conjunction with the intangible asset being brought into use.

### Other intangible assets

Other intangible assets acquired by the Group mainly relate to patents, brands, and licenses and are reported at cost less accumulated amortization and accumulated impairment losses.

### Subsequent expenses

Subsequent expenditures on capitalized intangible assets are recognized as an asset in the financial statement only when it increases the future economic benefits for the specific asset to which they relate. All other expenditures are expensed as incurred.

## Tangible fixed assets

Property, plant and equipment consisting of furniture, other equipment, computer hardware and software is recognized at cost less accumulated depreciation and any impairment losses. Acquisition cost includes purchase price and expenses directly attributable to bringing the asset to its use as intended with the acquisition. Other expenses are added to the acquisition cost only if it is probable that such expenses will lead to future economic benefits and if such expenses can be calculated properly. Other related costs are reported as expenses as they occur.

## Depreciation and amortization

Depreciation and amortization are based on the costs and are done on a straight-line basis over the estimated useful economic lives of the assets in view of the following depreciation and amortization periods:

|                                        |          |
|----------------------------------------|----------|
| - Patents                              | 10 years |
| - Capitalized development expenditures | 3 years  |
| - Brands                               | 10 years |
| - Equipment                            | 5 years  |
| - Capital expenditure on rented assets | 5 years  |

The depreciation and amortization methods used, residual values and useful life of assets are reassessed at the end of each year.

## Impairment

### Impairment of tangible and intangible fixed assets

If there is an indication that a Group asset has been impaired, its recoverable amount is estimated. The recoverable amount is defined as the asset's net realizable value or value in use, whichever is higher. When determining the value in use, the present value of the future cash flows that the asset is expected to give rise to during its useful life is estimated. An impairment loss is recognized if the Group's reported value exceeds the recoverable amount, and the impairment loss is recognized in profit or loss.

### Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

## Leases

Lease contracts are classified as either financial or operational leases. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group has no significant financial lease contracts. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

## Earnings per share

The calculation of earnings per share is based on the annual result in the Group attributable to the shareholders of the parent company and the weighted average of outstanding shares during the year. When calculating the earnings per share after dilution the result and the average number of shares are adjusted in order to consider potential dilution from preference shares, which during the reporting periods relates to options granted to employees.

### Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies are retranslated at the exchange rate on the balance sheet date, and unrealized exchange gains and losses are included in profit or loss. Exchange gains/losses on operating receivables and liabilities are reported as other operating income/expenses. Exchange rate differences on financial receivables and liabilities are reported as financial items.

## Financial instruments

The Group's financial instruments consist mostly of accounts receivable, cash and cash equivalents, long-term receivables, accounts receivables, financial investments, interest bearing liabilities and accounts payables.

### Recognition and derecognition from the statement of financial position

A financial asset or financial liability is recognized in the statement of financial position when the company becomes party to the instrument's contractual terms. A receivable is recognized when the company has performed and there is a contractual obligation on the counterpart to pay, even if the invoice has not been sent. Accounts receivable are recorded in the statement of financial position when the invoice is sent. Liabilities are recognized when the counterpart has performed and there is contractual obligation to pay, even if the invoice has not been received. Accounts payable are recognized when an invoice is received.

A financial asset is derecognized from the statement of financial position when the rights to the agreement are realized, expired or when the company loses control over them. The same applies to portions of financial assets. A financial liability is derecognized from the statement of financial position when the obligations are discharged, cancelled or have expired. The same applies for part of a financial liability.

A financial asset and a financial liability are offset and the net amount is recognized in the statement of financial position only when the company has a legal right to set off the amounts and intends either to settle the net amounts or at the same time realize the receivable and settle the liability. Acquisition or divestment of financial assets are reported on the transaction day. The transaction day is the date on which the company commits to acquire or divest the asset.

## Classification and measurement

Financial instruments, except for derivative instruments, are initially stated at cost, corresponding to the instrument's fair value. Transaction costs are added to this for all financial instruments except for those belonging to the financial assets category, which are reported in the income statement at fair value. The classification of a financial instrument on the initial reporting depends on the intention of the acquirer. The classification decides how the financial instrument is valued on the initial reporting date as described below.

Derivative instruments are reported initially at their fair value meaning that transaction costs are charged against profit or loss for the period. After the initial recognition, derivative instruments are reported as described below.

## Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at amortized cost using the effective interest method less any impairment.

## Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are either designated as available for sale or are not classified in any of the other categories. They are included in current assets and management does not intend to dispose of the investment within 12 months after the reporting period.

## Other financial liabilities

Loans and other financial liabilities, such as accounts payable, are included in this category. The liabilities are measured at amortized cost using the effective interest method.

## Inventory

Inventory, consisting of finished products and critical components, is stated at the lower of cost (in accordance with FIFO) and net realizable value. The cost of inventories includes costs incurred to purchase inventory assets and transport them to their current location at their current states.

## Employee benefits

All pension plans in the Group are classified as defined contribution pension plans, as Anoto's obligation is limited to the contributions that the company has undertaken to pay. In those cases, the size of an employee's pension depends on the contributions the company pays into a fund or to an insurance company and the capital return on those contributions. Consequently, it is the employee who takes the actuarial risk (that the benefit becomes less than expected) and the investment risk (that the invested assets will be insufficient to support the expected benefit). The company's commitments concerning service costs paid to defined contribution pension plans are expensed against profit when employees have rendered service entitling them to the contributions employees' performance of their service for the company during a period.

Short-term compensation paid to employees is calculated without discounting and is reported as an expense when the related services are received. A provision for estimated bonus payments is recognized when the Group has a legal or constructive obligation to make such payments due to the fact that the services in question have been received from the employees and the provision amount can be estimated in a reliable manner.

Termination benefits are payable when employment is terminated by the Group before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earliest of the following dates: (a) when the Group no longer has the opportunity to withdraw the offer of compensation; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of severance pay.

## Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity. In which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

The current tax payable is based on taxable profit for the year. The tax has been calculated in accordance with each country's tax regulations and included in the tax on profit/loss for the year item.

The Group uses the balance sheet method to calculate deferred tax assets and liabilities. In accordance with the balance sheet method, the calculation is based on tax rates as of the balance sheet date as applied to temporary differences between the reported and tax value of an asset or liability, as well as tax loss carry-forwards. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Temporary differences are not taken into consideration in consolidated goodwill or in differences attributed to initial recognition of assets and liabilities not classified as acquisitions of business operations that, at the time of the transaction, did not affect either net profit or taxable profit.

## Cash flow

The cash flow statements are prepared in accordance with the indirect method, i.e., profit/loss after financial items are adjusted for transactions that have not given rise to cash receipts and payments during the period, as well as for any income and expenses attributable to the cash flow of investing or financing activities.

## Provisions

A provision is recognized when there is a present obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and an amount can be reliably estimated. The following provision is reported in the statement of financial position:

### Product warranties

Provisions for product warranty obligations relate to the sale of pens. The warranty time period is 12 months and the provision is classified as short-term.

## Disclosures about related parties

For disclosures about the company's transactions with related parties, refer to Note 9 "Remuneration for senior executives", Note 31 Share based payments to employees and Note 36 "Related party transactions". There were no other transactions with related parties.

## Segment reporting

Throughout this 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 during 2018.

## New and revised standards that are effective for annual periods beginning on or after 1 January 2017

The amendments to IAS 7 *Statements of Cash Flows*, effective 1 January 2017, require the Group to provide disclosures about the changes in liabilities from financing activities. The Group categorizes those changes into changes arising from cash flows and non-cash changes with further subcategorized as required by IAS 7.

## Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorization of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. Information on those deemed to be relevant to the financial statements of the Group are disclosed below.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations

expected to be relevant to the financial statements of the Group are disclosed below. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Group's financial statements.

#### IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and several revenue-related Interpretations. IFRS 15 will be applied from the financial year 2018. The new standard will be applied retrospectively without restatement of previous reporting periods, with the cumulative effect of initial application recognized as an adjustment to the opening balance of retained earnings/profit brought forward at 1 January 2018.

##### *Contracts with multiple performance obligations*

Many of the Group's contracts comprise a variety of performance obligations including, but not limited to sales of digital pens and software license, patterns and professional services. In accordance with IFRS 15, the Group have evaluated the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- the customer benefits from the item either on its own or together with other readily available resources, and
- it is 'separately identifiable' (i.e. the Group does not provide a significant service integrating, modifying or customizing it).

The Group has identified each product or service as distinct. Revenue from product sales (pens and patterns) are going to be recognized when the control of goods has been transferred to the customer which is at point of delivery. Revenue from software license and professional services are going to be recognized over time for the license period or as the services are provided.

The Group has no essential cost to obtain a contract or set-up costs.

While this represents significant new guidance, the implementation of this new guidance did not have a significant impact on the timing or amount of revenue recognized by the Group.

#### IFRS 9 Financial instruments

The new Standard for financial instruments (IFRS 9) replaces IAS 39 *Financial Instruments: Recognition and Measurement*. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

Management has identified the following areas that are expected to be most impacted by the application of IFRS 9:

- the classification and measurement of the Group's financial assets. Management holds most financial assets to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly. Management expects that available-for-sale (AFS) investments and other financial assets are likely to be measured at fair value through profit or loss as the cash flows are not solely payments of principal and interest.
- the impairment of financial assets applying the expected credit loss model. This will apply to the Group's trade receivables (unless classified as at fair value through profit or loss). For trade receivables, the Group applies a simplified model of recognizing lifetime expected credit losses as these items do not have a significant financing component.

There is no effect from the first application of IFRS 9.

#### IFRS 16 Leases

IFRS 16 will replace IAS 17 and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded in the balance sheet in the form of a right-of-use asset and a lease liability.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, the Group is in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices.
- assessing their current disclosures for operating leases (Note 33) as these are likely to form the basis of the amounts to be capitalized and become right-of-use assets.
- determining which optional accounting simplifications apply to their lease portfolio and if the Group are going to use these exemptions.
- considering the IT system requirements and whether a new leasing system is needed. This is being considered in line with implementing IFRS 15 and IFRS 9 so the Group only have to undergo one set of system changes.
- assessing the additional disclosures that will be required.

## PARENT COMPANY

The parent company's annual accounts have been prepared in compliance with the Swedish Annual Accounts Act (ÅRL) and the Swedish Financial Reporting Board recommendation RFR 2, "Reporting for Legal Entities". Application of RFR 2 entails that the parent company, in the annual report for the legal entity, shall comply with all EU-endorsed IFRSs and pronouncements as far as possible within the framework of the Annual Accounts Act, the Pension Obligations Vesting Act, and taking into account the connection between reporting and taxation. The recommendation indicates which exceptions from and amendments to IFRS are to be made.

For details of the parent company's accounting policies, refer to the Group's accounting policies above. The section below is limited to the parent company's deviations from the Group's policies.

### Changes to accounting principles

No new or amended IFRS interpretations or other regulatory changes have had a significant effect on the parent company's financial position, results or disclosures.

#### IFRS 9 *Financial instruments*

The new Standard for financial instruments (IFRS 9) replaces IAS 39 *Financial Instruments: Recognition and Measurement*. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

Management has identified the following areas that are expected to be most impacted by the application of IFRS 9:

- the classification and measurement of the Group's financial assets. Management holds most financial assets to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly. Management expects that available-for-sale (AFS) investments and other financial assets are likely to be measured at fair value through profit or loss as the cash flows are not solely payments of principal and interest.
- the impairment of financial assets applying the expected credit loss model. This will apply to the Group's trade receivables (unless classified as at fair value through profit or loss). For trade receivables, the Group applies a simplified model of recognizing lifetime expected credit losses as these items do not have a significant financing component.

There is no effect from the first application of IFRS 9.

### Classification and presentation format

An income statement and a comprehensive statement of income are presented for the parent company, whereas for the Group, these two financial statements form one comprehensive statement of income. In addition, for the parent company the titles balance sheet and cash flow are used for the financial statements which in the Group are titled statement of financial position and statement of cash flows, respectively. The income statement and balance sheet of the parent company are presented in accordance with the format prescribed in the Annual Accounts Act, whereas the statement of comprehensive income, statement of changes in equity, and cash flow statement are based on IAS 1 Presentation of Financial Statements and IAS 7 Statement of Cash Flows. The differences in the parent company's income statement and balance sheet compared with the Group's financial statements consist mainly of the reporting of financial income and costs and the reporting of equity.

### Leases

The parent company's financial lease contracts are reported as operational lease contracts.

### Financial instruments

The parent company does not apply the presentation rules of IAS 39. The parent company measures non-current financial assets at cost less any impairment losses. Current financial assets are measured at the lower of cost or net realizable value. Principles for recognition and derecognition of financial instruments are the same as described for the Group above. Also, principles for financial liabilities are the same as for the Group.

### Holdings in subsidiaries and associated companies

Holdings in Group and associated companies are reported at cost. If the carrying amount of the investment exceeds the recoverable amount (refer to section above on impairment losses), an impairment loss is recognized. Transaction costs are included in the reported cost for the subsidiary. Contingent payments are measured according to the probability that the payment will be made.

## **NOTE 3 – Assessments when applying the Group's accounting policies and the main sources of uncertain estimates**

### **Assessments and applications in the financial reports**

Preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed periodically. Changes in estimates are recognized in the period in which they are revised if the revision affects only that period, or the period in which the revision is made and future periods if the revision affects both current and future periods.

### **Critical assessments when applying the company's accounting policies**

When applying the Group's accounting policies (as described in Note 2), management has made the following assessments that have the most significant impact on the amounts that appear in the financial reports.

### **Key sources of uncertainty in the estimates**

The information below concerns key assumptions about the future and other key sources of uncertainty in the estimates on the balance sheet date that entail significant risk of substantial adjustments to reported assets/liabilities for the next financial year.

### **Impairment tests for goodwill**

Goodwill is not amortized but is subject to periodic tests for impairment. When testing for impairment losses, the value in use is calculated for the three cash generating units to which goodwill has been allocated. The value in use is based on the estimated future cash flows that these cash-generating units are expected to give rise to.

As a part of the annual closing process, Anoto tested the value of the Group goodwill and found that there is no evidence of impairment regarding Group goodwill. The group will continue to review the carrying values of goodwill against the progress made in the business and specifically in the cash generating units to which goodwill has been allocated and further adjust goodwill as appropriate.

The reported value for goodwill is SEK 153 million as of the balance sheet date. For additional information, refer to Note 22.

### **Impairment tests for capitalized development expenditures and other intangible assets**

Other intangible assets including capitalized development expenditures are amortized or depreciated based on management's estimates of the periods in which the assets will generate revenue but are also reviewed regularly for indications of impairment. The impairment tests are based on a review of the recoverable amount, which is estimated based on management's projections of future cash flows using internal business plans and forecasts.

Asset impairment requires management's judgment, particularly in assessing:

- whether an event has occurred that may affect asset values,
- whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset in the business,
- the appropriate assumptions to be applied in preparing cash flow projections, and
- the discounting of these cash flows.

The value in use is based upon the estimated future cash flows that the technology and products are expected to generate. For additional information, refer to notes 18 and 21.

When testing for impairment losses, the value in use is calculated for the technology and products developed by the group. The group will continue to review the carrying values of capitalized development expenditures and other intangible assets against the progress made in the business and will further adjust the carrying value of other intangible assets including capitalized development expenditures as appropriate.

### **Inventory**

The Group values inventory at the lower of historical cost, based on the first-in, first-out basis, and net realizable value. The calculation of net realizable value involves management's judgment as to the estimated sales prices, overstock articles, obsolete and out-dated articles, damaged goods, and selling costs. If the estimated net realizable value is lower than cost, a valuation allowance is established for inventory obsolescence. See note 39 for additional information.

