Anoto Group
January-June 2005 Interim Report

- Sales totalled SEK 29 million (42) in the second quarter, while sales of the Anoto business unit were up by 21% to SEK 24 million (20). January-June sales were SEK 58 million (86), of which the Anoto business unit accounted for SEK 47 million (51).

- The Group's second quarter gross margin rose to 68% (48%), or SEK 20 million (20). The Group's gross margin for January-June increased to 66% (60%), or SEK 39 million (52).

- Cash flow amounted to SEK 36 million (–20) for the second quarter and SEK 35 million (–39) for January-June. For the first quarter in Anoto's history, cash flow – excluding financing activities – was positive. The Group is well on its way to meeting its target of positive cash flow for full-year 2005.

- The loss before depreciation and amortisation came to SEK –9 million (–17) for the second quarter and SEK –17 million (–25) for January-June.

- The loss after taxes was SEK –20 million (–23) for the second quarter and SEK –35 million (–38) for January-June.

- Earnings per share totalled SEK –0.17 (–0.20) for the second quarter and SEK –0.30 (–0.32) for January-June.

Operations

- During the second quarter, Anoto obtained an order worth approximately SEK 32 million (EUR 3.5 million) from a large partner. Anoto will receive approximately SEK 32 million (EUR 3.5 million) more once the pilot study and talks have concluded. The order includes rights to develop and market interactive solutions.

- Anoto obtained an order worth approximately SEK 4.5 million (EUR 0.5 million) from its Japanese partner Dai Nippon Printing. The agreement calls for joint expansion of Dai Nippon Printing's solution based on Anoto functionality. The order covers payments for Anoto products, development (NRE) and pattern licenses.

- Planned for an autumn launch, the FLY Pentop Computer project – an interactive pen that targets children and teens – of Anoto's partner LeapFrog is proceeding very well.

- A total of 1,646,000 shares were subscribed for as part of the Anoto Group's 2003/2005 employee stock option program, class A. The subscriptions increased liquid assets and shareholders' equity by SEK 18.8 million.

- Norden Technology, Anoto's new principal shareholder, plans to play an active role in the company's ongoing development.

Remarks by CEO Anders Tormod

Together with our partners, we saw a number of key developments during the second quarter that will strengthen Anoto both short-term and long-term.

Excellent Potential for Interactive Digital Pens

We announced a new business relationship based on Anoto's interactive products. The initial license payments were EUR 3.5 million, to be followed by an additional EUR 3.5 million once the pilot study and talks have concluded. The order is clear evidence of the large market potential for these solutions. Although unable to provide further details about the customer or products at this time, we hope to do so later on.

Our partnership with LeapFrog has evolved very well, and we are looking forward to the launch of FLY Pentop Computer this autumn. The market has enthusiastically responded to the launch campaign and shown great interest in the product.

The above two projects are the pillars of our focus on interactive products based on Anoto technology. The addition of feedback by means of sound directly from the digital pen opens up brand new user areas, including instruction and learning. In the process, Anoto and its partners will gain access to new markets. We believe that the potential is very large, and we will devote both R&D and marketing resources to this area.

Increased Interest in Forms Solutions

Systems solutions based on Anoto functionality are attracting more attention. The number of commercial users is rising steadily. We expect the rate of growth to accelerate as more customers make the transition from pilot project to commercial use. Installations in many different sectors at both small and very large businesses form a solid reference base that facilitates the decisions of new customers.

Anoto's partners got together in Copenhagen in early June for the company's annual Functionality Conference. More than 120 participants represented some 50 different companies. All of the presentations emphasised the importance of end-customers and increased use.

Strong Cash Flow

The phase-out of certain C-Technologies products affected Group earnings in relation to the second quarter of 2004. Meanwhile, the Anoto business unit grew larger. Thus, sales were down in the second quarter of 2005 but the gross margin was greater. That is fully in line with the trends of recent quarters.

From a financial point of view, second quarter cash flow is the single most significant figure. The combination of new orders, subscriptions for an employee stock option program and advance payments ensured strong operating and total cash flow. We are sticking to our target of positive cash flow for full-year 2005, the January-June figures suggesting that we will meet it with room to spare.

