

ANOTO

QUARTERLY REPORT

Q4/ 2016

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

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For more information: www.anoto.com

REPORT JANUARY – DECEMBER 2016

- Net sales in the period amounted to MSEK 236 (193) and Net sales for the quarter were MSEK 68 (55).
- The Result after tax for the period was MSEK -242 (-108) and the Result after tax for the quarter was MSEK -34 (-40). Several non-recurring items with a net total impact of -4.1 MSEK have affected the quarter.
- Gross Margin in the period has decreased to 34% (44%) due mainly to the addition of Livescribe and Pen Generations to the Group. However, Livescribe adds a stable revenue base whilst Pen Generations provides much needed growth.
- Overhead costs in the quarter amounted to 66 MSEK. Considerably lower than previous quarters due to the cost saving activities.
- Earnings per share after dilution for the period were SEK -0.13 (-0.13) and for the quarter SEK -0.01 (-0.04).
- ABLE Investment Advisors Inc., a Korean company, has entered into an agreement to invest 6 MUSD in Anoto, thereby replacing previous agreement with SMark Inc. 1.6 MUSD of the total amount has been received and an additional 1.9 MUSD are expected to be received in March 2017.
- Restructuring and cost reduction efforts are beginning to show positive signs in the financial results but Anoto still faces certain financial challenges in the near term. For further information, see “Risks and Uncertainties”.

Key ratios	2016	2015	2016	2015
	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Net sales, MSEK*	68	55	236	193
Gross profit/loss*	23	22	79	86
Gross margin, %	34	40	34	44
Operating margin, %	Neg	Neg	Neg	Neg
Operating profit/loss, MSEK	-33	-41	-239	-106
EBITDA, MSEK	-20	-39	-167	-99
Profit/loss for the period, MSEK	-34	-40	-242	-108
Earnings per share after dilution, SEK*	-0.01	-0.04	-0.13	-0.13
Cash flow for the period, MSEK*	-2	5	-6	8
Cash at end of period, MSEK*	6	12	6	12

* Defined under IFRS

CEO COMMENTS:

After a painstaking period of restructuring, Anoto is starting to show signs that the difficult transformation effort is paying off. These signs include fourth quarter 2016 revenue that was up 70% over the prior quarter with a gross margin of 34.1% that was approximately 3% better than the prior quarter. While posting rising top-line performance the new Anoto organization drove Q4 overhead costs down a further 11% relative to Q3.

This significantly reduced overhead is a result of rationalizing both our human resources and our facilities. Since the current transformation began in the second quarter of 2016, we have consolidated multiple offices and eliminated approximately 90 positions (employees and consultants) to trim our global team. This has contributed to an operating expense reduction of an estimated 15 MSEK per quarter relative to the Q1–Q3 2016 average.

In addition to further reducing costs in Q4, we also continued to clean our books through enhanced scrutiny of our inventory positions and our receivables. This conservative rigor resulted in Anoto reserving for, or writing off, over 10 MSEK. Including all non-recurring items that amounted to -4.1, the operating losses for Q4 2016 at 34 MSEK were 72 MSEK lower than for Q3 2016.

Asia continues to be a strong market for Anoto with significant revenue growth in Japan and Korea. Sales in the Enterprise Forms business remained lackluster in Q4 but the pipeline in emerging markets is beginning to look encouraging. Revenues in the USA have remained stable in spite of the significant cost savings achieved there through staff reductions and office closures.

It is important to note that Anoto achieved the above results while contending with a legal dispute with Leapfrog that delayed the delivery of an important pen component and deferred revenue. The dispute is now being managed in a mutually beneficial way through an attitude of cooperation rather than through costly and destructive litigation.

Productization of Anoto DNA (ADNA) moved forward energetically in Q4 and an enhanced release is expected in Q1 of 2017. Business and technical cooperation with SMark continued in Q4 although the payment of funds to Anoto from ABLE has been delayed due to some working capital issues they were managing.

OUTLOOK

2016 has been a challenging year notable for the tough decisions taken to transform from a hardware-focused organization to one building for a profitable future based on software, proprietary patterns, and robust image processing. Challenges will certainly remain in 2017 but we expect that the newly efficient pen business will make strong contributions to the financial health of the organization while the emerging ADNA business provides the potential for considerable growth. With costs lowered by 106 MSEK and this exciting portfolio to support growth, Anoto anticipates substantial improvements in its financial performance during 2017.