## Trade and financial receivables

Anoto estimates the risk that receivables will not be paid and provides for doubtful accounts based on specific provisions for known cases. Management's judgment includes consideration of changing market conditions; Additional information is included in "Credit risk" in note 27.

## Liquidity risk and financing risk

For information on liquidity risk and financing risk, see the Directors report, page 5, and note 4.

## Legal proceedings

Anoto recognizes a liability when the Group has an obligation from a past event involving the transfer of economic benefits and when a reasonable estimate can be made of what the transfer might be. The Group reviews outstanding legal cases regularly in order to assess the need for provisions in the financial statements. These reviews consider the factors of the specific case using internal resources and external counsel as appropriate. The financial statements may be affected to the extent that management's assessments of the factors considered are not consistent with the actual outcome.

## NOTE 4 – Risk management by the group

The Anoto Board of Directors has adopted a financial policy for:

- Simplifying and harmonizing the Group's financial activities
- Defining rules for the financial risks that are accepted by the Board
- Adopting guidelines for the Group to operate independently
- Delegating management of financial risks to the senior management

The areas of the financial policy that most affect Anoto's management of financial risks are liquidity and currency.

The senior management of Anoto identify liquidity and currency risk in preparing budgets, forecasts, and when reviewing the performance of the business. Management maintains strategies to minimize the impact of these risks.

## Risk definitions

|                   |                                                                                                                                                                                                                                                                                                                                                                                            |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Liquidity risk    | The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.                                                                                                                                                                                                             |
| Loans             | Loans are financial liabilities, other than short-term trade payables on normal credit terms.                                                                                                                                                                                                                                                                                              |
| Market risk       | The risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk and other price risk.                                                                                                                                                            |
| Currency risk     | The risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in foreign exchange rates.                                                                                                                                                                                                                                                 |
| Interest risk     | The risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market interest rates.                                                                                                                                                                                                                                                  |
| Other price risks | The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors related to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. |
| Credit risk       | The risk that one party to a financial instrument will fail to discharge an obligation and cause a financial loss.                                                                                                                                                                                                                                                                         |

## Liquidity policy

In accordance with the Finance policy of the Group the cash needs of the Group are continually updated. These cash flow analyses give information about cash planning, deposits, interest periods etc. In accordance with the liquidity policy, available cash shall consist of cash and negotiable securities with an official credit rating equivalent to Moody's P1.

## Liquidity and financing risk

Anoto's liquid assets, as cash and bank deposits, amounted at the end of 2017 to MSEK 32 (6).

There are no credit promises or liquidity reserve, e.g. overdraft facilities. Convertible debt shown as due in 1-5 years as at December 31, 2017, has been converted into equity in 2018. The only other financial liabilities that, apart from the interest on the loans, will affect cash flow are accounts payable and other current liabilities. All these liabilities fall due within 3 months.

Maturity structure financial liabilities:  
(KSEK)

### 2017:

|                           | 0-3 months | 4-6 months | 7-12 months | 1-5 years |
|---------------------------|------------|------------|-------------|-----------|
| Borrowings                | 0          | 0          | 0           | 44,449    |
| Accounts payable          | 38,857     |            |             |           |
| Other current liabilities | 10,395     |            |             |           |

### 2016:

|                           | 0-3 months | 4-6 months | 7-12 months | 1-5 years |
|---------------------------|------------|------------|-------------|-----------|
| Borrowings                | 0          | 0          | 29,018      | 28,000    |
| Accounts payable          | 65,576     |            |             |           |
| Other current liabilities | 12,028     |            |             |           |

## Currency exposure and currency policy

### Transaction exposure

Transaction exposure arises when income and expenses are in different currencies. Anoto has significant currency flows in USD, EUR, GBP, KRW, and JPY because most of its invoicing is in those currencies.

Anoto's Group's currency policy does not provide for hedging mainly due to the difficult of producing the needed flows forecasts in the relevant currencies.

The surplus in EUR results from the Group invoicing mostly in EUR in the European market with almost no costs in this currency.

The net exposure in USD is attributable to revenue and expenses through Livescribe, Inc. The expenses in USD are a combination of the purchasing of components and finished goods along with current expenses incurred in the USA based subsidiaries.

The net exposure in JPY is primarily due to sales invoiced in Japan.

The net sales in GBP relate to invoicing to customers in the UK by our UK based subsidiary and the costs in GBP are related to the running of the UK business.

The net exposure in KRW arises due to sales invoiced in Korea by Anoto Korea Inc. These sales exposures are partly offset by local costs. Hedge accounting under IAS 39 does not apply.

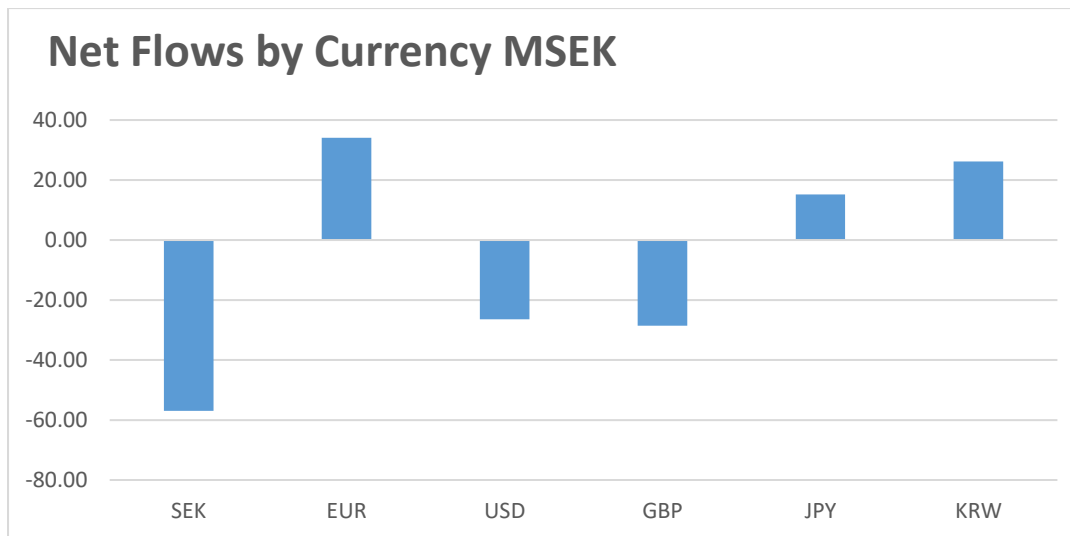
### Sensitivity analysis exposure

The following table indicates the effect of a 5 percentage point weakening or strengthening of the currencies against SEK.

|     |              |
|-----|--------------|
| USD | 1.3 +/- MSEK |
| EUR | 1.7 +/- MSEK |
| GBP | 1.4 +/- MSEK |
| KRW | 1.3 +/- MSEK |
| JPY | 0.8 +/- MSEK |

This analysis is based on the proportion of revenues and costs in each currency to which the group is exposed.

## Actual Net flows by currency 2017 MSEK



### Translation exposure

Hedging of translation exposure is determined by the Group finance policy. Currently no hedging of the translation exposure is undertaken. An annual analysis of the risk takes place in order to identify changes in exposure. The net assets in the subsidiaries in the US, UK, Korea, and Japan amount to MSEK -144.2, MSEK 0.0, MSEK -11.3 and MSEK -85.8 respectively.

The effect on the translation reserve of a 5 percent change of the exchange rate is:

|     |              |
|-----|--------------|
| USD | 7.2 +/- MSEK |
| GBP | 4.3 +/- MSEK |
| KRW | 0.6 +/- MSEK |
| JPY | 0.0 +/- MSEK |

### Interest risk

Interest rates are currently low and not expected to increase in the near future. The Group also has a low level of interest bearing loans and borrowings and management therefore considers that interest risk is not currently a significant exposure of the Group. Convertible Debt is not interest bearing; details of interest bearing liabilities are set out in note 32.

### Other Price risk

The Group carries Other long term investments at historical cost, less any allowance for impairment. At December 31, 2017 no allowance for impairment was considered necessary. There is a risk that the market value of these investments may fall. Management monitors the market price of these investments and assesses the need for any impairment provision.

### Credit risk

The management of credit risks can be broken down into commercial risks and financial risks. The provisions set aside for bad debt losses as of the balance sheet date have not identified any commercial credit risks. The financial credit risk on financial transactions is that the company incurs losses as a result of non-payment by counterparts related to investments and bank deposits. The company uses only stable A-rated Nordic banks which is why the risk is limited.

For additional information about credit risk in accounts receivable, refer to Note 27. The financial credit risk is managed as part of the Group's finance policy. For other financial instruments, it is assessed that no significant credit risks exist.

## NOTE 5 – Net sales and assets

### Group sales per market

| (KSEK)            | Group<br>2017  | Group<br>2016  |
|-------------------|----------------|----------------|
| Sweden            | 1,488          | 26,416         |
| Rest of EU        | 28,684         | 53,406         |
| USA               | 56,506         | 65,698         |
| Japan             | 7,984          | 29,224         |
| Rest of Asia      | 72,791         | 56,726         |
| Rest of the world | 5,557          | 4,187          |
| <b>Total</b>      | <b>173,010</b> | <b>235,657</b> |

### Group sales per product group

| (KSEK)       | Group<br>2017  | Group<br>2016  |
|--------------|----------------|----------------|
| Royalty      | -              | 5,437          |
| Licenses     | 24,433         | 6,021          |
| Digital pens | 125,305        | 196,109        |
| Other        | 23,272         | 28,090         |
| <b>Total</b> | <b>173,010</b> | <b>235,657</b> |

### Group assets per market

| (KSEK)       | Intangible assets |                | Tangible assets |              |
|--------------|-------------------|----------------|-----------------|--------------|
|              | 2017              | 2016           | 2017            | 2016         |
| Sweden       | 229,610           | 163,613        | -               | 3,702        |
| USA          | 9,424             | 72,866         | 714             | 1,004        |
| England      | 5,615             | -              | 2,326           | 2,979        |
| Korea        | 10,633            | 331            | 364             | 729          |
| <b>Total</b> | <b>255,282</b>    | <b>236,810</b> | <b>3,404</b>    | <b>8,414</b> |

#### NOTE 6 – Average number of employees

|                  | 2017<br>No. of Ee's | 2017<br>Of which<br>are Men | 2016<br>No. of Ee's | 2016<br>Of which<br>are Men |
|------------------|---------------------|-----------------------------|---------------------|-----------------------------|
| Parent company   | -                   | -                           | -                   | -                           |
| Group companies: |                     |                             |                     |                             |
| Sweden           | 19                  | 15                          | 72                  | 61                          |
| USA              | 4                   | 3                           | 36                  | 26                          |
| Japan            | 1                   | 1                           | 4                   | 4                           |
| Korea            | 14                  | 11                          | 18                  | 16                          |
| United Kingdom   | 23                  | 17                          | 26                  | 21                          |
| <b>Total</b>     | <b>61</b>           | <b>47</b>                   | <b>156</b>          | <b>128</b>                  |

#### NOTE 7 – Board of Directors and management split by gender

|                                    | 2017<br>No. of Ee's | 2017<br>Of which<br>are Men | 2016<br>No. of Ee's | 2016<br>Of which<br>are Men |
|------------------------------------|---------------------|-----------------------------|---------------------|-----------------------------|
| Board of Directors Parent company  | 6                   | 5                           | 3                   | 3                           |
| Board of Directors Group companies | 3                   | 3                           | 4                   | 4                           |
| <b>Total Board</b>                 | <b>9</b>            | <b>8</b>                    | <b>7</b>            | <b>7</b>                    |
| Management Parent company          | -                   | -                           | -                   | -                           |
| Management Group companies         | 3                   | 3                           | 5                   | 5                           |
| <b>Total Management</b>            | <b>3</b>            | <b>3</b>                    | <b>5</b>            | <b>5</b>                    |

**NOTE 8 – Salaries and remuneration**

| (KSEK)                                  | Group<br>2017 | Group<br>2016  | Parent<br>Company<br>2017 | Parent<br>Company<br>2016 |
|-----------------------------------------|---------------|----------------|---------------------------|---------------------------|
| <b>Salaries</b>                         |               |                |                           |                           |
| Board of Directors and CEO              | 4,187         | 6,095          | 3,069                     | 3,661                     |
| Other senior executives <sup>1)</sup>   | 9,937         | 16,992         | -                         | -                         |
| Other employees Sweden                  | 1,976         | 24,106         | -                         | -                         |
| Other employees USA                     | 2,331         | 32,892         | -                         | -                         |
| Other employees UK                      | 6,449         | 30,029         | -                         | -                         |
| Other employees Japan                   | 1,449         | 2,917          | -                         | -                         |
| Other employees Korea                   | 1,823         | 4,227          | -                         | -                         |
| <b>Total salaries</b>                   | <b>28,151</b> | <b>117,258</b> |                           | <b>3,661</b>              |
| <b>Payroll overhead</b>                 |               |                |                           |                           |
| Board of Directors and CEO              | 956           | 1,217          | 824                       | 1,150                     |
| Other senior executives <sup>1)</sup>   | 2,194         | 2,248          | -                         | -                         |
| Other employees Sweden                  | (139)         | 8,566          | -                         | -                         |
| Other employees USA                     | 684           | 2,468          | -                         | -                         |
| Other employees UK                      | 804           | 3,207          | -                         | -                         |
| Other employees Japan                   | 86            | 278            | -                         | -                         |
| Other employees Korea                   | 640           | -              | -                         | -                         |
| <b>Total payroll overhead</b>           | <b>5,225</b>  | <b>17,984</b>  |                           | <b>1,150</b>              |
| <b>Pension expenses</b>                 |               |                |                           |                           |
| Board of Directors and CEO              | -             | 9              | -                         | -                         |
| Other senior executives <sup>1)</sup>   | 115           | 1,031          | -                         | -                         |
| Other employees Sweden                  | 1,567         | 3,020          | -                         | -                         |
| Other employees USA                     | -             | 549            | -                         | -                         |
| Other employees UK                      | 241           | 420            | -                         | -                         |
| Other employees Japan                   | -             | -              | -                         | -                         |
| Other employees Korea                   | 260           | 588            | -                         | -                         |
| <b>Total pension expenses</b>           | <b>2,184</b>  | <b>5,617</b>   | <b>-</b>                  | <b>-</b>                  |
| <b>Total salaries and remunerations</b> | <b>35,561</b> | <b>140,859</b> | <b>3,893</b>              | <b>4,811</b>              |
| <b>Whereof:</b>                         |               |                |                           |                           |
| Sweden                                  | 7,372         | 49,121         | 3,893                     | 4,811                     |
| USA                                     | 10,477        | 46,807         | -                         | -                         |
| UK                                      | 12,094        | 36,921         | -                         | -                         |
| Japan                                   | 1,535         | 3,195          | -                         | -                         |
| Korea                                   | 4,082         | 4,815          | -                         | -                         |
| <b>Total</b>                            | <b>35,561</b> | <b>140,859</b> | <b>3,893</b>              | <b>4,811</b>              |

Salaries and other remunerations are included in the statement of comprehensive income headlines as follows:

|                         |               |                |              |              |
|-------------------------|---------------|----------------|--------------|--------------|
| Selling expenses        | 8,563         | 37,074         | -            | -            |
| R&D expenses            | 17,191        | 80,191         | -            | -            |
| Administrative expenses | 9,807         | 23,594         | 3,893        | 4,811        |
| <b>Total</b>            | <b>35,561</b> | <b>140,859</b> | <b>3,893</b> | <b>4,811</b> |

<sup>1)</sup> The Group had 3 senior executives at the end of 2017 (5 at the end of 2016).

