

Preliminary report 2001

- Sales increased by 95 % to SEK 156 (80) million
- Pre-tax loss was SEK -440 (-169) million
- Liquid assets including current investments were SEK 368 (421) million at the end of the period
- A new share issue in the fourth quarter directed mainly at Swedish and international investors provided SEK 450 million before issue expenses
- The subsidiary *Anoto* was made wholly-owned through acquisition of Ericssons' minority share which was paid for in C Technologies stock
- C-Pens sales more than doubled compared with last year
- The subsidiary WeSpot secured future commercial contracts and broadened the ownership further through a directed new share issue in the fourth quarter

Operations

C Technologies is an innovative high tech company within the spheres of digital camera technology, image processing and digital pens. The Company is today best known for its subsidiary *Anoto*, whose operations were announced in April 2000. *Anoto* has in a short time created a global *de facto* standard uniting pen and paper with the digital world.

The technology developed by *Anoto* enables, among other things, handwritten e-mails, fax messages, SMS and electronic orders to be transmitted directly from paper by use of a digital pen. The initial products with *Anoto* functionality will be available on the market during the first half of 2002.

Anoto in 2001 signed a significant number of collaboration agreements of strategic importance for the establishment of the global *de facto* standard for paper-based digital communication and for the Company's long-term commercial growth. The list of partners was in the fourth quarter boosted by Decuma, Sigma, Groupe Hamelin and Readsoft.

In addition to the announced partners *Anoto* has initiated collaboration with additional companies that, on request by the respective partners, for the time being will remain confidential for reasons of secrecy and competition.

Anoto is presently carrying out commercial trials with selected European Vodafone subscriber groups in cooperation with Sony Ericsson to be followed by a commercial product launch in the beginning of April 2002.

Anoto during the year established a wholly-owned subsidiary in Hong Kong, *Anoto Ltd*, in addition to the existing subsidiaries in the US and Japan.

The parent company's products, of which the scanning pen C-Pen is best known, are based on the integration of digital camera technology with advanced image processing in products with low energy consumption and high speed processing. Since 1998 *Anoto* has established its technology platform in the global market through license and OEM partnerships and sales of proprietary products.

In 2001 the marketing strategy was changed and implemented. The parent company is now focusing on commercial collaboration with a limited number of partners, implying fewer but more powerful market channels and significant risk reduction. Part of this process consequently involved closing down operations at the American subsidiary C Technologies US.

The tangible outcome of the new marketing strategy has resulted in the largest order agreement to date from the company's Korean partner Fusion Road. It is estimated to correspond to a market value of approx. SEK 60 million in the first half of 2002 and involves delivery of customised C-Pens for the Korean market. During the year a significant order was also secured with C Channel regarding customised C-Pens for the Swiss banking market.

By cooperating with world leading laptop producer Acer the parent company in 2001 approached the highly prioritised PC market. The collaboration regards the launch of the new product "BzMate" (presented as "Magic Stick" during the concept phase) as a notebook computer accessory. BzMate is a further development of the scanning pen C-Pen that is equipped with a digital camera and Bluetooth functionality. Acer's high-end PC notebooks will include BzMate, which works as a wireless scanning device that captures text and photos, and an optical wireless mouse.

The subsidiary WeSpot develops applications based on what is called intelligent camera technology, advanced digital image processing and the company's proprietary ASIC-chip. WeSpot has during the year signed its two initial commercial contracts with American Overhead Door Corporation (part of Japanese Sanwa Group) regarding a passage control application, and in the latter part of the fourth quarter, with Swedish Attendo Senior Care AB regarding a surveillance camera application to be used in geriatric care. In addition a collaboration agreement was signed with Nasdaq-listed Visionics with regard to a surveillance system intended for identification of objects.

Invoicing and results

Invoicing for 2001 amounted to SEK 156 (80) million, which is an increase by 95 %. 69 (67) % of the turnover is attributable to C-Pen sales, whereas the remainder refers to OEM and license sales, contracted consultant services and components sales. Invoiced C-Pen sales in 2001 increased by 100 % in comparison with last year.

Invoicing in the fourth quarter was SEK 44 (25) million.

The subsidiary *Anoto* generated revenues for the first time in the fourth quarter, amounting to SEK 4 million, regarding primarily server equipment and the development tool Application Development Kit.