Joonhee Won
CEO, Anoto Group AB (publ)

ANOTO GROUP IN THE FOURTH QUARTER 2016

Total sales in the quarter amounted to 67.6 MSEK (54.8), and Earnings before Interest and Tax (EBIT) amounted to -32.6 MSEK (-41.2). Also this quarter has been impacted by several non-recurring items, such as adjustments of inventory values of 10 MSEK, write down of capitalised costs related to a development project of 6.4 MSEK and one-time costs related to a new wave of restructuring amounting to 3 MSEK. In total, these non-recurring items have a negative impact of -19.4 MSEK in the quarter.

The quarter has also been affected by group structural changes. The partly owned entity Destiny that Anoto previously announced was going to be fully acquired has instead been deconsolidated, and the Dutch company Anoto BV was liquidated. These changes have a positive impact in the quarter of totally 16.4 MSEK.

In December the minority interest in We Inspire GmbH was sold, affecting the quarter with a loss of -1.1 MSEK, but Anoto will receive ongoing revenue from this arrangement. This transaction is relating to Anoto's focus on achieving profitability by concentrating on just three existing business areas (Livescribe Retail business, Enterprise Forms and Education Business) and achieving growth through the Anoto DNA initiative.

The acquired entity Pen Generations Inc (acquired in June of 2016) have affected sales in the quarter with 10.9 MSEK with a corresponding EBIT effect of -14.8 MSEK. EBIT in the quarter has been negatively affected by an inventory write down amounting to -5 MSEK. The entity Livescribe, that was acquired in December 2015, has affected sales in the quarter with 20.4 MSEK and EBIT of -1.3 MSEK.

Operative cash flow for the quarter was -69.2 MSEK (-46.9). Investments in Fixed assets amounted to 0.0 MSEK (140.5) including capitalised expenses of 0.0 MSEK (15.9). Cash flow after financial activities was -2.1 MSEK (4.7).

ANOTO GROUP FULL YEAR 2016

Total sales YTD are 235.7 MSEK (192.8), with an EBIT of -238.7 MSEK (-106.2). Adjusted for the non-recurring items during the year, for one-time costs and the write-down of intangible assets, EBIT is -169.6 MSEK. The restructuring activities that were executed in Q3 and Q4 will lead to a yearly cost saving of approximately 106 MSEK.

The acquired entities XMS Penvision AB (acquired in August 2015), Livescribe Inc (acquired in December of 2015) and Pen Generations Inc (acquired in June of 2016) have influenced sales with 107.3 MSEK with a corresponding EBIT effect of -44.5 MSEK.

Operative cash flow in the period was -176.1 MSEK (-84.8). Investments in Fixed assets amounted to 39.6 (44.9) including capitalised expenses of 26.0 MSEK (36.5). Cash flow after financial activities was -6.1 (7.7).

Net sales per product group

MSEK	2016 Oct-Dec	2015 Oct-Dec	2016 Jan-Dec	2015 Jan-Dec
Licenses	1	6	6	31
Royalty	1	3	5	11
Digital pens	49	46	196	124
NRE	0	0	0	8
Other	17	0	29	18
Total	68	55	236	193

ACCOUNTING POLICIES

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

INVESTMENTS

As part of the cooperation between Anoto and Digiwork announced on July 18, Anoto has during 2016 invested 2 MUSD in Digiwork's parent, SMark Co. Ltd. SMark is a Korean listed company on KOSDAQ Korea under "ticker" SMARK.

For Q4 there was no additional investments in intangible assets. Anoto has in 2016 invested totally 26.0 MSEK in intangible assets for a development project. This project has as its purpose to deliver a common, future pen platform for the Group.

In December, the minority interest in We Inspire GmbH was sold. This transaction is relating to Anoto's focus on achieving profitability by concentrating on just three existing business areas and achieving growth through the Anoto DNA initiative.

RELATED PARTY TRANSACTIONS

As per December 31, Anoto Group AB had loans from Inhye Kim, wife to CEO at Anoto, to a total value of 15.1 MSEK. These short-term loans incur a 3.5% annual interest. As Inhye Kim has signed for the convertible loan that was issued in December 2016, 9.2 MSEK of this loan will be transferred to this convertible loan in 2017.