## NOTE 9 – Remuneration of the Board of Directors, CEO and management

| Board and CEO 2017         | (KSEK)                  | Salary/<br>Remuneration | Bonus    | Pension  | Other<br>Remuneration | Total        |
|----------------------------|-------------------------|-------------------------|----------|----------|-----------------------|--------------|
| Joonhee Won                | - CEO                   | 2,837                   | -        | -        | -                     | 2,837        |
| Jörgen Durban              | - Chairman of the Board | 900                     | -        | -        | -                     | 900          |
| Young Soo Ha               | - Board Member          | 150                     | -        | -        | -                     | 150          |
| Mariel Clemensen           | - Board Member          | 150                     | -        | -        | -                     | 150          |
| Jefferey Weedman           | - Board Member          | 150                     | -        | -        | -                     | 150          |
| Dongyi Lee                 | - Board Member          | -                       | -        | -        | -                     | -            |
| <b>Total <sup>1)</sup></b> |                         | <b>4,187</b>            | <b>-</b> | <b>-</b> | <b>-</b>              | <b>4,187</b> |

| Board and CEO 2016         | (KSEK)                  | Salary/<br>Remuneration | Bonus    | Pension  | Other<br>Remuneration | Total        |
|----------------------------|-------------------------|-------------------------|----------|----------|-----------------------|--------------|
| Stein Revelsby             | - CEO                   | 2,434                   | -        | 9        | -                     | 2,443        |
| Joonhee Won                | - CEO                   | 2,536                   | -        | -        | -                     | 2,536        |
| Jörgen Durban              | - Chairman of the Board | 600                     | -        | -        | -                     | 600          |
| Joonhee Won                | - Board Member          | 75                      | -        | -        | -                     | 75           |
| Antonio Mugica             | - Board Member          | 150                     | -        | -        | -                     | 150          |
| Henric Ankarcrona          | - Board Member          | 300                     | -        | -        | -                     | 300          |
| <b>Total <sup>1)</sup></b> |                         | <b>6,095</b>            | <b>-</b> | <b>9</b> | <b>-</b>              | <b>6,104</b> |

| Management 2017                | (KSEK) | Salary /<br>Remuneration | Bonus    | Pension    | Other<br>Remuneration | Total         |
|--------------------------------|--------|--------------------------|----------|------------|-----------------------|---------------|
| Group management <sup>2)</sup> |        | 9,937                    | -        | 115        | -                     | 10,052        |
| <b>Total</b>                   |        | <b>9,937</b>             | <b>-</b> | <b>115</b> | <b>-</b>              | <b>10,052</b> |

| Management 2016                | (KSEK) | Salary /<br>Remuneration | Bonus      | Pension      | Other<br>Remuneration | Total         |
|--------------------------------|--------|--------------------------|------------|--------------|-----------------------|---------------|
| Group management <sup>2)</sup> |        | 16,621                   | 371        | 1,031        | 7,468                 | 25,491        |
| <b>Total</b>                   |        | <b>16,621</b>            | <b>371</b> | <b>1,031</b> | <b>7,468</b>          | <b>25,491</b> |

<sup>1)</sup> Compensation to Board members (Board fees) are paid from the parent company. Compensation to the CEO may originate from other Group companies.

<sup>2)</sup> Compensation to Group management may originate from Group companies.

*Guidelines for compensation to the Executives of the Company (Annual General meeting 2017)*

The compensation level and structure shall be at market level. The total compensation shall be a balanced mix of fixed salaries, variable compensation, retirement and health plans, any other benefits and terms for dismissal and severance payments. The compensation may also comprise stock related long term incentive programmes.

The variable compensation varies for the respective Executive and shall primarily be related to Anoto's result and operating goals and may at the most be fifty percent of the fixed salary. However, the variable compensation for the CEO may be at most 75% of the fixed salary.

The retirement plan shall be competitive. The CEO may have a pension premium based retirement plan of 35 % of the fixed salary.

As a main rule all of the executives shall have a mutual notice period of three months. Under certain conditions, some Executives may have an additional three month notice period in the event that Anoto gives notice. The CEO shall have a mutual notice period of six months and a severance payment of twelve months salary in the event that Anoto terminates the employment without just cause.

Stock related incentive plans are to be determined by the AGM. Issues and transfers of securities determined by the AGM according to the rules of s16 in the Swedish Companies Act are not comprised by these guidelines in case the AGM has or will make such decisions.

The Board shall be entitled to deviate from these guidelines in a certain cases.

The Board has deviated from these guidelines in relation to the CEO concerning both pensions and notice period. The notice period for the CEO is six months from the company and six months from the employee. No Pension plan contributions are made in respect of the current CEO.

*Other Information*

The period of notice for other senior executives is three to six months if the company terminates their employment.

No agreements have been entered into for pension commitments or the equivalent for either Board members or senior executives above and beyond that which is covered by these notes.

Apart from a salary during the period of notice, none of the other senior executives receives financial compensation in case of discharge.

**NOTE 10 – Audit Fees**

| (KSEK)                           | Group<br>2017 | Group<br>2016 | Parent<br>company<br>2017 | Parent<br>company<br>2016 |
|----------------------------------|---------------|---------------|---------------------------|---------------------------|
| <b>Deloitte</b>                  |               |               |                           |                           |
| Audit assignment, Deloitte       | 1,019         | 1,681         | 1,008                     | 1 224                     |
| Tax advisory services            | 36            | 215           |                           | 160                       |
| Other services                   | -             | 180           |                           | 180                       |
| <b>Total</b>                     | <b>1,055</b>  | <b>2,076</b>  | <b>1,008</b>              | <b>1,564</b>              |
| <b>Grant Thornton</b>            |               |               |                           |                           |
| Audit assignment, Grant Thornton | 528           | -             | 528                       | -                         |
| Tax advisory services            | 78            | -             | 78                        | -                         |
| Other services                   | 60            | -             | 60                        | -                         |
| <b>Total</b>                     | <b>665</b>    | <b>-</b>      | <b>665</b>                | <b>-</b>                  |
| <b>Other auditors</b>            |               |               |                           |                           |
| Audit assignment, other auditors | 207           | 119           | -                         | -                         |
| Tax advisory services            | -             | -             | -                         | -                         |
| <b>Total</b>                     | <b>207</b>    | <b>119</b>    | <b>-</b>                  | <b>-</b>                  |
| <b>Total</b>                     | <b>1,926</b>  | <b>2,195</b>  | <b>1,673</b>              | <b>1,565</b>              |

Audit fees refer to the audit of the financial statements and the accounting records. For the Parent company this also includes the administration of the business by the Board of Directors and the CEO.

Audit activities other than audit assignments refer, for example, to auditor's statements for share issues.

Tax advisory involves the provision of advisory services related to taxes, VAT and fees.

Other services relate mainly to consultancy services, such as services related to prospectuses.

**NOTE 11 – Operating costs by type**

| (KSEK)                        | Note | Group<br>2017   | Group<br>2016   | Parent<br>company<br>2017 | Parent<br>company<br>2016 |
|-------------------------------|------|-----------------|-----------------|---------------------------|---------------------------|
| Cost of goods sold            |      | -99,473         | -151,375        | -                         | -                         |
| Change in Inventories         |      | -2,616          | -4 889          | -                         | -                         |
| Personnel cost                | 9    | -35,561         | -140,859        | -3,893                    | -4 811                    |
| External services             |      | -38,086         | -97,571         | -5,976                    | -5 210                    |
| Rent                          |      | -8,746          | -12,451         | -                         | -                         |
| Travel expenses               |      | -6,540          | -15,349         | -2,328                    | -3 171                    |
| Marketing and PR              |      | -2,543          | -7,383          | -                         | -31                       |
| Depreciation and amortisation | 14   | -15,835         | -26,512         | -15                       | -30                       |
| Impairment                    | 14   | -               | -44,224         | -                         | -                         |
| Other operating costs         | 13   | -7,000          | -18,054         | -23                       | -41                       |
| <b>Total</b>                  |      | <b>-216,400</b> | <b>-518,677</b> | <b>-12,235</b>            | <b>-13,294</b>            |

**NOTE 12 – Other operating income**

| (KSEK)                                                                                 | Group<br>2017 | Group<br>2016 | Parent<br>company<br>2017 | Parent<br>company<br>2016 |
|----------------------------------------------------------------------------------------|---------------|---------------|---------------------------|---------------------------|
| Exchange gains                                                                         | 7,294         | 16,216        | -                         | 153                       |
| Gain on remeasuring existing interest in Anoto Korea Inc. to fair value on acquisition | -             | 6,440         | -                         | -                         |
| <b>Total</b>                                                                           | <b>7,294</b>  | <b>22,656</b> | <b>-</b>                  | <b>153</b>                |

### NOTE 13 – Other operating costs

| (KSEK)                                                            | Group<br>2017  | Group<br>2016   | Parent<br>company<br>2017 | Parent<br>company<br>2016 |
|-------------------------------------------------------------------|----------------|-----------------|---------------------------|---------------------------|
| Profit on sale of non-current assets                              | -              | (101)           | -                         | -                         |
| Other operating expenses                                          | (482)          | (9)             | (23)                      | -                         |
| Loss on Deconsolidation of Destiny Wireless Limited <sup>1)</sup> | -              | (12,490)        | -                         | -                         |
| Exchange losses                                                   | (7,000)        | (5,454)         | -                         | (43)                      |
| <b>Total</b>                                                      | <b>(7,482)</b> | <b>(18,054)</b> | <b>(23)</b>               | <b>(43)</b>               |

<sup>1)</sup>Due to the loss of control of Destiny Wireless Limited a loss amounting to 12.5 MSEK has been recognized. Out of this amount no gain or loss was attributable to measuring the investment retained in the former subsidiary at its fair value in Q4, 2016 when control was lost. There were no cash flows arising from losing control of the former subsidiary other than cash in Destiny Wireless leaving the group.

### NOTE 14 – Depreciation, amortization and impairment

Depreciation of property, plant and equipment and amortization and impairment of intangible fixed assets are included in the statement of comprehensive income as follows:

| (KSEK)                                                 | Group<br>2017   | Group<br>2016   | Parent<br>company<br>2017 | Parent<br>company<br>2016 |
|--------------------------------------------------------|-----------------|-----------------|---------------------------|---------------------------|
| <b>Amortization intangible fixed assets</b>            |                 |                 |                           |                           |
| Cost of goods and services sold                        | -               | -               | -                         | -                         |
| Selling expenses                                       | -               | (5,737)         | -                         | -                         |
| Administrative expenses                                | (11,491)        | (3,652)         | (15)                      | (30)                      |
| Research & development expenses                        | -               | (12,405)        | -                         | -                         |
| <b>Total amortization intangible fixed assets</b>      | <b>(11,491)</b> | <b>(21,794)</b> | <b>(15)</b>               | <b>(30)</b>               |
| <b>Depreciation tangible fixed assets</b>              |                 |                 |                           |                           |
| Cost of goods and services sold                        | -               | -               | -                         | -                         |
| Selling expenses                                       | (369)           | (1,242)         | -                         | -                         |
| Administrative expenses                                | -               | (790)           | -                         | -                         |
| Research & development expenses                        | (3,975)         | (2,686)         | -                         | -                         |
| <b>Total depreciation tangible fixed assets</b>        | <b>(4,344)</b>  | <b>(4,718)</b>  | <b>-</b>                  | <b>-</b>                  |
| <b>Impairment intangible fixed assets</b>              |                 |                 |                           |                           |
| Cost of goods and services sold                        | -               | -               | -                         | -                         |
| Selling expenses                                       | -               | (2,667)         | -                         | -                         |
| Administrative expenses                                | -               | (35,791)        | -                         | -                         |
| Research & development expenses                        | -               | (5,766)         | -                         | -                         |
| <b>Total impairment intangible fixed assets</b>        | <b>-</b>        | <b>(44,224)</b> | <b>-</b>                  | <b>-</b>                  |
| <b>Total amortization, depreciation and impairment</b> | <b>(15,835)</b> | <b>(70,736)</b> | <b>(15)</b>               | <b>(30)</b>               |

The group reviews intangible assets on a regular basis to determine if these have been impaired and if the estimated recoverable amount is less than the carrying value an impairment is recognised.

#### NOTE 15 – Profit/loss on participations in group companies – Parent Company

| (KSEK)                             | Parent company<br>2017 | Parent company<br>2016 |
|------------------------------------|------------------------|------------------------|
| Impairment of shares <sup>1)</sup> | 100                    | 151,000                |
| <b>Total</b>                       | <b>100</b>             | <b>151,000</b>         |

<sup>1)</sup> Refers to write-off in 2017 related to unconditional shareholders' contributions to the subsidiaries Anoto Licensiering AB and, in 2016, to Anoto AB. The shareholders' contributions were made to cover the subsidiaries' losses for the year and to restore their equity to the level of share capital.

#### NOTE 16 – Financial income and expenses

| (KSEK)                                                                 | Group<br>2017   | Group<br>2016  | Parent company<br>2017 | Parent company<br>2016 |
|------------------------------------------------------------------------|-----------------|----------------|------------------------|------------------------|
| <b>Financial income</b>                                                |                 |                |                        |                        |
| Other interest income                                                  | 108             | -              | 43                     | -                      |
| Interest from Group companies                                          | -               | -              | 3,663                  | 2,146                  |
| <b>Total financial income</b>                                          | <b>108</b>      | <b>-</b>       | <b>3,704</b>           | <b>2,146</b>           |
| <b>Financial expenses</b>                                              |                 |                |                        |                        |
| Interest expenses on loans                                             | (111)           | (6,039)        | (111)                  | (798)                  |
| Other interest expenses                                                | -               | (127)          | -                      | -                      |
| Other financial expenses                                               | (789)           | (600)          | -                      | (600)                  |
| Loss on sale of investments                                            | -               | (551)          | -                      | -                      |
| Exchange losses                                                        | (18,831)        | -              | (4,776)                | -                      |
| <b>Total financial cost</b>                                            | <b>(19,731)</b> | <b>(7,317)</b> | <b>(4,887)</b>         | <b>(1,398)</b>         |
| <b>Total financial net income/(expense)</b>                            | <b>(19,623)</b> | <b>(7,317)</b> | <b>(1,183)</b>         | <b>748</b>             |
| <b>Of which:</b>                                                       |                 |                |                        |                        |
| Interest income from instruments valued at accrued acquisition value   | -               | -              | -                      | -                      |
| Interest expenses from instruments valued at accrued acquisition value | (111)           | (6,039)        | (111)                  | (798)                  |

**NOTE 17 – Taxes**

| (KSEK)       | Group<br>2017 | Group<br>2016 | Parent<br>company<br>2017 | Parent<br>company<br>2016 |
|--------------|---------------|---------------|---------------------------|---------------------------|
| Deferred tax | 3,257         | 4,445         | -                         | -                         |
| <b>Total</b> | <b>3,257</b>  | <b>4,445</b>  | <b>-</b>                  | <b>-</b>                  |

**Correlation between tax expense for the year and reported profit/loss before tax**

| (KSEK)                                                                 | Group<br>2017 | Group<br>2016 | Parent<br>company<br>2017 | Parent<br>company<br>2016 |
|------------------------------------------------------------------------|---------------|---------------|---------------------------|---------------------------|
| Reported profit/(loss) before tax                                      | (56,201)      | (245,977)     | (13,368)                  | (149,755)                 |
| Tax in accordance with current tax rate of 22%                         | 12,364        | 54,027        | 2,941                     | 32,946                    |
| Other                                                                  | -             | -             | (22)                      | (33,220)                  |
| Other non-deductible expenses                                          | (2,503)       | (318)         | (5)                       | (9)                       |
| Tax impact of non-taxable income                                       | 2,200         | 2,473         | -                         | -                         |
| Increase/decrease of tax deficits without corresponding capitalization | (8,804)       | (51,737)      | (2,914)                   | 283                       |
| <b>Tax reported</b>                                                    | <b>3,257</b>  | <b>4,445</b>  | <b>-</b>                  | <b>-</b>                  |

**Tax deficit**

| (KSEK)                                                 | Group<br>2017      | Group<br>2016      | Parent<br>company<br>2017 | Parent<br>company<br>2016 |
|--------------------------------------------------------|--------------------|--------------------|---------------------------|---------------------------|
| Opening balance Swedish companies                      | (833,455)          | (732,683)          | (21,967)                  | ( 23,253)                 |
| Opening balance foreign companies                      | (272,375)          | (249,000)          |                           |                           |
| Acquisitions of group companies                        | -                  | (40,627)           |                           |                           |
| Deconsolidation of group companies                     | -                  | 113,908            |                           |                           |
| Opening balance adjust from prior year                 | (963,204)          | -                  |                           |                           |
| Tax deficit of the year Swedish companies              | (877,857)          | (100,772)          | (13,245)                  | 1,286                     |
| Tax deficit of the year foreign companies              | (1,281,751)        | (96,656)           |                           |                           |
| <b>Closing tax deficit</b>                             | <b>(2,159,608)</b> | <b>(1,105,830)</b> | <b>(35,212)</b>           | <b>(21,967)</b>           |
| <b>Nominal amount, tax asset 22% Swedish companies</b> | <b>475,114</b>     | <b>243,283</b>     | <b>7,747</b>              | <b>4,833</b>              |

Due to the fact that the Group still reports a loss, the value of deferred tax assets is not recognised in the balance sheet.