Focus on Growth

We are currently in a commercial phase that zeroes in on increasing our market penetration and user numbers. As part of that effort, we will recruit for and strengthen our sales and marketing organisation in order to more effectively support our partners and customers.

Moreover, we will invest in products and platforms for interactive solutions. The orders that we have won suggest the existence of great potential. We are going to make sure that our solutions are attractive and that our digital pens are small, energy-efficient and inexpensive so that they can appeal to a broad-based mass market over time.

Finally, I would like to express my gratitude to our partners, customers and employees for all the creativity and hard work that made the second quarter's achievements possible.

Anoto Group AB (publ), corporate identification no. 556532-3929
Scheelevägen 19 C
SE-223 70 Lund
Phone: +46 46 540 12 00
www.anoto.com

Anoto Group AB is a Swedish high-tech company that offers unique solutions for the transmission of handwritten text from paper to digital media, as well as scanning of printed text. All of its products and services are based on digital camera technology and image processing in real time.

Operations

Anoto Business Unit

Anoto is continuing to place additional emphasis on providing its partners with technology and building blocks. These partners market products and solutions with Anoto functionality and technology, often after integrating them into their existing or proprietary products and systems.

For the third year, many of Anoto's partners attended the company's Functionality Conference, this time in Copenhagen. Sponsored by Anoto's strategic partners Dai Nippon Printing, Hitachi, Hewlett-Packard, Logitech, Nokia, Maxell and Vision Objects, the conference introduced several new commercial products and solutions with Anoto functionality to the company's partner network, prospective customers and other interested parties.

In October last year a Federal District Court in the United States declared that Anoto's technology is not infringing a U.S. patent in the field of digital pens and paper. Additionally the court declared that the U.S. patent is invalid. The patent proprietor filed an appeal against the decision. In July this year the appeal was, however, dismissed by the U.S. Court of Appeals for the Federal Circuit. Thereby the decision by the Federal District Court stands. It can now be challenged only in the Supreme Court.

A customer has demanded compensation from Anoto for certain court costs and possible damages that may ensue from ongoing litigation in the United States in which Anoto products are involved. The products are no longer being manufactured or sold. The litigation does not involve Anoto's core operations of digital pens and paper.

Systems Solutions for Forms Processing
The Systems Solutions Application area focuses on systems, services and products that target businesses, primarily those in the field of forms processing. Among Anoto's partners are system integrators, mobile operators, software developers, IT consulting firms and IT solutions providers, all of which offer customised solutions with Anoto functionality to their corporate customers. Anoto's strategy is to market and supply its products and services through these partners. Anoto obtains revenue based on the use of digital pens per unit of time.

Anoto estimates that between 250 and 300 pilot projects, involving 10-100 users, are under way. So far, some 15,000 digital pens have been fully commercialised in accordance with the business model of charging a service fee based on the use of digital pens per unit of time. Anoto knows of an additional 15,000 digital pens that are to be commercialised. But since the company does not have full knowledge of the number and size of the orders received by its customers and partners, such figures are approximate. Systems solutions continue to progress favourably, though growth remains slower than anticipated. In order to stimulate growth, Anoto will focus on sales and marketing in this segment.

Europe

Teleca, one of Anoto's partners, has developed a forms solution for the Swedish technology company and contractor ES ElektroSandberg, which has a time reporting system with Anoto functionality. Five hundred assemblers are currently using the systems solution, while Teleca is helping ES ElektroSandberg further improve its forms processing by designing new applications.

XMS Penvision's latest platform contains new mobile software that expands the potential of pen technology. An application recently designed on XMS Penvision's platform won the Golden Pen Award 2005 during the Anoto Functionality Conference on the basis of its combination of pen technology and the opportunities offered by new camera phones.

The partnership that Volvo IT has launched with XMS Penvision led to a similar prototype, now being tested by Volvo Rents at selected locations in Europe and the United States. Nokia is supplying digital pens and camera phones.

Magicomm, another of Anoto's partners, is continuing to implement a forms solution at GAB Robins, one of the world's largest loss adjusters. Magicomm also concluded an agreement with Norwegian mobile phone operator Combitel to develop and implement a forms solution for use when signing new subscriptions in Norway. The British Government's Home Office has commissioned Magicomm to develop a whole range of fully integrated digital pen and paper applications for Police National Standard Forms and Force Specific applications. Magicomm is working closely with the Police and The Home Office's Police Standards Unit, results from these extensive pilots will be available in due course.