FINANCING

At December 5 Anoto placed approximately 42 MSEK of convertible bonds which later has been reduced to 39 MSEK. Settlement for 28.0 MSEK of the bonds took place December 7 and another settlement of 1.8 MSEK took place January 20. Bonds in the total amount of 9.2 MSEK will be set-off against part of a loan granted to Anoto by Inhye Kim.

RISK FACTORS AND UNCERTAINTIES

During 2016, Anoto Management addressed a number of risks facing the company. These risks included a cost structure that was too high relative to sales and a lack of strategic focus. Multiple cost-cutting activities were carried out and the corporate strategy was refined through the imposition of focus. Expectations are that this refocusing, combined with the substantial reduction in costs, will put Anoto in a cash-generating position in 2017.

While financing remains an important concern for Anoto, it is the opinion of management and the Board that the cash flow from the above activities is likely to provide the liquidity required by Anoto in 2017. This perspective takes into account the cash-on-hand as of the 31st of December 2016, the anticipated receipt in March 2017 of 1.9 MUSD from ABLE, and the improved operating cash flow expected from cost reductions and increasing sales.

The Board expects that the investment from ABLE will be received in March 2017, but it is also looking at various alternatives to secure the financing required to ensure that the Group remains a going concern. Consequently, it is the view of the board that the Group will have sufficient financial resources to see the Group through 2017.

SEGMENT REPORTING

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

EMPLOYEES

As of December 31, Anoto Group had a total of 90 employees as compared to 156 per year-end 2015. Of these, 19 are employed by Pen Generations. Since September, 22 employees have left the Group.

OPTION PROGRAM

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

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

In Q4 an incentive scheme for senior executives was issued that comprises a maximum of 51.8 million stock options at a subscription price of 0.26 . The maximum number of stock options to be allocated to each of the senior executives shall be 15.0 million. The share-options will mature during 2019. This incentive scheme is replacing the Anoto Employee Incentive Programme from 2015.

The Company's Board of Directors has also authorized the issuance of a 9.0 million share-options grant to the Chairman of the Board of Directors Jörgen Durban at a subscription price of 1.43 SEK and the issuance of 21.8 million share options at a strike price of 0.38 SEK. Both programmes will mature in 2018. Further more the company's CEO Joonhee Won has been granted 21.8 million share options at a strike price of 0.38 SEK that will mature in 2018. In Q4 the Company's Board of Directors authorized the issuance of a 6.0 million share-options grant to the Board member Henric Ankarcrona at a subscription price of 0.26 SEK. The share-options will mature during 2019.

PARENT COMPANY

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

SHARE DATA

The Anoto share is listed on the NASDAQ OMX Nordic Small Cap List in Stockholm. The total number of shares at the end of the period amounts to 2 340 832 108.

TRANSACTIONS AND ACTIVITIES AFTER DECEMBER 31, 2016

No essential transactions and activities have occurred after December 31, 2016.

LEGAL ACTIVITIES

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

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

The dispute is related to two requests for arbitration filed by LeapFrog in Sweden, the first at the Stockholm Chamber of Commerce (“SCC Arbitration”) and the second at the International Chamber of Commerce (“ICC Arbitration”). In both the SCC Arbitration and the ICC Arbitration, LeapFrog is seeking indemnification and defence from Anoto with respect to patent infringement claims filed by Celebrate LLC in U.S. federal court in Delaware. On December 19, both Parties agreed to a six-month voluntary stay of both the ICC Arbitration and SCC Arbitration proceedings, which were accepted by the authorities, in order to amicably resolve the issues in both cases.

A former Anoto employee has filed a civil lawsuit against the Company in Los Angeles, CA, alleging wrongful termination, unpaid wages/expenses and gender discrimination. After Anoto successfully removed this case to U.S. federal court, the Parties have commenced pre-trial discovery. Anoto believes the former employee’s claims are meritless and intends to defend the case vigorously. A mandatory settlement conference (MSC) between the Parties, required by law, is expected to be held in March.

This interim report has not been subject to review by the auditors.

Anoto Group AB discloses the information provided herein pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication at 08.45 on February 24, 2017.