Tax deficits are not time limited.

The deferred tax charge and deferred tax liabilities in the Group relate to intangible fixed assets.

## NOTE 18 – Capitalised development expenditures

| (KSEK)                                                | Group           | Group           | Parent Company | Parent Company |
|-------------------------------------------------------|-----------------|-----------------|----------------|----------------|
|                                                       | 2017            | 2016            | 2017           | 2016           |
| <b>Accumulated historical cost</b>                    |                 |                 |                |                |
| Opening accumulated historical cost                   | 70,029          | 48,004          | -              | -              |
| Acquisition of Group companies                        | -               | -               | -              | -              |
| Capitalization for the year <sup>1)</sup>             | 32,506          | 26,001          | -              | -              |
| Deconsolidation of Group companies                    | -               | (3,976)         | -              | -              |
| Impairment losses for the year                        | -               | -               | -              | -              |
| Translation difference                                | -               | -               | -              | -              |
| <b>Closing accumulated historical cost</b>            | <b>102,535</b>  | <b>70,029</b>   | <b>-</b>       | <b>-</b>       |
| <b>Accumulated amortization and impairment losses</b> |                 |                 |                |                |
| Opening accumulated amortization                      | (17,050)        | (6,235)         | -              | -              |
| Amortization for the year according to plan           | (4)             | (3,406)         | -              | -              |
| Deconsolidation of Group companies                    | -               | 1,451           | -              | -              |
| Impairment losses for the year                        | -               | (9,859)         | -              | -              |
| Translation difference                                | -               | 999             | -              | -              |
| <b>Closing amortization and impairment losses</b>     | <b>(17,054)</b> | <b>(17,050)</b> | <b>-</b>       | <b>-</b>       |
| <b>Closing residual value</b>                         | <b>85,481</b>   | <b>52,979</b>   | <b>-</b>       | <b>-</b>       |

<sup>1)</sup> Internally developed

Capitalised development expenditures comprise costs incurred on projects developing products and technology.

When testing for impairment losses, the value in use is calculated for the technology and products developed by the company. The value in use is based upon the estimated future cash flows that the technology and products are expected to generate. If the book value exceeds the value in use for a specific asset the value is impaired.

Amortization by function is shown in note 14.

**NOTE 19 – Patents**

| (KSEK)                                                | Group           | Group           | Parent Company  | Parent Company  |
|-------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                                       | 2017            | 2016            | 2017            | 2016            |
| <b>Accumulated historical cost</b>                    |                 |                 |                 |                 |
| Opening accumulated historical cost                   | 74,604          | 73,992          | 13,996          | 13,996          |
| Capitalization for the year                           | -               | 559             | -               | -               |
| Acquisitions of companies                             | 476             | 72              | -               | -               |
| Impairment losses for the year                        | -               | -               | -               | -               |
| Translation difference                                | -               | (19)            | -               | -               |
| <b>Closing accumulated historical cost</b>            | <b>75,080</b>   | <b>74,604</b>   | <b>13,996</b>   | <b>13,996</b>   |
| <b>Accumulated amortization and impairment losses</b> |                 |                 |                 |                 |
| Opening accumulated amortization                      | (74,604)        | (73,822)        | (13,974)        | (13,954)        |
| Amortization for the year according to plan           | (199)           | (511)           | (11)            | (20)            |
| Impairment losses for the year                        | -               | (271)           | -               | -               |
| <b>Closing amortization and impairment losses</b>     | <b>(74,803)</b> | <b>(74,604)</b> | <b>(13,985)</b> | <b>(13,974)</b> |
| <b>Closing residual value</b>                         | <b>277</b>      | <b>-</b>        | <b>11</b>       | <b>22</b>       |

The group reviews the carrying value of patents on a regular basis and recognises an impairment loss where the book value exceeds the estimated recoverable amount.

Amortization by function is shown in note 14.

**NOTE 20 – Brands**

| (KSEK)                                                | Group          | Group          | Parent Company | Parent Company |
|-------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                       | 2017           | 2016           | 2017           | 2016           |
| <b>Accumulated historical cost</b>                    |                |                |                |                |
| Opening accumulated historical cost                   | 2,290          | 2,288          | 104            | 104            |
| Capitalization for the year                           | -              | -              | -              | -              |
| Translation difference                                | -              | 2              | -              | -              |
| <b>Closing accumulated historical cost</b>            | <b>2,290</b>   | <b>2,290</b>   | <b>104</b>     | <b>104</b>     |
| <b>Accumulated amortization and impairment losses</b> |                |                |                |                |
| Opening accumulated amortization                      | (1,416)        | (1,228)        | (79)           | (69)           |
| Amortization for the year according to plan           | (133)          | (186)          | (4)            | (10)           |
| Translation difference                                | -              | (2)            | -              | -              |
| <b>Closing amortization and impairment losses</b>     | <b>(1,549)</b> | <b>(1,416)</b> | <b>(83)</b>    | <b>(79)</b>    |
| <b>Closing residual value</b>                         | <b>741</b>     | <b>874</b>     | <b>21</b>      | <b>25</b>      |

Amortization by function is shown in note 14.

## NOTE 21 – Other intangible assets

| (KSEK)                                                | Group<br>2017   | Group<br>2016   | Parent<br>Company<br>2017 | Parent<br>Company<br>2016 |
|-------------------------------------------------------|-----------------|-----------------|---------------------------|---------------------------|
| <b>Accumulated historical cost</b>                    |                 |                 |                           |                           |
| Opening accumulated historical cost                   | 51,443          | 49,724          | -                         | -                         |
| Capitalization for the year                           | -               | 220             | -                         | -                         |
| Acquisition of License                                | 5,983           | -               | 5,983                     | -                         |
| Acquisition of companies                              | -               | 360             | -                         | -                         |
| Translation difference                                | 570             | 1 139           | -                         | -                         |
| <b>Closing accumulated historical cost</b>            | <b>57,996</b>   | <b>51,443</b>   | <b>5,983</b>              | -                         |
| <b>Accumulated amortization and impairment losses</b> |                 |                 |                           |                           |
| Opening accumulated amortization                      | (31,190)        | (12,309)        | -                         | -                         |
| Impairment losses for the year                        | -               | -               | -                         | -                         |
| Amortization for the year according to plan           | (11,156)        | (17,691)        | -                         | -                         |
| Translation difference                                | (73)            | (1,190)         | -                         | -                         |
| <b>Closing amortization and impairment losses</b>     | <b>(42,419)</b> | <b>(31,190)</b> | <b>-</b>                  | <b>-</b>                  |
| <b>Closing residual value</b>                         | <b>15,577</b>   | <b>20,253</b>   | <b>5,983</b>              | <b>-</b>                  |

Amortization by function is shown in note 14.

Other intangible assets include acquired customer relationships and a perpetual and royalty-free technology license acquired in 2017 at a cost of KSEK 5,983.

## NOTE 22 – Goodwill

| (KSEK)                                          | 2017 | Anoto<br>AB      | Destiny  | Anoto<br>Ltd    | XMS             | Livescribe    | Anoto<br>Korea | Total            |
|-------------------------------------------------|------|------------------|----------|-----------------|-----------------|---------------|----------------|------------------|
| <b>Accumulated historical cost 2017</b>         |      |                  |          |                 |                 |               |                |                  |
| Opening accumulated historical cost             |      | 298,674          | -        | 36,244          | 18,294          | 107,212       | 36,739         | 497,163          |
| Acquisitions for the year                       |      | -                | -        | -               | -               | -             | -              | -                |
| Translation differences                         |      | -                | -        | (345)           | -               | (10,203)      | 881            | (9,667)          |
| Deconsolidation                                 |      | -                | -        | -               | -               | -             | -              | -                |
| <b>Closing accumulated historical cost 2017</b> |      | <b>298,674</b>   | <b>-</b> | <b>35,899</b>   | <b>18,294</b>   | <b>97,008</b> | <b>37,621</b>  | <b>487,496</b>   |
| Opening accumulated write downs                 |      | (298,674)        | -        | (17,491)        | (18,294)        | -             | -              | (334,459)        |
| Write downs for the year                        |      | -                | -        | -               | -               | -             | -              | -                |
| Translation differences                         |      | -                | -        | 169             | -               | -             | -              | 169              |
| <b>Closing accumulated write downs 2017</b>     |      | <b>(298,674)</b> | <b>-</b> | <b>(17,322)</b> | <b>(18,294)</b> | <b>-</b>      | <b>-</b>       | <b>(334,290)</b> |
| <b>Closing net balance 2017</b>                 |      | <b>-</b>         | <b>-</b> | <b>18,577</b>   | <b>-</b>        | <b>97,008</b> | <b>37,621</b>  | <b>153,206</b>   |

| (KSEK)                                          | 2016 | Anoto<br>AB      | Destiny  | Anoto<br>Ltd    | XMS             | Livescribe     | Anoto<br>Korea | Total            |
|-------------------------------------------------|------|------------------|----------|-----------------|-----------------|----------------|----------------|------------------|
| <b>Accumulated historical cost 2016</b>         |      |                  |          |                 |                 |                |                |                  |
| Opening accumulated historical cost             |      | 298,674          | 29,105   | 38,200          | 18,294          | 97,052         | -              | 481,325          |
| Acquisitions for the year                       |      | -                | -        | -               | -               | -              | 35,137         | 35,137           |
| Translation differences                         |      | -                | (2,875)  | (1,956)         | -               | 10,160         | 1,602          | 6,931            |
| Deconsolidation                                 |      | -                | (26,230) | -               | -               | -              | -              | (26,230)         |
| <b>Closing accumulated historical cost 2016</b> |      | <b>298,674</b>   | <b>-</b> | <b>36,244</b>   | <b>18,294</b>   | <b>107,212</b> | <b>36,739</b>  | <b>497,163</b>   |
| Opening accumulated write downs                 |      | (298,674)        | -        | -               | -               | -              | -              | (298,674)        |
| Write downs for the year                        |      | -                | -        | (15,800)        | (18,294)        | -              | -              | (34,094)         |
| Translation differences                         |      | -                | -        | (1,691)         | -               | -              | -              | (1,691)          |
| <b>Closing accumulated write downs 2016</b>     |      | <b>(298,674)</b> | <b>-</b> | <b>(17,491)</b> | <b>(18,294)</b> | <b>-</b>       | <b>-</b>       | <b>(334,459)</b> |
| <b>Closing net balance 2016</b>                 |      | <b>-</b>         | <b>-</b> | <b>18,753</b>   | <b>-</b>        | <b>107,212</b> | <b>36,739</b>  | <b>162,704</b>   |

## Impairment testing

The goodwill balance consists of goodwill from three acquisitions.

In the beginning of 2012 Anoto acquired the UK based company Ubiquitous Systems Ltd, creating an additional goodwill of 13.6 MSEK. In relation to Shanwell Holding Ltd, 18.5 MSEK was added to the total goodwill balance. During 2014 Ubiquitous Systems Ltd was transferred to Shanwell Holding Ltd which became Anoto Ltd.

During the fourth quarter of 2015 the Group acquired the US based company Livescribe, Inc., creating an additional goodwill of 102.5 MSEK.

On 31 May 2016 Anoto Group AB acquired the remaining 81% of the shares and votes in the company Anoto Korea Inc. for MSEK 38.9. Anoto Korea Inc. has been a longstanding Anoto Partner.

The three remaining cash generating units were tested for impairment and no additional need for write down was identified.

Impairment testing of goodwill is performed for each cash generating unit annually or when an indication of a decline in value occurs. The recoverable value for Group business is defined based on calculations of value in use.

When assessing the value of the cash generating units, a discount factor of 22.42% (15%) and a perpetual growth rate after 5 years of 2.0% (2.0%) have been used.

Five year forecasts and cash flow estimations have been prepared by management using a 10-25% growth on sales and management's estimates of sales and margins in relation to new sources of revenue that are now being developed.

## Important variables

|                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Market Growth         | Group management expects long-term positive development in the markets where Anoto's products are used. The growth forecasts are built on underlying forecasts and discussions with partners and customers together with expected long-term growth and take into account of past experience and other external sources of information.                                                                                                                                                                                                                                                      |
| Discount Rate         | The discount rate is determined with regards to the market conditions and the required return of the Group. Considering Anoto's current tax position where the Group companies will not pay any tax over the foreseeable time, the difference between discount rate before and after tax will be minimal.                                                                                                                                                                                                                                                                                   |
| Gross Profit          | The long-term forecasted gross profit is calculated with caution. Gross margins have been reviewed for each cash generating entity based on the past performance and management's expectation for the future and take into account margin improvement initiatives that have been negotiated with customers and suppliers. Assumed values for gross margins have been updated compared to the prior year following changes and reallocations between parts of the business, changes in forecasts and changes in sales mix affecting the gross margin in the respective cash generating unit. |
| Cost Increase         | The company believes it is reasonable to forecast using a general cost increase that is in line with inflation. A value of 2.0% has been used for this inflationary influence on costs.                                                                                                                                                                                                                                                                                                                                                                                                     |
| Perpetual growth rate | The company believes that a reasonable perpetual growth rate would be around the average historical inflation rate. Also consideration is taken to the yearly inflation rate target from the Swedish Central bank which is 2.0%.                                                                                                                                                                                                                                                                                                                                                            |

Anoto Korea, Inc. and Livescribe, Inc. were acquired in 2016 and 2015 respectively. Management believes that the key assumptions on which recoverable amounts are based are unlikely to change in a way that causes the carrying values for the companies to exceed their respective recoverable amounts.

Goodwill in relation to Anoto Limited was written down to its recoverable value in 2016. No further impairment of the carrying value of goodwill is considered necessary as at December 31, 2017. Management believes that any reasonably possible change in the other key assumptions on which recoverable amount is based will not cause the Anoto Ltd to exceed its recoverable amount.