Destiny Wireless continues to see strong business growth and has implemented better than 175 forms solutions in Britain, Australia and South Africa.

Japan

A very big pilot project, run chiefly by Dai Nippon Printing and Hitachi – both of which are among Anoto's partners – is under way in Japan.

During the second quarter, Anoto signed a new agreement with Dai Nippon Printing worth SEK 4.5 million (EUR 0.5 million), thereby strengthening its relationship with one of its key partners. The agreement calls for joint expansion of Dai Nippon Printing's solution based on Anoto functionality. The order covers payments for Anoto products, development (NRE) and pattern licenses.

Anoto also signed an agreement during the quarter with Toshiba Solutions, which markets customised forms solutions with Anoto functionality that streamline forms processing in both the public and private sectors. The Toshiba Digital Pen Entry Solution includes digital pens and paper with Anoto functionality – along with Toshiba Solutions' proprietary character recognition software – which permits the direct transmission of handwritten text from paper to computer, where it can then be processed without the need for manual input. The solution is initially being marketed exclusively in Japan.

The first stage of the instructional application that Dai Nippon Printing has implemented at Shuei, another Japanese educational company, involves 500 digital pens.

Implementation at educational company WAO of a previously announced application that makes it easier for teachers to correct exams is proceeding according to plan.

United States

Mi-Co, a U.S. technology company that partners with Anoto and specialises in data input solutions, arranged an Anoto conference in North Carolina for Anoto's U.S. partners and a number of customers, including the IRS, the National Cancer Institute, the Department of Agriculture, Spectrasite and Wilson County Home Health. At the conference, Mi-Co launched Version 5 of its Mi-Forms System software and announced its partnership with Cardinal Brand, the biggest U.S. producer of pre-printed forms.

Mi-Co also began working with Edformation Inc., a leading educational company that monitors the development and learning of students in the United States. The two companies will design a forms solution system for Edformation's No Child Left Behind Testing project.

Standard Register launched an updated version of its ExpeData application and made it available to partners worldwide.

China

Anoto's partnership with Usyston in China is unfolding in line with earlier announcements. The company now has about 75 employees at offices in Beijing, Jinan and Shenzhen. Usyston is working with several Chinese software companies on a number of promising pilot projects.

Consumer Products

The Consumer Products application area focuses on developing and marketing products that make it easier for private individuals to communicate and be efficient in their daily activities. Offering such products through its partners, Anoto targets the end-customer. Digital pens, as well as PC and mobile phone applications, are all included. The products and solutions also serve as the building blocks of customised solutions.

Logitech, a partner of Anoto, is continuing to market both the USB and Bluetooth versions of its Logitech io2 Digital Pen in the United States, Germany and Britain, as well as at www.logitech.com. While on the rise, sales volumes remain relatively modest.

In cooperation with various paper companies, Nokia is still marketing product packages of its Nokia Digital Pen SU-1B, for which personalised applications such as notes and mobile message services are important. Distributors for Nokia and its partners in the paper industry sell the products in many markets. Mobile enterprise solutions continue to attract a great deal of attention. Nokia is seeing more pilot projects, some of which are with global companies, in a large number of markets.

Partnerships with Dai Nippon Printing and Hitachi enable the marketing of Hitachi's Maxell Digital Pen for business use and enterprise solutions in both Japan and China. A consumer solution has also been launched.

A number of product packages with digital pens and/or notes concepts are now on the market, mostly in Europe.

Anoto Interactive Learning

The Anoto Interactive Learning application area uses Anoto technology for products based on a combination of digital material (books, cards and the like) and digital pens that permit immediate feedback by means of speech, sound, etc. The concept supports learning products that are simple, intuitive and entertaining for the user.

During the second quarter, Anoto obtained an order worth approximately SEK 32 million (EUR 3.5 million) from a large partner. Anoto will receive approximately SEK 32 million (EUR 3.5 million) more once the pilot study and talks have concluded, most likely in late 2005. The order includes rights to develop and market interactive solutions. The initial SEK 64 million (EUR 7 million) represents a one-time payment. Anoto will receive royalties on subsequent sales.