Consolidated operating loss for 2001 was SEK -596 (-221) million, of which SEK -179 (-107) million in the fourth quarter. The fourth quarter was charged with SEK 19 million relating to far-reaching measures to reduce employees and costs, reflecting also the peak of concentrated development work in the subsidiary *Anoto*, which resulted in the completion of the proprietary server platform and the first generation of the digital pen and digital paper with *Anoto* functionality as scheduled. The extent of this

development work and the costs relating to this, as well as the accelerated marketing efforts, are directly in proportion to the great interest that *Anoto* has received, which has resulted in a continually increasing number of strategic partnerships with market leaders. The company's Stockholm operations have in connection with the move to new offices in the fourth quarter been debited double rental charges. The company's increased costs in the fourth quarter are to a large extent explained by the above.

Pre-tax loss for the period amounted to SEK -440 (-169) million, of which SEK -159 (-93) million in the fourth quarter, including results from shares in affiliated companies amounting to SEK 68 (28) million, of which SEK 9 (4) million in the fourth quarter. These income statement items consistently refer to the Group's income connected with directed new shares issues at minority shareholders in subsidiaries after the minority share has been taken into consideration.

Financing, liquidity and cash flow

In November two mutually conditional new share issues were implemented in the parent company.

The one refers to a non-cash issue directed at Ericsson whereby Ericsson's shares in Anoto AB were received as payment. The issue was based on a valuation of *Anoto* corresponding to approx. 80 % of C Technologies AB's total market value at the time of acquisition. The share issue comprised a maximum of 13,825,339 new shares in C Technologies AB. This transaction made *Anoto* a wholly owned subsidiary. The non-cash issue resulted in a consolidated goodwill item amounting to SEK 381 million, with a depreciation over 10 years.

The second issue refers to a directed new share issue at primarily Swedish and international investors, providing SEK 450 million before issue expenses. This issue was implemented at SEK 26 per share, comprising a total of 17,307,692 new shares.

In the fourth quarter the subsidiary WeSpot was provided with a total of SEK 19 million through a directed new share issues and by utilising warrants. WeSpot has in addition issued a convertible debenture providing SEK 5 million. The parent company's share in WeSpot amounts to just over 54 % at the end of the year.

Shareholder's equity on December 31, 2000 was SEK 799 (438) million, corresponding to 83 (82 %) assets ratio.

Cash flow generated by current operations amounts to SEK -138 (37) million in the fourth quarter and SEK -461 (-169) million for the full year. Cash flow for the year is SEK 226 (-89) and SEK -53 (391) million respectively for the corresponding periods, primarily affected by the minority acquisition in *Anoto* generating goodwill and the directed new share issue in the fourth quarter.

Consolidated liquid assets including current investments on December 31, 2001 amounted to SEK 368 (421) million. These assets are estimated to cover the total capital requirement until operations in *Anoto* and C Technologies are generating positive cash flow. In respect of WeSpot, activities to provide funding in 2002 are being planned.

Investments

Net investments in 2001 in respect of capitalised development and patent expenditure and tangible fixed assets were SEK 84 (35) million, of which SEK 35 (13) million in the fourth quarter. In addition

goodwill arose in connection with the parent company's acquisition of the current minority share in the subsidiary *Anoto* amounting to SEK 381 million.

Parent Company

Parent company sales during 2001 were SEK 131 (85) million, of which SEK 36 (24) million refer to the fourth quarter. Consolidated pre-tax operating loss was SEK -168 (-96) million, of which SEK -52 (-45) million represents the fourth quarter. Consolidated liquid assets including current investments were SEK 277 at year-end compared with SEK 329 million at year-end 2000.

New structure

The previous interim report announced review of the legal and operative structure aiming at creating consolidated synergies and solid integration in the parent company. This process was decided upon and implemented as at December 31, 2001, implying in brief that operative operations in the parent company were transferred to the subsidiary C Technologies Intressenter AB on the said date. As of January 1, 2002 the parent company C Technologies AB comprises a limited number of consolidated functions only, whereas all operations are carried out in subsidiaries.

As previously announced the Board of Directors will appoint Christer Fåhraeus as new CEO in connection with the Annual General Meeting on April 24, 2002, and at that time also propose that the name of the parent company be changed to *Anoto*. Proposals to change the names of other consolidated companies will be notified well in advance of the Annual General Meeting.