The table below sets out the variables used in the calculation of future value in use to estimate cash flow and the changed values which, when adjusted together, would result in a recoverable value equal to the carrying value.

| (KSEK)                  | Livescribe<br>Assumed<br>Value | Livescribe<br>Changed<br>Value | Anoto Korea<br>Assumed<br>Value | Anoto Korea<br>Changed<br>Value | Anoto Ltd<br>Assumed<br>Value | Anoto Ltd<br>Changed<br>Value |
|-------------------------|--------------------------------|--------------------------------|---------------------------------|---------------------------------|-------------------------------|-------------------------------|
| <b>2017</b>             |                                |                                |                                 |                                 |                               |                               |
| Perpetual growth rate   | 2.0%                           | 1.0%                           | 2.0%                            | 1.0%                            | 2.0%                          | 2.0%                          |
| Discount rate after tax | 22.42%                         | 17.0%                          | 22.42%                          | 17.0%                           | 22.42%                        | 15.0%                         |
| Gross Profit            | 41.0%-50.0%                    | 34.0%                          | 26.0%-33.0%                     | 17.5%                           | 66.0%                         | 50.0%                         |
| Cost increase           | 2.0%                           | 3.0%                           | 2.0%                            | 3.0%                            | 2.0%                          | 1.5%                          |

| (KSEK)                  | Livescribe<br>Assumed<br>Value | Livescribe<br>Changed<br>Value | Anoto Korea<br>Assumed<br>Value | Anoto Korea<br>Changed<br>Value | Anoto Ltd<br>Assumed<br>Value | Anoto Ltd<br>Changed<br>Value |
|-------------------------|--------------------------------|--------------------------------|---------------------------------|---------------------------------|-------------------------------|-------------------------------|
| <b>2016</b>             |                                |                                |                                 |                                 |                               |                               |
| Perpetual growth rate   | 2.0%                           | 1.0%                           | 2.0%                            | 1.0%                            | 2.0%                          | 2.0%                          |
| Discount rate after tax | 15.0%                          | 17.0%                          | 15.0%                           | 17.0%                           | 15.0%                         | 15.0%                         |
| Gross Profit            | 40.0%- 48.0%                   | 34.0%                          | 23.6%                           | 17.5%                           | 50.0%                         | 50.0%                         |
| Cost increase           | 1.5%                           | 3.0%                           | 1.5%                            | 3.0%                            | 1.5%                          | 1.5%                          |

#### NOTE 23 – Equipment and tools

| (KSEK)                                            | Group<br>2017   | Group<br>2016   | Parent<br>Company<br>2017 | Parent<br>Company<br>2016 |
|---------------------------------------------------|-----------------|-----------------|---------------------------|---------------------------|
| <b>Accumulated historical cost</b>                |                 |                 |                           |                           |
| Opening accumulated historical cost               | 48,686          | 41,119          | -                         | -                         |
| Acquisitions of companies                         | -               | 952             | -                         | -                         |
| Additions for the year                            | -               | 6,817           | -                         | -                         |
| Deconsolidation of companies                      | -               | (115)           | -                         | -                         |
| Translation difference                            | (748)           | (87)            | -                         | -                         |
| <b>Closing accumulated historical cost</b>        | <b>47,938</b>   | <b>48,686</b>   | <b>-</b>                  | <b>-</b>                  |
| <b>Accumulated depreciation and impairment</b>    |                 |                 |                           |                           |
| Opening accumulated depreciation                  | (40,272)        | (35,175)        | -                         | -                         |
| Acquisition of companies                          | -               | -               | -                         | -                         |
| Depreciation for the year according to plan       | (4,344)         | (4,718)         | -                         | -                         |
| Translation difference                            | 82              | (379)           | -                         | -                         |
| <b>Closing depreciation and impairment losses</b> | <b>(44,534)</b> | <b>(40,272)</b> | <b>-</b>                  | <b>-</b>                  |
| <b>Closing residual value</b>                     | <b>3,404</b>    | <b>8,414</b>    | <b>-</b>                  | <b>-</b>                  |

## NOTE 24 – Participation in Group companies

| (KSEK)                                     | Parent Company | Parent Company |
|--------------------------------------------|----------------|----------------|
|                                            | 2017           | 2016           |
| Opening balance acquisition cost           | 70,344         | 326,454        |
| Opening shareholders' contribution         | -              | 752,603        |
| Opening accumulated impairment losses      | -              | (1,051,265)    |
| Acquisition of shares in Group companies   | 2,287          | 42,552         |
| Shareholders' contribution                 | -              | 151,000        |
| Impairment loss for the year <sup>1)</sup> | (100)          | (151,000)      |
| <b>Total</b>                               | <b>72,531</b>  | <b>70,344</b>  |

| Entity Name                    | Reg no.      | Domicile  | Total no. of participation | % of capital and votes | Shareholders' equity | Carrying amount |
|--------------------------------|--------------|-----------|----------------------------|------------------------|----------------------|-----------------|
| Anoto AB                       | 556320-2646  | Stockholm | 5,000                      | 100%                   | 11,301               | 1,332           |
| XMS Penvision AB               | 556708-4685  | Stockholm | 611,731                    | 93.2%                  | 1,769                | 25,885          |
| Anoto Korea Inc. <sup>1)</sup> | 129-86-60962 | Seongnam  | 20,000,000                 | 100%                   | 11,313               | 45,314          |
|                                |              |           |                            |                        |                      | <b>72,531</b>   |

<sup>1)</sup> Ordinary shares 18,860,000 and preferred shares 1,140,000

The Anoto Group contains sub-groups consisting of the following companies

| Entity name                    | Domicile      | Country | Operational | Parent company | Equity |
|--------------------------------|---------------|---------|-------------|----------------|--------|
| Anoto Inc. <sup>2)</sup>       | San Francisco | USA     | Operational | Anoto AB       | 100%   |
| We-Inspire, Inc.               | Los Angeles   | USA     | Operational | Anoto, Inc     | 100%   |
| Anoto KK.                      | Tokyo         | Japan   | Operational | Anoto AB       | 100%   |
| Anoto Ltd.                     | Basingstoke   | UK      | Operational | Anoto AB       | 100%   |
| C Technologies AB              | Stockholm     | Sweden  | Operational | Anoto AB       | 100%   |
| Livescribe, Inc. <sup>2)</sup> | San Francisco | USA     | Operational | Anoto, Inc     | 100%   |

<sup>1)</sup> Write-down of shares in Anoto Licensiering AB in 2017 and in Anoto AB in 2016

<sup>2)</sup> During 2018, the activities of Anoto, Inc and Livescribe, Inc. will be merged into a single entity

#### NOTE 25 – Other long-term securities

| (KSEK)                              | Group<br>2017 | Group<br>2016 | Parent<br>2017 | Parent<br>2016 |
|-------------------------------------|---------------|---------------|----------------|----------------|
| Opening balance                     | 16,962        | 5,104         | 16,962         | 2,853          |
| Acquisition of shares <sup>1)</sup> | -             | 16,962        | -              | 16,962         |
| Reclassification <sup>2)</sup>      | -             | (2,853)       | -              | (2,853)        |
| Sale of shares <sup>3)</sup>        | -             | (2,251)       | -              | -              |
| <b>Total</b>                        | <b>16,962</b> | <b>16,962</b> | <b>16,962</b>  | <b>16,962</b>  |

<sup>1)</sup> The acquisition of shares in 2016 relates to long term investment in SMark Limited.

<sup>2)</sup> The reclassification relates to shares in Anoto Korea Inc. which became a 100% subsidiary during the year

<sup>3)</sup> The sale relates to the holding of an interest in W'Inspire GmbH, corporate ATU68161222 established in Linz, Austria.

#### NOTE 26 – Other long-term receivables

| (KSEK)                 | Group<br>2017 | Group<br>2016 |
|------------------------|---------------|---------------|
| Opening balance        | 1,893         | 2,176         |
| Additions              | 12            | 751           |
| Settlements            | (550)         | (1,034)       |
| Translation difference | -             | -             |
| <b>Total</b>           | <b>1,355</b>  | <b>1,893</b>  |

The receivables represent deposits.

**NOTE 27 – Accounts receivable**

| (KSEK)                | 2017<br>Gross | 2017<br>Net   | 2016<br>Gross | 2016<br>Net   |
|-----------------------|---------------|---------------|---------------|---------------|
| Not due               | 5,858         | 5,858         | 8,690         | 8,695         |
| Due 1 - 30 days       | 4,299         | 4,299         | 316           | 347           |
| Due 31 - 60 days      | 3,733         | 3,733         | 7,832         | 7,825         |
| Due 61 - 90 days      | 2,588         | 2,588         | (166)         | (206)         |
| Due more than 90 days | 11,270        | 11,270        | 18,153        | 18,014        |
| <b>Total</b>          | <b>27,747</b> | <b>27,747</b> | <b>34,825</b> | <b>34,675</b> |

The possibility that the Group's customers will not fulfil their payment obligations is a credit risk. The Group's customers undergo credit checks and information about their financial positions are obtained from various credit reporting agencies. The Group has a policy that guides the extension of credit to customers.

The provision for doubtful receivables amounts to KSEK 11,497 (5,516). The provision has been increased by KSEK 5,981 compared to 2016.

Apart from the reserve for bad debts the company believes that the credit worthiness of its customers is satisfactory. Assessment of the need for provisions against accounts receivable due more than 90 days are made on an individual basis.

No security related to accounts receivable are held by Anoto.

No individual receivable exceeds 10% of total accounts receivable.

| Concentration of credit risk | 2017                |                             |                  | 2016                |                             |                  |
|------------------------------|---------------------|-----------------------------|------------------|---------------------|-----------------------------|------------------|
|                              | Number of customers | % Total number of customers | % Share of value | Number of customers | % Total number of customers | % Share of value |
| Exposure < 1 MSEK            | 159                 | 95%                         | 33%              | 438                 | 94%                         | 66%              |
| Exposure 1-10 MSEK           | 8                   | 5%                          | 67%              | 23                  | 5%                          | 12%              |
| Exposure > 10 MSEK           | 0                   | 0%                          | 0%               | 6                   | 1%                          | 22%              |
| <b>Total</b>                 | <b>167</b>          | <b>100%</b>                 | <b>100%</b>      | <b>467</b>          | <b>100%</b>                 | <b>100%</b>      |

**NOTE 28 – Prepaid expenses and accrued income**

| (KSEK)                    | Group        | Group         | Parent Company | Parent Company |
|---------------------------|--------------|---------------|----------------|----------------|
|                           | 2017         | 2016          | 2017           | 2016           |
| Prepaid rent              | 853          | 2,407         | -              | -              |
| Prepaid insurance         | 201          | 818           | 169            | 195            |
| Prepaid software licenses | 478          | 2,280         | 2              | -              |
| Prepaid legal fees        | 53           | 916           | 40             | -              |
| Prepaid contractor fee    | 454          | -             | -              | -              |
| Accrued income            | -            | 1,934         | -              | -              |
| Other                     | 560          | 2,359         | 1              | 15             |
| <b>Total</b>              | <b>2,599</b> | <b>10,714</b> | <b>213</b>     | <b>210</b>     |

## NOTE 29 – Provisions for product warranty commitments

| (KSEK)                     | Group      | Group        | Parent Company | Parent Company |
|----------------------------|------------|--------------|----------------|----------------|
|                            | 2017       | 2016         | 2017           | 2016           |
| Opening balance            | 1,312      | 1,756        | -              | -              |
| Unrecognized amount        | -          | (15)         | -              | -              |
| New provisions             | 73         | 897          | -              | -              |
| Unutilized amount returned | (1,143)    | (1,326)      | -              | -              |
| <b>Total</b>               | <b>242</b> | <b>1,312</b> | <b>-</b>       | <b>-</b>       |

Provisions for product warranty commitments relate essentially to the sale of pens during 2017 and 2016. The provisions are based on calculations made on historical data for warranties related to the sale of pens. The whole amount is expected to be paid within 12 months.

| (KSEK)                     | Group        | Group        | Parent Company | Parent Company |
|----------------------------|--------------|--------------|----------------|----------------|
|                            | 2017         | 2016         | 2017           | 2016           |
| Opening balance            | 4,531        | 1,756        | -              | -              |
| Unrecognized amount        | -            | (15)         | -              | -              |
| New provisions             | 2,729        | 897          | -              | -              |
| Unutilized amount returned | (4,359)      | (1,326)      | -              | -              |
| Acquisition of companies   | -            | 3,219        | -              | -              |
| <b>Total</b>               | <b>2,901</b> | <b>4,531</b> | <b>-</b>       | <b>-</b>       |

## NOTE 30 – Accrued expenses and deferred income

| (KSEK)                   | Group         | Group         | Parent Company | Parent Company |
|--------------------------|---------------|---------------|----------------|----------------|
|                          | 2017          | 2016          | 2017           | 2016           |
| Accrued personnel costs  | 4,410         | 14,564        | 963            | 5,154          |
| Deferred income          | 2,536         | 3,598         | -              | -              |
| Legal fees               | 432           | 3,584         | 432            | 809            |
| Other services and goods | 2,015         | 544           | -              | 300            |
| Other                    | 5,975         | 12,467        | 287            | 1,214          |
| <b>Total</b>             | <b>15,368</b> | <b>34,757</b> | <b>1,682</b>   | <b>7,477</b>   |

## NOTE 31 – Share-based payments to employees

### Option Program

As at December 31, 2017, Anoto Group has the following valid option programs:

The Company's Board of Directors has authorized the issuance of a 301,412 share-options grant to the Chairman of the Board of Directors Jörgen Durban at a subscription price of SEK 42.9 and the issuance of 725,000 share options at a strike price of SEK 11.4. Both programmes will mature in 2018. Furthermore, the company's CEO Joonhee Won has been granted 725,000 share options at a strike price of SEK 11.4 that will mature in 2018. The Company's Board of Directors authorized the issuance of a 100 thousand share-options grant to a Board member, Henric Ankarcrona, at a subscription price of SEK 7.8. The share options will mature during 2019.

In Q4, 2016, an incentive scheme for senior executives was issued that comprises a maximum of 1.7 million stock options at a subscription price of SEK 7.8. The maximum number of stock options to be allocated to each senior executive shall be 500 thousand. The share options will mature during 2019. At December 31, 2017, 240 889 options are outstanding.

In 2Q, 2017, an incentive scheme for senior executives was issued that comprises a maximum of 3.5 million stock options at a subscription price of SEK 8.7. The maximum number of stock options to be allocated to the CEO shall be 2.0 million and to each of the other senior executive shall be 666,667. The share options will mature during 2021. At December 31, 2017, 2,800,000 options are outstanding. In addition, an incentive scheme for the Board of Directors was issued that comprises a maximum of 600,000 stock options at a subscription price of SEK 8.7. The maximum number of stock options to be allocated to the Chairman of the Board of Directors shall be 333,333 and to each of the other board members shall be 66,667 thousand. The share options will mature during 2020. At December 31, 2017, 533,333 options are outstanding.

No payments are due or have been paid on the grant of options.

The value of outstanding options, calculated using the Black & Scholes valuation model, as per 31st of December 2017 is insignificant for disclosures in accordance with IFRS 2.

#### NOTE 32 – Interest bearing liabilities

| (KSEK)                                    |                     |          | 2017<br>Nom.<br>Value | 2017<br>Book value | 2016<br>Nom.<br>Value | 2016<br>Book value |
|-------------------------------------------|---------------------|----------|-----------------------|--------------------|-----------------------|--------------------|
|                                           | Nominal<br>interest | Maturity |                       |                    |                       |                    |
| Bank loans                                | 6.9-10.0%           | 2018     | 11,309                | 11,309             | 13,880                | 13,880             |
| Related Party loan                        | 3.5%                | 2017     | -                     | -                  | 15,138                | 15,138             |
| <b>Total interest bearing liabilities</b> |                     |          | <b>11,309</b>         | <b>11,309</b>      | <b>29,018</b>         | <b>29,018</b>      |

##### Bank loans

The loans are secured against current assets in the company where the lenders have priority over other creditors. The loans are repayable on demand but the bank has agreed not to require repayment of the loans in the coming twelve months unless the company has sufficient cash reserves.

#### NOTE 33 – Leasing expenses

The leasing cost of assets under operating leases amounted to KSEK 7,412 (10,061), and are derived primarily from rented premises.