Anoto previously announced projects that use its core technology for applications other than digital pens and paper with Anoto functionality. The company is pursuing one such project with Leapfrog Enterprises Inc., a U.S. Partner that presented its FLY Pentop Computer early this year.

A brand new kind of product, the computer makes it more fun for children and teens to learn reading, writing, arithmetic and other subjects. Based on Anoto technology, the product launch includes a number of different applications and books, all of which encourage learning and creativity. As a world-leading manufacturer of innovative, technology-based teaching media and toys, LeapFrog has designed many products that promote child learning and development. The company currently sells high volumes of its products in more than 25 countries.

The project is right on schedule and showing highly satisfactory progress. Anoto has identified major new business opportunities in this segment and is engaged in discussions about additional projects.

Anoto Technology
Anoto Technology develops and markets Anoto's core technology. The segment supplies or licenses Anoto modules, components and function blocks for integration into the customer's products or components, such as other pen-like units, mobile phones and mobile phone accessories or components.

Anoto has announced a number of ongoing projects in this segment. Although the names of customers have not been made public, products and solutions are being developed or manufactured as planned.

Anoto continues to anticipate excellent business opportunities and ongoing expansion in this segment.

C Technologies Business Unit

The products of the C Technologies business unit, of which the C-Pen scanning pen is the best known, are based on the integration of digital camera technology with leading-edge image processing in products characterised by low energy consumption and high performance. Ever since late 1998, C Technologies has been establishing its technology platform in the global market by means of license and OEM partnerships, along with sales of proprietary products.

Second quarter sales chiefly involved the C-Pen 20. The quarter saw initial deliveries of the C-Pen 20 to Europe and the United States, as well as of the MyPen Pro to C Channel in Switzerland. Volumes are as planned, stable but relatively modest.

The C-Pen 10 stock was sold out, and final deliveries are expected in the third quarter. The first deliveries of a C-Pen 20 model for China, Japan and Korea are slated for upcoming quarters. Thinking Group Ltd will initially launch the product in Chinese-speaking countries.

Öresundskraft AB confirmed during the second quarter that it is pursuing its optical scanning initiative. During upcoming quarters, Öresundskraft is planning an end-to-end installation with MeterCam integrated into its Metrima metering database system in order to fully verify the concept. Testing and assessment systems of MeterCam will be available for ordering during the third quarter. Talks are under way with prospective partners and customers in both Sweden and abroad concerning the potential of the MeterCam concept and optical scanning.

Anoto Group AB, January-June 2005 in Figures

Sales and Earnings for January-June

January-June sales totalled SEK 58 million (86), of which Anoto accounted for SEK 47 million (51) and C Technologies for SEK 11 million (35).

The lower sales were due to a drop to SEK 7 million (22) in license revenue attributable to the LeapFrog project and a decline to SEK 0 million (23) in C Technologies camera sales.

The gross margin was 66% (60%), or SEK 39 million (52). The lower gross margin also reflected high LeapFrog license revenue and C Technologies camera sales during the first half of 2004.

The loss before depreciation and amortisation was SEK –17 million (–25).

January-June operating earnings of SEK –30 million (–39) were broken down between SEK –33 million (–46) for the Anoto business unit and SEK 4 million (7) for the C Technologies business unit.

Sales, administrative and research costs amounted to SEK – 68 million (–91). Including capitalised development costs and allocation to costs of goods and services sold and excluding depreciation and amortisation, sales, administrative and research costs were SEK –65 million (–83).

The pre-tax loss for January-June was SEK – 35 million (–38).

SEK –13 million (–14) in depreciation of intangible and tangible fixed assets was charged to January-June earnings.

Cash Flow (January-June)

Operating cash flow totalled SEK 29 million (–37) for January-June. The improvement stemmed primarily from better working capital as the result of large royalty prepayments and the new interactive media order. Payments of previous provisions had a SEK –12 million (–20) impact on cash flow.

SEK –7 million (–3) in net investments was charged to January-June cash flow of SEK 35 million (–39). Subscriptions for the employee stock option program contributed SEK 19 million (0).

Sales and Earnings for April-June

Second quarter sales were SEK 29 million (42), of which Anoto accounted for SEK 24 million (20) and C Technologies for SEK 5 million (22). The lower sales were due to a decline of C Technologies camera sales to SEK 0 million (16).