CALENDAR 2016

Annual Report April 28 2017

Annual General meeting May 17 2017

FOR MORE INFORMATION

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FINANCIAL REPORTS

TSEK	2016	2015	2016	2015
	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Net sales	67 617	54 806	235 657	192 839
Cost of goods and services sold	-44 545	-33 051	-156 264	-107 283
Gross profit	23 072	21 755	79 393	85 556
Sales, administrative and R&D costs	-78 742	-61 132	-344 348	-184 136
Other operating income/cost*	23 089	-1 846	26 295	-7 669
Operating profit/loss	-32 581	-41 223	-238 660	-106 249
Sale of financial assets	-1 133	0	-1 133	0
Other financial items	-1 480	-496	-6 184	-3 710
Profit before taxes	-35 194	-41 719	-245 977	-109 959
Taxes	1 220	1 383	4 445	1 604
Profit/loss for the period	-33 974	-40 336	-241 532	-108 355
Other comprehensive income				
Translation differences for the period	4 854	-8 665	-1 283	-8 159
Other comprehensive income for the period	4 854	-8 665	-1 283	-8 159
Total comprehensive income for the period	-29 120	-49 001	-242 815	-116 514
Total Profit/loss for the period attributable to:				
Shareholders of Anoto Group AB	-30 945	-38 492	-233 932	-104 029
Non controlling interest	-3 029	-1 844	-7 600	-4 326
Total Profit/loss for the period	-33 974	-40 336	-241 532	-108 355
Total comprehensive income for the period attributable to:				
Shareholders of Anoto Group AB	-26 383	-47 641	-236 489	-109 800
Non controlling interest	-2 737	-1 360	-6 326	-6 714
Total comprehensive income for the period	-29 120	-49 001	-242 815	-116 514
Key ratios:				
Gross margin	34.1%	39.7%	33.7%	44.4%
Operating margin	Neg	Neg	Neg	Neg
Earnings per share after dilution	-0.01	-0.04	-0.13	-0.13
Average number of shares after dilution	2 323 999 257	986 110 494	1 792 711 313	857 155 605

* Including gain of MSEK 6.3 on re-measuring existing interest in Pen Generation Inc. to fair value due to acquisition and MSEK 16,4 gain due to loss of control and liquidation of group companies.

Condensed consolidated balance sheet

TSEK	2016-12-31	2015-12-31
Intangible fixed assets	236 810	263 065
Tangible assets	8 414	5 944
Financial fixed assets	18 855	7 280
Total fixed assets	264 079	276 289
Inventories	49 478	44 589
Accounts receivable	34 825	65 443
Other current assets	35 356	51 378
Total short-term receivables	70 181	116 821
Liquid assets	5 553	11 629
Total current assets	125 212	173 039
Total assets	389 291	449 328
Equity attributable to shareholders' of Anoto Group AB	213 258	277 926
Non controlling interest	-1 689	-9 730
Total equity	211 569	268 196
Long term provisions	6 900	10 394
Long term loans	28 000	0
Other long term liabilities	131	15 399
Total long-term liabilities	35 031	25 793
Short term provisions	1 312	1 756
Short term loans	29 019	8 145
Other current liabilities	112 360	145 438
Total current liabilities	142 691	155 339
Total liabilities and shareholders' equity	389 291	449 328

Consolidated changes in shareholders' equity

TSEK	Share capital	Ongoing share issue	Other capital contributed	Reserves	Retained earnings	Shareholders equity	Non-controlling interest	Total equity
Opening balance 1 January 2015	13 967	0	640 682	-2 746	-573 661	78 242	-16 198	62 044
None controlling interest arising from business combination							2 752	2 752
Profit/loss for the year					-104 029	-104 029	-4 326	-108 355
Other comprehensive income				-5 771		-5 771	-2 388	-8 159
Total comprehensive income	0	0	0	-5 771	-104 029	-109 800	-6 714	-116 514
Convertible bonds - conversion	983		16 396			17 379		17 379
Private placement 27 march	1 593		31 800			33 392		33 392
Private placement 15 june	400		14 228			14 628		14 628
Private placement 24 july	600		38 491			39 091		39 091
Acquisition of XMS - 8 august	361		25 077			25 438	157	25 595
Private placement 10 & 30 nov	3 160		175 584			178 744		178 744
Debt Conversion etc. - non controlling interest						0	11 085	11 085
Ongoing Acquisition of XMS		12	800			812	-812	0
Closing balance 31 December 2015	21 064	12	943 057	-8 517	-677 690	277 926	-9 730	268 196
Profit/loss for the year					-233 932	-233 932	-7 600	-241 532
Other comprehensive income				-2 557	0	-2 557	1 274	-1 283
Total comprehensive income	0	0	0	-2 557	-233 932	-236 489	-6 326	-242 815
Private placement 27 march	260		10 091			10 351		10 351
Private placement 23 may	21 324		116 118			137 442		137 442
Acquisition of Pen Generation - 31 may	2 894		35 939			38 833		38 833
Ongoing Acquisition of XMS		12	854			866	-866	0
Private placement 18 oct & 9 nov	1 275		11 471			12 746		12 746
Debt Conversion					-6 724	-6 724	-6 460	-13 184
Loss of control					-21 693	-21 693	21 693	0
Closing balance 31 December 2016	46 817	24	1 117 531	-11 074	-940 039	213 259	-1 689	211 569