Future payments for non-cancellable operating leasing contracts fall due as follows:

| (KSEK)                     | Group<br>2017 | Group<br>2016 |
|----------------------------|---------------|---------------|
| Less than one year         | 6,910         | 8 017         |
| Between one and five years | 15,183        | 20,557        |
| More than five years       | -             | 4,490         |
|                            | <b>22,094</b> | <b>33,064</b> |

#### NOTE 34 – Pledged assets and contingent liabilities

| (KSEK)                | Group<br>2017 | Group<br>2016 | Parent<br>Company<br>2017 | Parent<br>Company<br>2016 |
|-----------------------|---------------|---------------|---------------------------|---------------------------|
| Blocked bank deposits | -             | 351           | -                         | -                         |
| <b>Total</b>          | <b>-</b>      | <b>351</b>    | <b>-</b>                  | <b>-</b>                  |

Blocked bank deposits in 2016 were pledged as security for the import of goods into Sweden. There are no contingent liabilities.

### NOTE 35 – Reconciliation of liabilities arising from financing activities

The changes in the group's liabilities arising from financing activities can be classified as follows:

| (KSEK)             | Long-term borrowings | Short-term borrowings | Lease liabilities | Total         |
|--------------------|----------------------|-----------------------|-------------------|---------------|
| <b>2017-01-01</b>  | <b>28,000</b>        | <b>29,018</b>         | <b>-</b>          | <b>57,018</b> |
| Cash flows:        |                      |                       |                   |               |
| - Repayments       | -                    | (8,509)               | -                 | (8,509)       |
| - Proceeds         | 74,449               | -                     | -                 | 74,449        |
| Non-cash           |                      |                       | -                 | -             |
| - Acquisition      | -                    | -                     | -                 | -             |
| - Fair value       | -                    | -                     | -                 | -             |
| - Reclassification | (58,000)             | (9,200)               | -                 | (67,200)      |
| <b>2017-12-31</b>  | <b>44,449</b>        | <b>11,309</b>         | <b>-</b>          | <b>55,758</b> |

| (KSEK)             | Long-term borrowings | Short-term borrowings | Lease liabilities | Total         |
|--------------------|----------------------|-----------------------|-------------------|---------------|
| <b>2016-01-01</b>  | <b>-</b>             | <b>8,145</b>          | <b>-</b>          | <b>8,145</b>  |
| Cash flows:        |                      |                       |                   |               |
| - Repayments       | -                    | (38,012)              | -                 | (38,012)      |
| - Proceeds         | 28,000               | 58,885                | -                 | 86,885        |
| Non-cash           |                      |                       | -                 | -             |
| - Acquisition      | -                    | -                     | -                 | -             |
| - Fair value       | -                    | -                     | -                 | -             |
| - Reclassification | -                    | -                     | -                 | -             |
| <b>2016-12-31</b>  | <b>28,000</b>        | <b>29,018</b>         | <b>-</b>          | <b>57,018</b> |

### NOTE 36 – Financial instruments

|                                      | Loans and receivables | Available for sale | Other financial liabilities | Total carrying amount | Total fair value |
|--------------------------------------|-----------------------|--------------------|-----------------------------|-----------------------|------------------|
| <b>Group 2017</b>                    |                       |                    |                             |                       |                  |
| Long-term investments and securities | -                     | 16,962             | -                           | 16,962                | 16,962           |
| Long-term receivables                | 1,355                 | -                  | -                           | 1,355                 | 1,355            |
| Accounts receivable                  | 27,747                | -                  | -                           | 27,747                | 27,747           |
| Cash                                 | 31,664                | -                  | -                           | 31,664                | 16,962           |
| <b>Assets</b>                        | <b>60,767</b>         | <b>16,962</b>      | <b>-</b>                    | <b>77,729</b>         | <b>77,729</b>    |
| Borrowings                           | -                     | -                  | 55,758                      | 55,758                | 55,758           |
| Accounts payable                     | -                     | -                  | 38,857                      | 38,857                | 38,857           |
| Other liabilities                    | -                     | -                  | 10,395                      | 10,395                | 10,395           |
| <b>Liabilities</b>                   |                       |                    | <b>105,010</b>              | <b>105,010</b>        | <b>105,100</b>   |

|                                      | Loans and<br>receivables | Available<br>for sale | Other<br>financial<br>liabilities | Total carrying<br>amount | Total<br>fair value |
|--------------------------------------|--------------------------|-----------------------|-----------------------------------|--------------------------|---------------------|
| <b>Group 2016</b>                    |                          |                       |                                   |                          |                     |
| Long-term investments and securities | -                        | 16,962                | -                                 | 16,962                   | 16,962              |
| Long-term receivables                | 1,892                    | -                     | -                                 | 1,892                    | 1,892               |
| Accounts receivable                  | 34,825                   | -                     | -                                 | 34,825                   | 34,825              |
| Cash                                 | 5,553                    | -                     | -                                 | 5,553                    | 5,553               |
| <b>Assets</b>                        | <b>42,270</b>            | <b>16,962</b>         | <b>-</b>                          | <b>59,232</b>            | <b>59,232</b>       |
| Borrowings                           | -                        | -                     | 57,018                            | 57,018                   | 57,018              |
| Accounts payable                     | -                        | -                     | 65,576                            | 65,576                   | 65,576              |
| Other liabilities                    | -                        | -                     | 12,028                            | 12,028                   | 12,028              |
| <b>Liabilities</b>                   |                          |                       | <b>134,622</b>                    | <b>134,622</b>           | <b>134,622</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 data 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, the recorded amount is deemed to reflect fair value. Accounts receivable and accounts payable with a due date 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.

#### NOTE 37 – Related parties

Smartmatic is no longer a related party.

#### Summary of related party transactions

##### Parent company:

| Related parties (KSEK) |      | Selling of<br>goods<br>and<br>services | Purchasing<br>of goods<br>and<br>services | Other    | Receivable<br>from related<br>party on 31<br>December | Liability to<br>related<br>party on 31<br>December |
|------------------------|------|----------------------------------------|-------------------------------------------|----------|-------------------------------------------------------|----------------------------------------------------|
| Group company          | 2017 | -                                      | -                                         | -        | 480,278                                               | (6,902)                                            |
| Group company          | 2016 | 13,681                                 | -                                         | (53,783) | 565,367                                               | (153,549)                                          |

##### Group:

| Shareholders (KSEK) |      | Selling of<br>goods<br>and<br>services | Purchasing<br>of goods<br>and<br>services | Other | Receivable<br>from related<br>party on 31<br>December | Liability to<br>related<br>party on 31<br>December |
|---------------------|------|----------------------------------------|-------------------------------------------|-------|-------------------------------------------------------|----------------------------------------------------|
| Smartmatic          | 2016 | 1,985                                  | -                                         | -     | 70                                                    | -                                                  |

## NOTE 38 – Equity

| Equity                                                         |                |                 |
|----------------------------------------------------------------|----------------|-----------------|
| (KSEK)                                                         | Group<br>2017  | Group<br>2016   |
| <b>Translation reserve</b>                                     |                |                 |
| Accumulated exchange rate differences at beginning of the year | (11,074)       | (8,517)         |
| Exchange rate differences for the year                         | 9,316          | (2,557)         |
| <b>Accumulated exchange rate differences at year end</b>       | <b>(1,758)</b> | <b>(11,074)</b> |

## Capital management

Since its founding in 1999 Anoto Group has developed electronic pens that turn what's written on paper into digital form. Development costs have been significant and since 1999 approximately MSEK 2,354 have been invested as capital by the shareholders. The company's ambition is to achieve profitable growth and in the future be able to pay dividends on invested capital.

Anoto defines capital as equity. There is only one class of share.

Anoto Group has so far not paid any dividend and will suggest to the Annual General Meeting of 2018 that no dividend is paid out.

The company has no announced targets regarding dividends, debt/equity ratios or other capital ratios other than to strive for profitability and positive cash flow. When solid profitability has been achieved targets for dividends, debt/equity ratios etc. will be determined.

## NOTE 39 – Specification to Statement of Cash Flows

| (KSEK)                 | Group<br>2017 | Group<br>2016 | Parent<br>Company<br>2017 | Parent<br>Company<br>2016 |
|------------------------|---------------|---------------|---------------------------|---------------------------|
| Cash and bank balances | 31,664        | 5,553         | 13,911                    | 303                       |
| <b>Total</b>           | <b>31,664</b> | <b>5,553</b>  | <b>13,911</b>             | <b>303</b>                |

### Other Items not affecting cash flow

|                                                                                    |               |                 |          |          |
|------------------------------------------------------------------------------------|---------------|-----------------|----------|----------|
| Exchange gains and losses                                                          | 18,537        | (17,014)        | -        | -        |
| Gain on remeasuring existing interest in Anoto Korea to fair value on acquisition. | -             | (6,440)         | -        | -        |
| Loss on deconsolidation of Destiny Wireless                                        | -             | 12,490          | -        | -        |
| Loss on sale of interest in associated company                                     | -             | 551             | -        | -        |
| Prior year adjustment                                                              | (3,363)       | -               | -        | -        |
| Other                                                                              | 91            | (2,009)         | -        | -        |
| <b>Total</b>                                                                       | <b>15,265</b> | <b>(12,422)</b> | <b>-</b> | <b>-</b> |

Bank deposits are pledged as security for Letters of Credit and Bank Guarantees.

## NOTE 40 – Inventory

| (KSEK)                    | Group<br>2017 | Group<br>2016 | Parent<br>Company<br>2017 | Parent<br>Company<br>2016 |
|---------------------------|---------------|---------------|---------------------------|---------------------------|
| Raw material (components) | 13,921        | 17,359        | -                         | -                         |
| Finished goods            | 37,845        | 32,119        | -                         | -                         |
| <b>Total</b>              | <b>51,766</b> | <b>49,478</b> | <b>-</b>                  | <b>-</b>                  |

**NOTE 41 – Events after December 31 2017**

On January 18, 2018, Anoto converted MSEK 2.0 of the convertible bonds issued in July 2017 and issued 512,820 new shares in Anoto Group AB.

On March 6, 2018, Anoto converted MSEK 32.0 of the convertible bonds issued in December 2017 and issued 8,000,000 new shares in Anoto Group AB.

On March 14, 2018, Anoto converted MSEK 8.3 of the convertible bonds issued in December 2017 and issued 2,075,000 new shares in Anoto Group AB. Following this conversion there are MSEK 2.1 of convertible bonds outstanding.

**NOTE 42 – Parent Company details**

Anoto Group is a Swedish limited company with its registered office in Stockholm. The shares of the parent company are listed on the NASDAQ OMX Stockholm Stock exchange. The address of the head office is Flaggan 1165, SE 116 74, Stockholm. The consolidated financial statements for 2017 relate to the parent company and its subsidiaries, jointly referred to as the Group.

**NOTE 43 – Convertible debt**

On January 20, 2017, a settlement of MSEK 1.8 from the convertible bonds issued in December 2016 took place. On July 27, 2017 and December 15, 2017, Anoto placed MSEK 32.3 and MSEK 40.3 of convertible bonds, respectively, settlement of which all took place in 2017.

**SIGNATURES FOR THE ANNUAL REPORT**

The Annual Report and consolidated financial statements were approved by the Board on April 6, 2018. The consolidated statement of comprehensive income and the statement of financial position, as well as the Parent Company's income statement and balance sheet will be presented to the Annual General Meeting in May 2018 for adoption.

The Board of Directors and CEO affirm that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and that they provide a true and fair view of the Group's financial position and earnings. The Annual Report has been prepared in accordance with generally accepted accounting standards and provides a true and fair view of the Parent Company's financial position and earnings.

The Directors' Report for the Group and Parent Company provides a true and fair overall account of the development of the Group's and Parent Company's business, financial position and earnings and describes significant risks and uncertainties facing the Parent Company and the companies within the Group.

Stockholm, April 6, 2018

**Jörgen Durban**  
Chairman of the Board

**Joonhee Won**  
Board member and CEO

**Mariel Clemensen**  
Board Member

**Jefferey Weedman**  
Board member

**Perry (Young Soo) Ha**  
Board Member

Our auditor's report was submitted on April 6, 2018.

Grant Thornton Sweden AB

**Mats Pålsson**  
Authorized Public Accountant

## AUDITOR'S REPORT

To the general meeting of the shareholders of Anoto Group AB  
Corporate identity number 556532-3929

### Report on the annual accounts and consolidated accounts

#### Opinions

We have audited the annual accounts and consolidated accounts of Anoto Group AB for the financial year 2017 except for the corporate governance statement on pages 64-67.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2017 and its financial performance for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinion does not cover the corporate governance statement on pages 64-67. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this review of the annual accounts and consolidated accounts is in accordance with the contents in the supplementary report that has been submitted to the Board of Directors in the parent company in accordance with the auditor's regulation (537/2014/EU) article 11.

#### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes, based on our best knowledge and belief, that no forbidden services referred in the auditor's regulation (537/2014/EU) article 5.1 has been provided the audited entity or if applicable, the controlling entity within EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

#### Key Audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period, and includes for instance the most important assessed risks for material misstatements. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts, but we do not provide a separate opinion these matters.

#### Assessment of the Entity's Ability to Continue as a Going Concern

As at December 31, 2017 the liquidity position of the company is such that the going concern assumption has to take into consideration future improvements in the revenues not yet confirmed requiring significant judgments and estimates by management and the Board of Directors. If the going concern basis of accounting is not appropriate this could have significant impact on the financial statements.

Management and the Board of Directors assessment of going concern and risks related to liquidity and financing risks is described in the Administration Report on pages 5-6.

Our audit procedures of the managements assumption of going concern included the following audit procedures:

- Analyzing and discussing cash flow, profit and other relevant assumptions included in the forecasts with management,
- Based on the cash flow forecast prepared by the entity, evaluating the reliability of the underlying data generated to prepare the forecast; and determining whether there is adequate support for the assumptions underlying the forecast,

- Inquiry of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern,
- Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible considering these circumstances and
- Determining whether the financial statements adequately disclose the principal events or conditions relevant for assessing the entity's ability to continue as a going concern and management's plans to deal with these events or conditions.

### Recognition of revenue

The group generates revenues from mainly product sales but also from licenses and royalties in multiple geographies.

Revenue from the sale of goods, license sales and royalties are recognized when an agreement with the customer is in place, the delivery has occurred and all key risks and benefits have been transferred to the customer. Revenue comprises the fair value of the consideration received or receivable for the sale, net of discounts and anticipated returns at the time of sale.

Although there are similarities between the different sales terms (including transfer of risk) for the various sales channels of the company, each contract is unique.

We focused on this area due to the inherent complexity and the significant judgement sometimes involved in estimating when the risks have been transferred to customer for the various contracts.

In note 2 the group's revenue recognitions policy is described and note 5 provides disclosures of revenues separated on different product and geographies.

Our audit procedures included the following audit procedures:

- Evaluating the revenue recognition principles and the adaption thereof for the various revenue flows including compliance with IFRS,
- Analytical review of revenues disaggregated on different product and geographies,
- On a sample basis testing of sales transactions for revenue recognition in the appropriate period.

### Valuation of intangible assets

The company has significant investments in tangible assets, MSEK 255 as of 31 December 2017, primarily related to capitalized development expenditures, goodwill and customer relationships. The company has prepared an impairment assessment that is based on a value in use calculation where each acquired entity constitute a separate cash generating unit for investments in goodwill and customer relationships and for investments related to the development projects under which the company operates.

We focused on the impairment assessments above as the book value of intangible asset are material and as the assessment is sensitive to changes in assumptions (in particular the sales growth, gross profit, the discount rates and the terminal growth rate of free cash flow).

In note 3 the group's policy for impairment testing of intangible assets is described. Note 22 sets out the key assumptions used by management when preparing the annual impairment tests on goodwill and specifically explains that small changes in the key assumptions used could give rise to an impairment of the intangible assets balances in the future.