The gross margin came to 68% (48%), or SEK 20 million (20). The higher gross margin stemmed from an increase in the Anoto business unit's share of sales.

Earnings before depreciation and amortisation were SEK –9 million (-17).

The second quarter operating loss of SEK –15 million (–24) was broken down between SEK – 17 million (–29) for the Anoto business unit and SEK 2 million (5) for the C Technologies business unit.

Sales, administrative and research costs amounted to SEK –35 million (–44). Opex (Including capitalised development costs and allocation to costs of goods and services sold and excluding depreciation and amortisation, sales, administrative and research costs) were SEK –32 million (–41).

The pre-tax loss for the second quarter was SEK –20 million (–23).

SEK –7 million (–7) in depreciation of intangible and tangible fixed assets was charged to the quarter's earnings.

Cash Flow (April-June)

Operating cash flow totalled SEK 28 million (–20) for the second quarter. The improvement stemmed primarily from better working capital as the result of large royalty prepayments and the new interactive media order. Payments of previous provisions had an impact of SEK –5 million (–8) on cash flow.

SEK –5 million (–1) in net investments was charged to the quarter's cash flow of SEK 36 million (–20). Subscriptions for the employee stock option program contributed SEK 19 million (0).

Financing and Liquidity

The Group's liquid assets totalled SEK 77 million (77) on June 30, representing an increase of SEK 36 million for the second quarter.

The Parent Company

As a pure holding company, the parent company has a limited number of corporate functions and employees. January-June sales were SEK 18 million (11), while pre-tax earnings were SEK 0 million (-2). Liquid assets improved by SEK 25 million since the beginning of the year and totalled SEK 52 million (63) as of 30 June. Investments amounted to SEK 0 million (0).

Accounting Rules

The Group complies with the Annual Accounts Act, as well as the general advice, statements and recommendations of the Swedish Financial Accounting Standards Council and the Swedish Institute of Authorised Public Accountants. As of 2005, the Anoto Group prepares and publishes its financial reports in accordance with International Financial Reporting Standards (IFRS). A more detailed description of the transition to IFRS appears in a separate section of this report. In order to ensure comparability among accounting periods, all comparative figures have been adjusted. The accounting rules remain otherwise unchanged from the 2004 annual report.

Share Data

The Anoto Group share is quoted on the O list of the Stockholm Stock Exchange. At the end of the second quarter, total shares numbered 119,515,201 in addition to 3,966,725 outstanding warrants, of which 0 are deemed to carry any value as of 30 June.

Shareholders

The total number of Anoto Group shareholders at the end of the second quarter was 11,325. Foreign shareholders controlled 65%, and institutional and industrial shareholders 89%, of the shares. Norden Technology, Logitech, Robur Fonder, DNB, Odin Norden and Enskilda Securities ASA were the largest shareholders as of June 30, controlling 54% of Anoto Group shares.

Option Programs

The Anoto Group employee stock option program 2003/2005, class A, expired during the second quarter. A total of 1,646,000 shares were subscribed for. The subscriptions did not impact earnings but increased liquid assets and shareholders' equity by SEK 18.8 million. The dilutive effect was

1.4%, while total shares numbered 119,515,201 after subscription. Tied to employment, the options were awarded to employees on the basis of a resolution of the 2003 annual general meeting. Class B expires in May 2006.

The parent company has issued options as part of an incentive project. The current programs are as follows.

Option Program	No. of options	No. of shares per option entitled	Number of shares generated	Issue price, SEK	Subscription period until	Full subscription can generate, SEK million	
Employee stock option program 2001	1 639 225	1.03	1 688 402	72.70	15 Dec 2005	123	1)
Employee stock option program 2003	2 327 500	1	2 327 500	13.09	31 May 2006	30	2)
Total no.	3 966 725		4 015 902				

1) Only 11% have been awarded to employees. The remaining 89% have been returned to the company.

2) The general meeting of 15 May 2003 authorised the Board to award 4,655,000 employee stock options. A total of 3,500,000 options were awarded to employees during the fourth quarter of 2003, and 1,155,000 options were awarded to the company to hedge against possible future payroll overhead. Half of the options expired on 31 May 2005, and the remaining 2,327,500 options will expire on 31 May 2006.