Accounting principles

The Company has in 2001 applied the same accounting principles that were used in the Annual Report 2000 with the following exception:

Effective as of January 1, 2001 the Company has adopted the Swedish Financial Accounting Standards Council's recommendation 15 (RR15), which deals with the accounting of intangible assets. In short RR15 prescribes that costs in respect of research are carried as a continuous expense, whereas costs in respect of development are set up as an intangible asset. Immaterial assets are subject to depreciation plans over five years starting in connection with market launch of the respective product.

The Company observes the Swedish Financial Accounting Standards Council's recommendations and statements.

Share Data

C Technologies' share is listed on OM Stockholm Exchange. At year-end 2001 there was a total of 76.526.901 shares and 2.698.650 outstanding warrants. Exercised in full these warrants would be equivalent to a dilution of existing shares by 3,5 %.

Ownership Structure

The number of shareholders in C Technologies on December 31, 2001 was just over 15.400. Foreign shareholders comprised 23 %.

<u>Owner</u>	<u>No. of shares</u>	<u>% of capital & votes</u>
Ericsson	18.253.549	24 %
State Street Bank & Trust Co., USA	9.171.368	12 %
Christer Fåhraeus	6.942.870	9 %
4:e AP-fonden	3.653.846	5 %
Robur Fonder	3.469.408	5 %
Livförsäkringsaktiebolaget Skandia	2.684.338	4 %
Metallfinans / Sv. Metallind.arbetarförbundet	1.816.315	2 %
Other	30.535.207	39 %
Total	76.526.901	100 %

Significant events in 2002

At the Extraordinary General Meeting on January 16, 2002 the following, in accordance with proposals by the Board, was resolved:

- To issue a maximum of 5.170.714 debentures with detachable warrants. The warrants shall be utilised in connection with an offer directed at holders of stock options in the subsidiary *Anoto*, entitling the holders, if accepted, to exchange these shares for shares in C Technologies AB, in connection with subscription for shares in *Anoto*, in accordance with the same exchange ratio that was applied when the parent company acquired Ericsson's minority share in *Anoto* at the end of 2001, implying that 8,1915 shares in *Anoto* will correspond to one share in C Technologies AB.
- Authorisation to resolve to issue a maximum of 4.800.000 debentures with detachable warrants, each conferring the holder with the right to subscribe for one new share in C Technologies AB. The warrants shall be utilised for an optional salary relinquishment program directed at employees in the parent company and wholly-owned subsidiaries, whereby a salary cut for a maximum period of 18 months will entitle the employee to acquire said warrants at market price. Warrant terms of two or three years are applicable.

The subsidiary *Anoto* has signed a strategic collaboration agreement with Microsoft, implying, among other things, *Anoto's* adoption and incorporation of the Microsoft .NET platform into its technologies, offering developers the opportunity to create a new generation of pen-based digital Web services. The agreement also comprises integration with Windows and Microsoft Office.

The agreement with Microsoft specifically implies that:

- Microsoft's developers will be able to develop new services by use of *Anoto's* ADK for .NET using Visual Studio.NET.
- The pen is integrated and will automatically be installed in Windows XP and future operating systems.
- Information generated by the pen can be used and enhanced directly by Microsoft Office.
- *Anoto's* profit sharing business model for telecom can also be applied to the PC industry.

Outlook

Anoto

Following the heavy focus on development in 2001, completing and delivering server systems and the first generation of the digital pen and the digital paper as scheduled, *Anoto* will in 2002 gradually enter the commercial phase. Income in 2002 will be generated mainly by the development tool for new services (ADK), server software and new pen licenses. The profit sharing will also generate income, but it is estimated that this source of income will represent a minor part in 2002 and experience increasing growth over the years, becoming increasingly predominant. One of the objectives this year is to establish further agreements with leading pen partners in the telecom and PC industries and have an estimated five to ten operators with pen-based services operating before the end of the year. In parallel the effects of a significant cost savings program, implemented in the second half of 2001, aimed at achieving monthly costs of approx. SEK 25 million as from the second quarter 2002, will deliver results. Cost savings were effectuated with development resources intact.

The forecast outlining positive cash flow in the first half of 2003 remains.