Our audit, which has been conducted with support by an evaluation expert, included the following audit procedures:

- Reviewing of the reasonableness in the forecasted cash flow, discount rates and methodologies used by management,
- Evaluating the adequacy of disclosures related to those assumptions to which the outcome of the impairment test is most sensitive including and
- Assessing the sufficiency of the sensitivity analysis prepared by management and performed sensitivity analysis primarily focused on changes in operating cash flow.

## Other information than the annual accounts and the consolidated accounts

This document also contains other information than the annual accounts and the consolidated accounts and is located on pages 62-63 and 68-75. The Board of Directors and CEO are responsible for the other information.

Our opinion concerning the annual accounts and the consolidated accounts do not comprise this information and we do not express an opinion with assurance regarding the other information.

In connection with our audit of the annual accounts and the consolidated accounts it is our responsibility to read the information identified above and consider whether the information is in all materiality incompatible with the annual accounts and the consolidated accounts. In this review we take in consideration the knowledge we obtained during the audit and evaluate whether the information contains any material misstatements.

If we, based on the review that has been performed regarding this information, conclude that the other information contains a material misstatement, we are obligated to report this. We do not have anything to report in this matter.

## Responsibilities of the Board of Directors

The Board of Directors are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounts is however not applied if the Board of Directors intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As a part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

## Report on other legal and regulatory requirements

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors of Anoto Group AB for the financial year 2017 and the proposed appropriations of the company's profit or loss.

We recommend the general meeting of shareholders that the loss to be dealt with in accordance with the proposal in the statutory administration report and that the members of the Board of Directors be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Responsibilities of the Board of Directors

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

**Qualifications**

On more than one occasion during the financial year, tax deducted, social security contributions and value added tax have not been reported in time. For that reason, the board and managing director have not fulfilled their obligations according to the Swedish Companies Act.

Grant Thornton Sweden AB was assigned as Anoto Group ABs auditor by the general meetings of shareholders on June 30, 2017 and has been the company's auditors since that day.

Malmö April 6, 2018

Grant Thornton Sweden AB

Mats Pålsson

Authorized Public Accountant

## 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.

### Operating profit/loss

The operating result of the business. Gross profit less costs for sales, administrative, R&D and other operating income/costs.

| (KSEK)                          | Group<br>2017   | Group<br>2016    |
|---------------------------------|-----------------|------------------|
| <b>Gross profit</b>             | <b>70,922</b>   | <b>79,393</b>    |
| Selling expenses                | (23,959)        | (35,206)         |
| Administrative expenses         | (55,073)        | (232,992)        |
| Research & development expenses | (28,280)        | (76,150)         |
| Other operating income          | 7,294           | 22,656           |
| Other operating cost            | (7,482)         | (18,054)         |
| <b>Operating profit/loss</b>    | <b>(36,578)</b> | <b>(260,353)</b> |

### Operating margin

Operating margin: Shows the business's operating result in relation to sales. Operating profit/loss as a percentage of net sales.

| (KSEK)                  | Group<br>2017 | Group<br>2016  |
|-------------------------|---------------|----------------|
| Operating profit/loss   | (36,578)      | (260,353)      |
| <b>Operating margin</b> | <b>-21.1%</b> | <b>-110.5%</b> |

### Cash flow per share for the year

An indication of cash generated per share can be used to assist in determining any distribution policy. Cash flow for the year divided by the weighted average number of shares during the year.

| (KSEK)                                     | Group<br>2017 | Group<br>2016 |
|--------------------------------------------|---------------|---------------|
| Cash flow                                  | 26,111        | (6,076)       |
| Weighted average number of ordinary shares | 101,111,621   | 59,757,044    |
| <b>SEK</b>                                 | <b>0.00</b>   | <b>-0.00</b>  |

### Equity/Asset ratio

A measure of how assets are financed. Equity attributable to shareholders of Anoto Group AB (including non-controlling interest) as a percentage of total assets.

| (KSEK)                                                    | Group<br>2017 | Group<br>2016 |
|-----------------------------------------------------------|---------------|---------------|
| Total assets                                              | 399,609       | 389,291       |
| Equity attributable to the shareholders of Anoto Group AB | 276,284       | 213,258       |
|                                                           | <b>69.1%</b>  | <b>54.8%</b>  |

## EBITDA

Operating profit/loss before depreciation, amortisation and impairment.

EBITDA: Shows the business's underlying performance, adjusted for the effect of depreciation and amortization, in relation to sales. Valuable to indicate the business's underlying cash generating ability. A reconciliation from group operating profit/loss is set out below.

| (KSEK)                        | Group<br>2017   | Group<br>2016    |
|-------------------------------|-----------------|------------------|
| Operating profit/loss         | (36,578)        | (260,353)        |
| Depreciation and amortisation | 15,835          | 70,736           |
| <b>EBITDA</b>                 | <b>(20,743)</b> | <b>(189,617)</b> |

## Shareholders' equity per share

Gives a shareholder the possibility to compare book value with market value. Shareholders' equity divided by the weighted average number of shares at the year end.

| (KSEK)                                                    | 2017        | 2016        |
|-----------------------------------------------------------|-------------|-------------|
| Equity attributable to the shareholders of Anoto Group AB | 276,284     | 213,258     |
| Number of ordinary shares                                 | 102,067,130 | 78,027,737  |
| <b>SEK</b>                                                | <b>2.71</b> | <b>2.73</b> |

## Net debt

An indication of the level of borrowings. Interest-bearing liabilities less liquid assets and current investments.

| (KSEK)                       | Group<br>2017 | Group<br>2016 |
|------------------------------|---------------|---------------|
| Interest-bearing liabilities | 11,309        | 29,018        |
| Liquid assets                | (31,664)      | (5,553)       |
| <b>Net debt</b>              | <b>20,355</b> | <b>23,465</b> |

## Capital employed

Shows how much of the total capital is tied to operations. Total assets less non-interest bearing provisions and liabilities (including deferred tax liabilities), less short term interest bearing liabilities.

| (KSEK)                                  | Group<br>2017  | Group<br>2016  |
|-----------------------------------------|----------------|----------------|
| Total assets                            | 399,609        | 389,291        |
| Non-interest bearing provisions         | (3,531)        | (8,212)        |
| Non-interest bearing liabilities        | (64,620)       | (112,492)      |
| Short term interest bearing liabilities | (11,309)       | (29,018)       |
| <b>Capital employed</b>                 | <b>320,149</b> | <b>239,569</b> |

## CORPORATE GOVERNANCE REPORT

Anoto Group AB (publ.) is governed by its Articles of Association and the Swedish Companies Act. Since Anoto is listed on NASDAQ OMX Stockholm, Anoto also applies NASDAQ OMX Stockholm's Rule Book for Issuers. Since July 1, 2008, Anoto has applied the Swedish Code of Corporate Governance (see [www.bolagsstyrning.se](http://www.bolagsstyrning.se)). Anoto is, in accordance with the Swedish Companies Act and the Swedish Code of Corporate Governance, required to present a Corporate Governance Report.

### Corporate Governance Structure

Anoto is governed by several bodies.

The shareholders exercise their voting rights at General Meetings of the Shareholders by electing the Board of Directors and external auditors and make decisions on other issues like the adoption of the annual report and stipulating how to appoint the Nomination Committee.

The Nomination Committee nominates candidates to the Board of Directors, Chairman of the Board and external auditors. A Nomination Committee is required by the Code, but not by the Companies Act. The Board is responsible for the appointment of the CEO, the development of long-term strategy, and controlling and evaluating Anoto's day-to-day operations.

The CEO is in charge of and responsible for daily operations and the management of Anoto in accordance with the Swedish Companies Act, and in accordance with instructions and guidelines from the Board of Directors.

External auditors appointed by the shareholders at the Annual General Meeting examine the Company's annual report and accounts as well as the management by the Board of Directors and the CEO.

### Annual General Meeting

The Annual General Meeting is the corporate body where the shareholders in Anoto can exercise their rights by electing the Board of Directors and deciding on all other issues voted on at Annual General Meetings in accordance with the Companies Act and the Articles of Association.

The Annual General Meeting is normally held in May or June. The notice of the Annual General Meeting, together with the agenda, is published on Anoto's website and in the Swedish Newspaper Post och Inrikes Tidningar (the Swedish Official Gazette). As a courtesy, the date and place for the Annual General Meeting together with information on how to obtain the agenda is published in the Swedish newspaper Dagens Nyheter.

All information material to the Annual General Meeting is available in both Swedish and English. The Annual General Meeting is held in Swedish.

### Annual General Meeting 2017

The Annual General Meeting (AGM) in 2017 took place in Stockholm on June 30. Jörgen Durban and Joonhee Won were present from the Board of Directors. Present also were Anoto's external auditors.

The Annual General Meeting made the following decisions:

- The annual report was presented, and the consolidated income statements and balance sheets were adopted. The board members and CEO were discharged from liability. It was resolved that no dividends were to be paid to the shareholders.
- Board Members Jörgen Durban and Joonhee Won were re-elected as Board Members until the end of the next Annual General Meeting and Young Soo Ha, Mariel Clemensen, Jefferey Weedman, and Dongyi Lee were elected as Board Members until the end of the next Annual General Meeting.
- Jörgen Durban was re-elected Chairman of the Board.

## Anoto's Annual General Meeting 2018

Anoto's Annual General Meeting 2018 will take place on May 15 in Stockholm.

## Extraordinary General Meetings

Extraordinary General Meetings were held on three occasions during 2017.

On September 1, 2017, an Extraordinary General Meeting was held, at which resolutions to modify the option program decided at the Annual General Meeting on June 30, 2017.

## The Board of Directors

The Board of Directors, which also appoints the CEO, is ultimately responsible for the organization of Anoto and the management of its operations. According to Anoto's Articles of Association, the Board shall consist of not less than three and not more than eight directors with not more than five deputies.

At the Annual General Meeting, Jörgen Durban, who is the Chairman of the Board, Joonhee Won, Young Soo Ha, Mariel Clemensen, Jefferey Weedman, and Dongyi Lee were elected as members of the Board of Directors until the next Annual General Meeting.

Dongyi Lee resigned from the Board of Directors on March 27, 2018.

For information about the Board Members and their remuneration, please refer to Note 9. The members of the Board, save for Joonhee Won, are independent of the management of the company.

The Board members are independent in relation to Anoto and its largest owners. The company does therefore comply with the conditions of the Swedish Code of Corporate Governance requiring that a majority of the members elected by the Annual General Meetings are to be independent from the company and its management, and that no less than two of the Board members are independent from the largest shareholders.

## Rules of Procedure

The Board of Directors has adopted Rules of Procedures that outlines the work procedures and tasks for the Board, the Audit Committee and the Compensation Committee. The Rules of Procedures are reviewed and adopted at least once a year.

## Work of the Board of Directors 2017

When appropriate, employees of the company participate in reporting capacities concerning their particular areas of expertise.

The Board continuously evaluated the performance of Anoto, the CEO and Anoto's management team. The Board held 7 recorded meetings during 2017.

The Board Members attendance at Board Meetings and Committee Meetings is set forth below:

| Board Member:       | Number of board meetings: |
|---------------------|---------------------------|
| Jörgen Durban       | 7 / 7                     |
| Joonhee Won         | 7 / 7                     |
| Henric Ankarcrona * | 2 / 2                     |
| Young Soo Ha        | 4 / 5                     |
| Mariel Clemensen    | 4 / 5                     |
| Jefferey Weedman    | 4 / 5                     |
| Dongyi Lee **       | 2 / 5                     |

\* Board member until the Annual General Meeting 2017

\*\* Board member until March 27, 2018

The board has not decided to delegate any responsibilities to any sub-committees such as Audit committee and Compensation committee. Hence the board in its entirety has the full responsibility for such matters.

The 2017 Annual General Meeting adopted guidelines for compensation to senior executives, which can be found in Note 9.

## CEO and Management

The Management Team consists of 2 persons, with the CEO in charge. The CEO and Management Team manage and control Anoto's daily operations.

## Shareholders Controlling More than One Tenth of the Shares in the Company

None of the shareholders had, on the 31st of December, a direct or indirect ownership of more than one tenth of the votes for all shares.

## Anoto's Articles of Association

The company's Articles of Association do not comprise limitations concerning the number of votes each shareholder can represent in the Annual General Meeting, or specific conditions related to appointment or dismissal of Board members or introduction of amendments to the Articles of Association.

## Internal Control

The Board of Directors is responsible for the internal control under the Swedish Companies Act and the Swedish Code of Corporate Governance. This section on internal control is focused on the internal control of the financial reporting. Given the size of Anoto, the Board has determined that there is no need for an internal audit department or function, and that Anoto's finance department sufficiently can carry out the internal control in cooperation with the external auditors.

### *Control environment*

The corporate culture of Anoto encourages initiatives while assuming responsibility for meeting the defined strategic objectives of Anoto. Each employee at Anoto has a job description setting out tasks, responsibilities and authorizations.

The CEO has adopted guidelines and policies for specific areas that the employees are required to follow. Anoto has implemented a Code of Conduct that is applicable to Anoto and its suppliers. The Code of Conduct describes Anoto's requirements with respect to ethical behavior, child labor and the environment.

A detailed delegation plan has been drawn up with well-defined levels of attestation and decision levels. This is applied throughout Anoto.

### *Risk assessment*

Risk assessments are performed in order to identify and map risks. The most important risks for the internal control of the financial reporting are identified at Group and Company level, as well as at a regional level. The outcomes of the risk assessments result in actions and tasks that support the internal control of the financial reporting.

### *Control measures*

The Board has implemented a system for control and risk management based on the Board's Rules of Procedure - also including instructions for the CEO and reports that are to be made to the Board and the Finance Policy. These rules constitute the framework for the internal control.

Anoto's processes and systems for ensuring effective internal controls are designed with the intention of managing and limiting the risks of material errors in the reporting of financial data, thus ensuring that both strategic and operational decisions are based on accurate financial information.

The operational work of controlling the day-to-day activities is carried out by the CEO and the Management Team. Specific guidelines govern the capacity for decision making on different issues. In addition, there are several operational meeting forums like management meetings and steering committees that address specific control issues in the operational activities. These forums effectively steer Anoto towards the defined strategic objectives.

## Monitoring

There are general as well as detailed control measures aimed at preventing, discovering and correcting faults and deviations. The control organization is evaluated by the CEO on an ongoing basis with the aim of ensuring quality and efficiency.

The CEO continually keeps the Board informed of the Group's financial position, performance and any areas of risk. Anoto's external auditors attend at least two Board meetings per year, at which the auditors provide their assessment and observations on the business processes, accounts and reports. The Chairman of the Board is also in regular contact with the auditors of the Group.

The Board continually monitors Anoto's financial performance by reports, as well as information from the CFO at Board Meetings. Regular follow-up ensures compliance with the Company's Finance Policy, thus identifying any deficiencies in the internal control system.

The internal control also includes detailed annual budgets split on application areas, geographic areas and cost centers. Forecasts are delivered three times a year; in May, August and November. The forecasting follows the same organizational set-up as the annual budget. In December, the Board adopts the budget for the following year. In addition to the budgeting and forecasting, Anoto's Management Team continually works with overall three-year strategic scenarios.

## **AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT**

To the general meeting of the shareholders in Anoto Group AB (publ) corporate identity number 556532-3929

### **Engagement and responsibility**

It is the board of directors who is responsible for the corporate governance statement for the financial year 2017 on pages 64-67 and that it has been prepared in accordance with the Annual Accounts Act.