Consolidated Cash flow statement

TSEK	2016	2015	2016	2015
	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Profit/loss after financial items	-35 194	-41 719	-245 977	-109 959
Depreciation, amortisation	12 629	1 833	71 238	7 321
Other items not included in cash flow	-14 144	-7 749	-20 325	2 627
Items not included in cash flow	-1 515	-5 916	50 913	9 948
Cash flow from operating activities before changes in working capital	-36 709	-47 635	-195 064	-100 011
Change in operating receivables	-6 939	-28 897	45 681	-59 927
Change in inventory	15 720	-27 673	20 298	-24 036
Change in operating liabilities	-41 245	57 317	-46 994	99 192
Cash flow from operating activities	-69 173	-46 888	-176 079	-84 782
Intangible assets	20 223	-136 718	-7 259	-39 378
Tangible fixed assets	-6	-3 777	-6 351	-5 655
Acquisition of subsidiaries net of cash	0	0	0	-130 500
Disposal of minority interest	1 900	0	1 900	0
Financial assets	1 969	0	-11 299	0
Cash flow from net capital expenditures	24 086	-140 495	-23 009	-175 533
Total cash flow before financing activities	-45 087	-187 383	-199 088	-260 315
New share issue	12 746	179 556	160 539	265 855
Convertible loan	28 000	0	28 000	0
Change in financial liabilities	2 202	12 557	4 473	2 180
Cash flow from financing activities	42 948	192 113	193 012	268 035
Cash flow for the period	-2 139	4 730	-6 076	7 720
Liquid assets at the beginning of the period	7 692	6 899	11 629	3 909
Liquid assets at the end of the period	5 553	11 629	5 553	11 629

Key ratios

TSEK	2016	2015	2016	2015
	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Cash flow for the period	-2 139	4 730	-6 076	7 720
Cash flow / share after dilution (SEK) ¹	0.00	0.00	0.00	0.01
			2016	2015
			Jan-Dec	Jan-Dec
Equity/assets ratio			54,8%	61,9%
Number of shares			2 340 832 108	1 053 193 827
Shareholders' equity per share (kr)			0.09	0.26

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

Parent company, summary of income statement

TSEK	2016	2015	2016	2015
	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Net sales	4 965	1 157	13 681	7 014
Gross profit	4 965	1 157	13 681	7 014
Administrative costs	-5 108	-559	-13 184	-5 235
Operating profit	-143	598	497	1 779
Profit/loss from receivables in Group companies*	-1 000	-90 000	-151 000	-90 000
Financial items	593	9	749	-732
Profit/loss for the period	-550	-89 393	-149 754	-88 953

*2016 figures includes a write down of the shares in Anoto AB of MSEK 150 and in XMS of MSEK 1.

Parent company, balance sheet in summary

TSEK	2016-12-31	2015-12-31
Intangible fixed assets	47	77
Financial fixed assets	652 673	389 458
Total fixed assets	652 720	389 535
Other short-term receivables	586	194
Liquid assets, including current investments	303	613
Total current assets	889	807
Total assets	653 609	390 342
Equity	445 314	383 450
Other long term liabilities	153 549	1 200
Long term loans	28 000	0
Short term loans	15 138	0
Other current liabilities	11 608	5 692
Total liabilities and shareholders' equity	653 609	390 342

Note 1 – Acquisitions 2016

Pen Generation Inc.

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

Through this acquisition, Anoto enhances its hardware product portfolio and hardware development capabilities. During the period June 1 through December 31 Pen Generations contribution to Net sales was MSEK 22.9 and loss was MSEK -19.4.