Outlook

The Group

We expect that service and royalty revenue from forms processing will continue to increase.

Meanwhile, interactive applications are becoming increasingly important, and Anoto has identified major potential in that segment. Thus, the company will devote a significant percentage of its R&D resources to product development in order to reach this new market in a cost-effective manner.

The large advance payments that Anoto is receiving in 2005 are favourably impacting cash flow during the year. A small percentage of the payments will be taken up as revenue in the autumn of 2005.

The Group is sticking to its target of positive cash flow for full-year 2005.

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Lund, 17 August 2005

Anders Tormod
President and CEO

Review

Anoto Group AB (publ) corporate identification no. 556532-3929

We have reviewed this semi-annual report in accordance with the recommendations issued by the Swedish Institute of Authorised Public Accountants.

A review is considerably more limited in scope than an audit.

Nothing has come to our attention that causes us to believe that the semi-annual report does not comply with the requirements of the Securities and Clearing Operations Act or the Annual Accounts Act.

Lund, 16 August 2005

DELOITTE & TOUCHE AB

Per-Arne Pettersson
Authorised Public Accountant

Summary of Income Statement ***The Group***

(SEK thousands)	Q2		Cumulative		Full year
	Apr - Jun 2005	Apr - Jun 2004	Jan - Jun 2005	Jan - Jun 2004	Jan - Dec 2004
Net sales	29 480	42 105	58 237	86 381	147 392
Costs of goods and services sold	-9 544	-21 766	-19 510	-34 853	-57 456
Gross profit	**19 936**	**20 339**	**38 727**	**51 528**	**89 936**
Sales, administrative and research costs	-35 194	-44 028	-68 355	-90 623	-169 921
Share of earnings in associated companies	-	-	-	-	-26
Operating loss	**-15 258**	**-23 689**	**-29 628**	**-39 095**	**-80 011**
Share of earnings in associated companies	-	-	-	-	3 059
Other financial items	-4 925	395	-5 644	1 031	1 861
Loss before taxes	**-20 183**	**-23 294**	**-35 272**	**-38 064**	**-75 091**
Taxes	-2	-	-24	-1	-127
Loss after taxes	**-20 185**	**-23 294**	**-35 296**	**-38 065**	**-75 218**
Loss for the period attributable to shareholders of the parent company	-20 185	-23 294	-35 296	-38 065	-75 218
Proft/Loss for the period attributable to minority interests	-	-	-	-	-
Loss for the period	**-20 185**	**-23 294**	**-35 296**	**-38 065**	**-75 218**
Key ratios					
Gross margin	67,60%	48,30%	66,50%	59,70%	61,00%
Operating margin	Neg	Neg	Neg	Neg	Neg
Earnings per share (kronor)[1]	-0,17	-0,20	-0,30	-0,32	-0,64
Earnings per share after dilution (kronor)[1]	-0,17	-0,20	-0,30	-0,32	-0,64

[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.

Effect on profit/loss for the period of transition from Swedish accounting rules to IFRS

Apr-Jun 2004	Swedish accounting rules	Effect of transition to IFRS	IFRS
Net sales	42 105	-	42 105
Costs of goods and services sold	-21 766	-	-21 766
Gross profit	**20 339**	**-**	**20 339**
Sales, administrative and research costs[2]	-51 869	7 842	-44 028
Operating profit/loss	**-31 530**	**7 842**	**-23 689**
Other financial items	395	-	395
Profit/loss before taxes	**-31 135**	**7 842**	**-23 294**
Taxes	-	-	-
Profit/loss after taxes	**-31 135**	**7 842**	**-23 294**

[2] Consists of costs of granting options to employees in the amount of –1,692 and non-amortization of goodwill in the amount of 9,534

Jan-Jun 2004	Swedish accounting rules	Effect of transition to IFRS	IFRS
Net sales	86 381	-	86 381
Costs of goods sold	-34 853	-	-34 853
Gross profit	**51 528**	**-**	**51 528**
Sales, administrative and research costs[3]	-106 306	15 683	-90 623
Share of earnings in associated companies	-	-	-
Operating profit/loss	**-54 778**	**15 683**	**-39 095**
Share of earnings in associated companies	-	-	-
Share of earnings in associated companies	-	-	-
Other financial items	1 031	-	1 031
Profit/loss before taxes	**-53 747**	**15 683**	**-38 064**
Taxes	-1	-	-1
Profit/loss after taxes	**-53 748**	**15 683**	**-38 065**