### **The scope of the audit**

Our examination has been conducted in accordance with FAR's auditing RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

### **Opinions**

A corporate governance report has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Malmö – April 6, 2018

Grant Thornton Sweden AB

Mats Pålsson

Authorized Public Accountant

**GROUP INFORMATION**

## Board of Directors

**Jörgen Durban**  
*Chairman of the Board, Independent*

Born 1956  
Board member since 2010  
Shareholding: 190,855 shares and 1.4 million share options in  
Anoto Group AB  
Education: LL.M, Stockholm University, Sweden

**Joonhee Won**  
*Chief Executive Officer*

Born in 1965  
Board member since 2014  
Other positions: CEO of TStone Corporation  
Shareholding: 2.7 million share options in Anoto Group AB  
Education: MBA, Harvard Graduate School, USA

**Mariel Clemensen**  
*Independent Board Member*

Born in 1952  
Board member since 2017  
Other positions: Registered Investment Advisor of Clemensen Capital  
Company  
Shareholding: 66.7 thousand share options in Anoto Group AB  
Education: MS Management, Stanford Business School, USA

**Jefferey Weedman**  
*Independent Board Member*

Born in 1953  
Board member since 2017  
Other positions: CEO of Weedman Ventures LLC  
Shareholding: 66.7 thousand share options in Anoto Group AB  
Education: MBA, University of Michigan, USA



**Perry (Young Soo) Ha**  
*Independent Board Member*

Born in 1962

Board member since 2017

Other positions: Founder and Managing Director of Draper Athena

Shareholding: 66.7 thousand share options in Anoto Group AB

Education: MBA, Harvard Business School, USA



**Senior Management**

**Joonhee Won**

CEO

Born in 1965

Employed since 2016

Shareholding: 2.7 million share options in Anoto Group AB

Education: BA Political Science, Economics

MBA, Harvard Graduate School, USA

**Will Reeb**

Deputy CEO/Chief Strategy Officer

Born in 1965

Employed since 2016

Shareholding: 866.7 thousand share options in Anoto Group AB

Education: PhD Informatics, University of Wales; MBA, University of London

## The Anoto Share

Anoto Group AB (publ.) has been listed on the NASDAQ OMX Stockholm Stock Exchange (ticker: ANOT) since June 16, 2000. Today the share is listed on the Small Cap list of the NASDAQ OMX Nordic Exchange Stockholm. The share was previously traded on the New Market starting on March 15, 2000. Anoto Group's share capital of SEK 61,240,278 as per Dec 31st 2017 is allocated among 102,067,130 shares. As per end of March 2018 the share capital of SEK 67,592,970 is allocated among 112,654,950 shares.

Each share entitles the holder to one vote at general meetings and all shares provide equal rights to participation in the company's assets and profits.

## Share price performance

The price of the Anoto Group share decreased by 10 percent from SEK 4.86 to 4.35 during the year. During the same period, the NASDAQ OMX Stockholm PI increased by 8 percent and the NASDAQ OMX Technology PI decreased by 1 per cent. Anoto Group's market capitalization was MSEK 444 on December 31, 2017.

## Shareholders

At the end of 2017, Anoto Group had 20,388 shareholders. Foreign shareholders controlled 23.2% and the ten largest shareholders controlled 23.9%.

## Dividend policy

The company's future dividend policy will reflect its earnings, financial position and financing needs. Dividend proposals will be examined in the light of shareholder demands for a reasonable return and the company's internal financing requirements.

## Option programmes

The parent company has implemented various stock option programs as set forth in Note 31.

## Analysts

Anoto Group is covered by analysts at banks and securities brokers including Redeye.

## Per share data 2017

|                                                    |             |
|----------------------------------------------------|-------------|
| Number of shares 2017-12-31                        | 102,067,130 |
| Number of outstanding options 2017-12-31           | 5,433,634   |
| Average number of shares                           | 101,111,621 |
| Earnings per share (SEK)                           | -0.16       |
| Fully Diluted Earnings per share (SEK)             | -0.16       |
| Cash flow per share (SEK)                          | 0.0         |
| Fully Diluted Cash flow per share (SEK)            | 0.0         |
| Shareholder's equity per share (SEK)               | 2.71        |
| Shareholder's equity per share incl. options (SEK) | 2.71        |

#### Largest shareholders on December 31, 2017

|              |                                               |              |                   |
|--------------|-----------------------------------------------|--------------|-------------------|
| 1            | FÖRSÄKRINGSAKTIEBOLAGET, AVANZA PENSION       | 7.7%         | 7,879,432         |
| 2            | SIX SIS AG, W8IMY                             | 7.2%         | 7,372,702         |
| 3            | BNY MELLON SA/NV (FORMER BNY), W8IMY          | 2.3%         | 2,392,590         |
| 4            | NORDNET PENSIONS FÖRSÄKRING AB                | 1.7%         | 1,765,149         |
| 5            | NORDEA BANK AB(PUBL), NORDEA BANK FINLAND ABP | 1.1%         | 1,108,914         |
| 6            | HSBC-FUND SERV CLIENTS A/C 006-KR             | 0.9%         | 878,451           |
| 7            | ABRAMI, VAHIK                                 | 0.8%         | 866,295           |
| 8            | SWEDBANK FÖRSÄKRING                           | 0.8%         | 852,765           |
| 9            | BNYMSANV RE JYSKE BANK GENERAL SETT           | 0.8%         | 779,730           |
| 10           | LINDH, ANNIKA                                 | 0.6%         | 655,629           |
| <b>Total</b> |                                               | <b>23.9%</b> | <b>24,551,657</b> |

#### Shareholders by size on December 31, 2017

| Shares held     | Total number of shareholders | % total number of shareholders | Hold collectively: number of shares | % of share capital |
|-----------------|------------------------------|--------------------------------|-------------------------------------|--------------------|
| 1 – 1,000       | 13,821                       | 67.8%                          | 3,182,939                           | 3.1%               |
| 1,001 – 5,000   | 3,964                        | 19.4%                          | 9,782,585                           | 9.6%               |
| 5,001 – 10,000  | 1,096                        | 5.4%                           | 8,095,526                           | 7.9%               |
| 10,001 – 15,000 | 442                          | 2.2%                           | 5,449,596                           | 5.3%               |
| 15,001 – 20,000 | 285                          | 1.4%                           | 5,061,521                           | 5.0%               |
| 20,001 -        | 780                          | 3.8%                           | 70,494,963                          | 69.1%              |
|                 | <b>20,388</b>                | <b>100.00%</b>                 | <b>102,067,130</b>                  | <b>100.0%</b>      |

## FIVE-YEAR SUMMARY

### Summary of comprehensive income statements

| (KSEK)                                                 | 2013            | 2014           | 2015            | 2016            | 2017           |
|--------------------------------------------------------|-----------------|----------------|-----------------|-----------------|----------------|
| Net sales                                              | 144 306         | 141 465        | 192 838         | 235 657         | 173 010        |
| Other income                                           | -               | -              | -               | -               | -              |
| Gross profit                                           | 97 474          | 94 269         | 85 556          | 79 393          | 70 922         |
| Amortisation and impairment of intangible fixed assets | -9 430          | -3 416         | -5 412          | -66 018         | -11 492        |
| Depreciation - property, plant and equipment           | -2 902          | -1 770         | -1 909          | -4 718          | -4 344         |
| Operating profit/loss                                  | -163 451        | -56 249        | -106 249        | -260 353        | -36 578        |
| Profit/loss on shares in subsidiaries                  | -               | -              | -               | -               | -              |
| Write-down of shares in associated companies           | -               | -              | -               | -               | -              |
| Other financial items                                  | -4 839          | -7 241         | -3 710          | -7 317          | -19 623        |
| Profit/loss after financial items                      | -168 290        | -63 490        | -109 959        | -267 670        | -56 201        |
| Tax                                                    | -12             | 639            | 1604            | 4 445           | 3 257          |
| <b>Profit/loss after tax</b>                           | <b>-168 302</b> | <b>-62 851</b> | <b>-108 355</b> | <b>-263 225</b> | <b>-52 944</b> |

### Summary of balance sheets

| (KSEK)                                              | 2013.12.31     | 2014.12.31     | 2015.12.31     | 2016.12.31     | 2017.12.31     |
|-----------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Assets</b>                                       |                |                |                |                |                |
| Intangible fixed assets                             | 71 318         | 78 972         | 263 065        | 236 810        | 255 282        |
| Tangible fixed assets                               | 3 084          | 2 046          | 5 944          | 8 414          | 3 404          |
| Financial fixed assets                              | 3 605          | 4 482          | 7 280          | 18 855         | 18 317         |
| Total non-current assets                            | 78 007         | 85 500         | 276 289        | 264 079        | 277 003        |
| Inventory                                           | 27 985         | 20 553         | 44 589         | 49 478         | 51 766         |
| Accounts receivable                                 | 27 502         | 36 979         | 65 443         | 34 825         | 27 747         |
| Other current assets                                | 31 346         | 19 916         | 51 378         | 35 356         | 11 429         |
| Cash and bank assets, including current investments | 7 008          | 3 909          | 11 628         | 5 553          | 31 664         |
| Non-current assets held for divestment              | -              | -              | -              | -              | -              |
| Total current assets                                | 93 842         | 81 357         | 173 039        | 125 212        | 122 606        |
| <b>Total assets</b>                                 | <b>171 849</b> | <b>166 857</b> | <b>449 328</b> | <b>389 291</b> | <b>399 609</b> |

|                                                   |                |                |                |                |                |
|---------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Liabilities and shareholders' equity</b>       |                |                |                |                |                |
| Shareholders' equity                              | 82 657         | 78 242         | 277 926        | 213 258        | 276 284        |
| Minority interests                                | -16 770        | -16 198        | -9 730         | -1 689         | -583           |
| Long-term liabilities                             |                |                |                |                |                |
| Non-interest-bearing                              | 0              | 2 124          | 25 793         | 7 031          | 3 289          |
| Interest bearing                                  | 1 011          | 0              | 8 145          | 28 000         | 44 449         |
| Current liabilities                               |                |                |                |                |                |
| Non-interest-bearing                              | 104 951        | 66 814         | 147 194        | 113 673        | 64 862         |
| Interest-bearing                                  | 0              | 35 875         | 0              | 29 018         | 11 309         |
| Total liabilities                                 | 105 962        | 104 813        | 181 132        | 142 691        | 123 908        |
| <b>Total liabilities and shareholders' equity</b> | <b>171 849</b> | <b>166 857</b> | <b>449 328</b> | <b>389 291</b> | <b>399 609</b> |

## Summary of cash flow statements

| (KSEK)                                      | 2013         | 2014          | 2015         | 2016          | 2017          |
|---------------------------------------------|--------------|---------------|--------------|---------------|---------------|
| Profit/loss after financial items           | -168 290     | -63 490       | -109 959     | -267,670      | -56 201       |
| Items that do not affect liquidity          | 85 052       | 8 244         | 9 948        | 57,870        | 30 030        |
| Change in working capital                   | -9 186       | -36 896       | 15 229       | 45 988        | -19 024       |
| Cash flow from operating activities         | -92 424      | -92 142       | -84 782      | -163 812      | -45 194       |
| Cash flow from investment activities        | -3 946       | -5 958        | -175 533     | -48 459       | -38 427       |
| Total cash flow before financing activities | -96 370      | -98 100       | -260 315     | -212 271      | -83 621       |
| Cash flow from financing activities         | 97 919       | 95 001        | 268 035      | 206 195       | 109 732       |
| <b>Cash flow for the year</b>               | <b>1 549</b> | <b>-3 099</b> | <b>7 720</b> | <b>-6 076</b> | <b>26 111</b> |

## Key ratios

|                                                            | 2013    | 2014   | 2015    | 2016    | 2017    |
|------------------------------------------------------------|---------|--------|---------|---------|---------|
| Sales growth, %                                            | -27     | -2     | 36      | 22      | -27     |
| Gross margin, %                                            | 68      | 67     | 44      | 34      | 41      |
| Capital employed (KSEK)                                    | 65,887  | 62,044 | 268,196 | 239,657 | 320,149 |
| Equity/assets ratio, %                                     | 38      | 37     | 60      | 54      | 69      |
| Net debt (KSEK)                                            | -5,997  | -3,909 | -3,484  | 51,465  | 20,365  |
| Earnings per share (SEK)                                   | -1.03   | -0.13  | -0.13   | -0.15   | -0.16   |
| Earnings per share after dilution (SEK)                    | -1.03   | -0.13  | -0.13   | -0.15   | -0.16   |
| Cash flow per share for the year (SEK)                     | 0.01    | -0.01  | 0.01    | -0.00   | 0.00    |
| Cash flow per share after dilution (SEK)                   | 0.01    | -0.01  | 0.01    | -0.00   | 0.00    |
| Shareholder's equity per share (SEK)                       | 0.21    | 0.11   | 0.26    | 0.09    | 2.71    |
| Shareholder's equity per share after dilution (SEK)        | 0.21    | 0.11   | 0.26    | 0.09    | 2.71    |
| Average no. of employees                                   | 111     | 106    | 117     | 156     | 61      |
| Sales per employee (KSEK)                                  | 1,300   | 1,335  | 1,648   | 1,510   | 2,836   |
| Payroll expenses incl. social security contribution (KSEK) | 100,318 | 67,889 | 102,576 | 140,859 | 35,561  |
| (of which pension premiums were)                           | 7,806   | 5,333  | 6,006   | 5,617   | 2,184   |

## Definitions

### **GROSS MARGIN**

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

### **SHAREHOLDERS' EQUITY PER SHARE**

Shareholders' equity divided by the number of shares at the year end.

### **AVERAGE NUMBER OF EMPLOYEES**

Average number of employees during the year.

### **NET DEBT**

Interest-bearing liabilities less liquid assets and current investments. Interest-bearing liabilities consist of convertible debt and short term interest bearing liabilities.

### **SALES PER EMPLOYEE**

Net sales divided by the average number of employees.

### **SALES GROWTH**

Increase in net sales as a percentage of net sales for the previous year.

### **EARNINGS PER SHARE**

Profit after tax divided by the weighted average number of shares during the year.

### **OPERATING MARGIN**

Operating profit/loss as a percentage of net sales.

### **CAPITAL EMPLOYED**

Total assets less non-interest bearing provisions and liabilities, (including deferred tax liabilities), less short term interest bearing liabilities.

### **EQUITY/ASSETS RATIO**

Shareholders' equity including non-controlling interest as a percentage of total assets.

### **CASH FLOW PER SHARE FOR THE YEAR**

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

### **EBITDA**

Operating profit before depreciation and amortisation

### **OPERATING PROFIT/LOSS**

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

## Annual General Meeting

Anoto's Annual General Meeting will be held on May 15, 2018 at 10.00 am. at the premises of Linklaters Advokatbyrå, Regeringsgatan 67, 111 56 Stockholm, Sweden.

Any shareholder wishing to participate in the meeting must notify the company in one of the following ways:

- E-mail to [AGM@anoto.com](mailto:AGM@anoto.com)
- In writing to Anoto Group AB, Flaggan 1165, 116 74 Stockholm, Sweden

The notification must reach the company by 12:00 noon on Tuesday, May 8, 2018. To be entitled to participate, the shareholder must also be entered in the Euroclear Sweden AB share register by May 8, 2018. Any shareholder who has registered his or her shares under a trustee must temporarily register them in his or her own name with Euroclear Sweden AB by Tuesday, May 8, 2018. When submitting the notification, shareholders are requested to provide name, identity number, address, phone number, and number of registered shares. Shareholders participating by proxy must submit the authorisation to the company prior to the meeting.

## Financial reporting

Anoto Group's financial reports are released in Swedish and English. The easiest way to obtain the reports is by downloading them from [www.anoto.com](http://www.anoto.com).

Following is the schedule of Anoto Group's financial reports for its 2018 financial year.

Q1 report, April 30, 2018

Dates of the other interim reports are not yet determined but <http://www.anoto.com/investors/investors-calendar/> will be updated as soon as this information is available.