C Technologies

In the first half of the year two new products will be introduced: C-Pen 10 and BzMate. Both are estimated to generate both volumes and better margins than previous product generations and also contribute to the aim of doubling volumes in 2002. These launches, in combination with the implementation of the cost effective partnership strategy, have to date proved positive, resulting in the forecast for positive cash flow in the first half of 2002 to be maintained. Continued product and sales cooperation with Sony Ericsson regarding camera modules for mobile phones is also expected.

The significant adjustment of the workforce effectuated in the fourth quarter 2001 as well as synergies resulting from the new corporate structure imply that the gradual reduction of costs to approx. SEK 6 million per month will be met in the first quarter, which is faster than previously announced.

The Group

The Group is expected to achieve positive cash flow in the first half of 2003. Concurrently with the previously outlined gradual cost reductions in *Anoto* and C Technologies, and in combination with the expected sales growth, cash flow is estimated to improve continuously during the quarters.

Lund February 15, 2002

Mats Lindoff
President

This report has not been subject to review by the Company Auditors.

The Annual Report 2001 will be distributed to shareholder around the beginning of April.

The Annual General Meeting of shareholders will be held on April 24, 2002 in Lund, the same days as Interim Report 1 is published.

Interim Report 2 will be published on August 22 and Interim Report 3 on October 30.

Summarised Profit & Loss Account**The Group**

(Amounts in SEK thousands)

	Quarter 4		Year	
	Oct - Dec	Oct - Dec ¹	Jan - Dec	Jan - Dec ¹
	2001	2000	2001	2000
Net sales	43 516	24 819	156 204	80 014
Costs of goods sold	<u>(29 677)</u>	<u>(37 527)</u>	<u>(141 506)</u>	<u>(84 531)</u>
Gross profit	13 839	(12 708)	14 698	(4 517)
Sales, administration & R&D	(181 502)	(91 747)	(587 537)	(210 486)
Depreciation of intangible assets	(7 484)	(525)	(10 809)	(1 757)
Depreciation of tangible assets	<u>(4 151)</u>	<u>(1 747)</u>	<u>(12 735)</u>	<u>(4 233)</u>
Operating income (loss)	(179 298)	(106 727)	(596 383)	(220 993)
Income from participation in Group Companies ²	8 816	4 450	68 210	27 638
Other financial items	493	1 657	7 938	10 935
Minority share	<u>11 311</u>	<u>7 281</u>	<u>80 042</u>	<u>13 359</u>
Income (loss) before taxes	(158 678)	(93 339)	(440 193)	(169 061)
Taxes	<u>(301)</u>	<u>683</u>	<u>(488)</u>	<u>(47)</u>
Income (loss) after taxes	(158 979)	(92 656)	(440 681)	(169 108)
Key ratios:				
Gross margin	31,8%	Neg	9,4%	Neg
Operating margin	Neg	Neg	Neg	Neg
Earnings per share	(2,61)	(2,04)	(8,54)	(4,36)
Earnings per share after dilution ⁵	(2,44)	(1,93)	(8,48)	(3,98)

Balance Sheet (summarised)

(Amounts in SEK thousands)

The Group

	<u>Dec 31,2001</u>	<u>Dec 31,2000 ¹</u>
Goodwill	374 946	837
Other fixed assets ³	107 933	40 904
Other current assets	111 388	73 070
Liquid assets incl. current investments	<u>368 313</u>	<u>421 206</u>
Total assets	<u>962 580</u>	<u>536 017</u>
Shareholders' equity ³	798 963	438 489
Minority interests	2 568	12 139
Interest-bearing liabilities	417	2 084
Other liabilities	<u>160 632</u>	<u>83 305</u>
Total shareholder's equity and liabilities	<u>962 580</u>	<u>536 017</u>

Changes in Equity

The Group **The Group**
Jan-Dec 2001 **Jan-Dec 2000**

Opening balance according to the adopted		
Balance Sheet for the previous year	503 055	43 204
Effect of change of accounting principle ³	(68 545)	(28 290)
Minority share	<u>3 979</u>	<u>86</u>
Opening balance adjusted according to the new		
Accounting Principles	438 489	15 000
New share issue	450 000	587 500
New share issue	347 016	-
Costs of new share issue	(12 431)	(27 324)
Redemption of warrants	975	39 878
Subordinated debentures with subscribed options	1 732	7 223
Decision by tax authority taken into consideration	(206)	-
Minority share of submitted stockholders' share	-	(253)
Minority share of directed new share issue ⁶	-	(13 911)
Minority share of submitted stockholder's share in subsidiaries	(573)	(351)
Minority share of result for the year not recorded in the Profit and Loss statement ⁴	16 928	(67)
Translation difference	(2 286)	(98)
Loss for the year	<u>(440 681)</u>	<u>(169 108)</u>
Closing balance	798 963	438 489