From the period from January 1, 2016 through December 31, 2016 Pen Generation had Net sales of MSEK 41.3 and a net loss of MSEK -27.9.

Effects from acquisitions

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

(TSEK)

Intangible assets	394
Tangible assets	952
Other Non-current assets	276
Inventory	25 303
Current assets	19 720
Liquid assets	6
Interest bearing liabilities	-11 286
Current liability	-20 921
Other Non-current liabilities	-1 530
Net identifiable assets and liabilities	12 914
Group goodwill	35 137
Consideration	48 051

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

Goodwill

The goodwill value includes additional sales resources and an increased presence on the Asian market. No part of the goodwill is expected to be tax deductible.

Acquisition related expenses

Expenses related to the acquisition amounts to 80 TSEK and includes fees to consultants in relation to the due diligence. These expenses have been accounted as operating expenses in the Condensed statement of comprehensive income.

Consideration

(TSEK)

Fair value on previous investment	9 130
Issued shares	38 922
Total consideration	48 051

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

Note 2 - Goodwill

(TSEK)	31-dec-16	31-dec-15
Accumulated historical costs		
Opening accumulated historical costs	481 325	368 193
Acquisitions for the year	35 137	120 815
Loss of control	-26 230	0
Translation difference	6 932	-7 683
Closing accumulated historical costs	497 164	481 325
Accumulated historical costs		
Opening accumulated write downs	-298 674	-298 674
Write downs for the year	-34 095	0
Translation difference	-1 691	0
Closing accumulated write downs	-334 460	-298 674
Closing net balance	162 704	182 651

Impairment testing

When assessing the value in use of the cash generating units, a discount factor of 15 % has been used which is consistent with prior years. Five year forecasts and cash flow estimations have been prepared by Management using a 3% - 5% growth on sales and an inflationary increase of costs of 1,5%. Despite ongoing activities to improve margins, no such improvements have been discounted in the financial forecasts.

In Q4 Destiny was deconsolidated due to loss of control. The three remaining entities were tested for impairment during Q4 and no additional need of write down was identified.

In Q3 XMS was written down in full of tot 18.3 MSEK and Anoto Ltd with 15.8 MSEK. The total write-down for the year is 34.1 MSEK.

The closing balance for goodwill includes the value for Anoto Ltd of 18.8 MSEK, Pen Generation Inc 36.7 MSEK and Livescribe 107.2 MSEK.

Note 3 - Financial instruments

	Loans and accounts receivable	Available for sale financial assets	Other financial liabilities	Total book value	Total fair value
Group 2016					
Investments				0	0
Long-term receivables	1 892			1 892	1 892
Accounts receivable	34 825			34 825	34 825
Other receivables	0			0	0
Cash	5 553			5 553	5 553
Short-term investments and securities		16 962		16 962	16 962
Assets	42 270	16 962	0	59 232	59 232
Borrowings			57 019	57 019	57 019
Accounts payable			64 621	64 621	64 621
Other liabilities			9 769	9 769	9 769
Liabilities	0	0	131 409	131 409	131 409

	Loans and accounts receivable	Available for sale financial assets	Other financial liabilities	Total book value	Total fair value
Group 2015					
Investments				5 104	5 104
Long-term receivables	2 176			2 176	2 176
Accounts receivable	65 443			65 443	65 443
Other receivables				0	0
Cash	11 628			11 628	11 628
Short-term investments and securities					
Assets	79 247	0	0	84 351	84 351
Borrowings			0	0	0
Accounts payable			83 471	83 471	83 471
Other liabilities			32 001	32 001	32 001
Liabilities	0	0	115 472	115 472	115 472

Disclosures on fair value classification

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

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

Level 3: According to indata not observable on the market

Estimation of fair value

Accounts receivable and accounts payable

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

Financial assets that can be sold

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

Borrowings

Borrowings are measured at amortized cost.

Alternative performance measures

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

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

GROSS MARGIN

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

OPERATING PROFIT/LOSS

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

OPERATING MARGIN

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

CASH FLOW PER SHARE FOR THE YEAR

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

EQUITY /ASSETS RATIO

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

EBITDA

Operating profit/loss before depreciation and amortisation.

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

	2016	2015	2016	2015
TSEK	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Operating profit/loss	-32 581	-41 223	-238 660	-106 249
Depreciation and amortisation	12 629	1 833	71 238	7 321
EBITDA	-19 952	-39 390	-167 422	-98 928