Cash Flow Analysis**The Group**

(Amounts in SEK thousand)	Oct - Dec 2001	Oct - Dec ¹ 2000	Jan - Dec 2001	Jan - Dec ¹ 2000
Operating income before depreciation	(167 663)	(58 249)	(572 839)	(168 797)
Minority share of profit/loss	11 311	3 789	80 042	9 867
Change in warranty provision	(1 858)	703	(60)	2 014
Taxes paid	(301)	683	(488)	(47)
Change in operating funds	20 128	15 935	32 775	(11 800)
Operating cash flow before investments	(138 383)	(37 139)	(460 570)	(168 763)
Net investments	(415 507)	(59 627)	(464 680)	(80 732)
Operating cash flow after investments	(553 890)	(96 766)	(925 250)	(249 495)
Result from participation in Group Companies	8 816	4 450	68 210	27 638
Other financial items	493	1 657	7 938	10 935
Financing	770 938	1 220	796 209	601 507
Cash flow after financing	226 357	(89 439)	(52 893)	390 585

Key Ratios**The Group**

	Oct - Dec 2001	Oct - Dec ¹ 2000	Jan - Dec 2001	Jan - Dec ¹ 2000
Cash flow (kSEK)	226 357	(89 439)	(52 893)	390 585
Cash flow / share (SEK) ⁵	3,55	(1,87)	(1,02)	9,19

	Dec 31, 2001	Dec 31, 2000 ¹
Equity/Asset ratio	83,0%	81,8%
Number of employees	302	180
Number of shares ⁵	79 225 551	47 946 020
Equity per share (SEK) ⁵	10,08	9,15

Notes

¹ Previous periods have been translated with regard to the performed change of accounting principles as at Jan 2001 (see note 3 below). The change of accounting principles regarding R&D costs has effected the operating profit/loss for quarter October 1, 2000 – Dec 31, 2000 negatively by -18 463. For the full year Jan 1, 2000 – Dec 31, 2000 the change of accounting principle has effected the operating profit/loss negatively by -40 256.

² During the year the Group made a profit through a directed new share issue at Ericsson Mobile Communications AB in the subsidiary Anoto AB. This profit amounts to 49 377 after the minority share has been taken into consideration. During the year the Group made a similar profit through a directed new share issues in the subsidiary WeSpot AB. This profit amounts to 18 833 after the minority share has been taken into consideration.

³ As of Jan 1, 2001 the Group has changed accounting principle in respect of R&D and patent costs. Effective as of Jan 1, 2001 the Swedish Financial Accounting Standards Council RR 15 (intangible assets) is applied. The principle according to RR 15 briefly implies that costs for research are carried as a continuous expense. Costs for development are set up as an Intangible asset. C Technologies Group starts a depreciation plan based on an economic life of five years as from market Introduction of the respective product. With regard to transitional regulations a lump sum write-down of historical capitalised R&D costs through Dec 31, 2000 in the amount of 68 545 has been effectuated. The accumulated effect (64 566 after the minority holding has been taken into account) of the change of accounting principle is recorded as an adjustment entry in the equity opening balance as of Jan 1, 2001 in accordance with the Swedish Financial Accounting Standards Council's RR 5 Recommendation (change of accounting principle).

⁴ The minority share in Anoto AB increased from 15% to 30% at the end of March 2001. In order to give a more true and fair view of the profit and loss statement, 15% has in the profit and loss statement been used when eliminating the minority share of the result for the period Jan 1, 2001 – March 31, 2001. The effect of the remaining 15% becomes a positive item of the Group's equity. Effective Nov 1, 2002 Anoto AB is fully consolidated. Similarly during the year the increasing minority share in the subsidiary WeSpot has been taken into consideration.

⁵ Incl. outstanding warrants (Dec 31, 01: 2 698 650 ; Dec 31, 00: 2 602 150).

⁶ Refers to a new share issue in group company Anoto AB directed at the majority shareholder C Technologies AB.