[3] Consists of costs of granting options to employees in the amount of –3,385 and non-amortization of goodwill in the amount of 19,068

Jan-Dec 2004	Swedish accounting rules	Effect of transition to IFRS	IFRS
Net sales	147 392	-	147 392
Costs of goods sold	-57 456	-	-57 456
Gross profit	**89 936**	**-**	**89 936**
Sales, administrative and research costs[4]	-201 287	31 366	-169 921
Share of earnings in associated companies	-26	-	-26
Operating profit/loss	**-111 377**	**31 366**	**-80 011**
Share of earnings in associated companies	3 059	-	3 059
Other financial items	1 861	-	1 861
Profit/loss before taxes	**-106 457**	**31 366**	**-75 091**

Taxes	-127	-	-127
Profit/loss after taxes	**-106 584**	**31 366**	**-75 218**

[4] Consists of costs of granting options to employees in the amount of –6,770 and non-amortization of goodwill in the amount of 38,136

Summary of Balance Sheet — ***The Group***

(SEK thousands)	30-Jun-2005	30-Jun-2004	31-Dec-2004
Intangible fixed assets	363 800	371 897	368 031
Tangible assets	4 019	7 816	5 589
Financial fixed assets	5 419	5 347	5 155
Other current assets	41 319	46 827	52 210
Liquid assets, including current investments	76 835	77 303	41 740
Total assets	491 392	509 190	472 725
Shareholders' equity	373 475	416 465	385 629
Long-term provisions	6 843	20 185	13 692
Interest-bearing liabilities	-	49	-
Current provisions	14 349	14 421	19 410
Other current liabilities	96 725	58 070	53 994
Total liabilities and shareholders' equity	491 392	509 190	472 725

Effect on balance sheet of transition from Swedish accounting rules to IFRS

30-Jun-2004 (SEK thousands)	Swedish accounting rules	Effect of transition to IFRS	IFRS
Intangible fixed assets	352 829	19 068	371 897
Tangible assets	7 816	-	7 816
Financial fixed assets	5 347	-	5 347
Other current assets	46 827	-	46 827
Liquid assets, including current investments	77 303	-	77 303
Total assets	490 122	19 068	509 190
Shareholders' equity	397 397	19 068	416 465
Long-term provisions	20 185	-	20 185
Interest-bearing liabilities	49	-	49
Current provisions	14 421	-	14 421
Other current liabilities	58 070	-	58 070
Total liabilities and shareholders' equity	490 122	19 068	509 190

(SEK thousands) 31-Dec-2004	Swedish accounting rules	Effect of transition to IFRS	IFRS
Intangible fixed assets	329 895	38 136	368 031
Tangible assets	5 589	-	5 589
Financial fixed assets	5 155	-	5 155
Other current assets	52 210	-	52 210
Liquid assets, including current investments	41 740	-	41 740
Total assets	434 589	38 136	472 725
Shareholders' equity	347 493	38 136	385 629
Long-term provisions	13 692	-	13 692
Interest-bearing liabilities	-	-	-
Current provisions	19 410	-	19 410
Other current liabilities	53 994	-	53 994
Total liabilities and shareholders' equity	434 589	38 136	472 725

Opening balance, 1 January 2005[5]

(SEK thousands)	IFRS **31-Dec-2004**	Effect of trans. to IFRS, IAS 39 **1-Jan-2005**	IFRS **1-Jan-2005**
Intangible fixed assets	368 031	-	368 031
Tangible assets	5 589	-	5 589
Financial fixed assets	5 155	-	5 155
Other current assets	52 210	279	52 489
Liquid assets, including current investments	41 740	86	41 826
Total assets	472 725	365	473 090
Shareholders' equity	385 629	365	385 994
Long-term provisions	13 692	-	13 692
Interest-bearing liabilities	-	-	-
Current provisions	19 410	-	19 410
Other current liabilities	53 994	-	53 994
Total liabilities and shareholders' equity	472 725	365	473 090

[5] Effects of transition to IFRS, IAS 39, as of 1 January 2005 consist of the difference between the market value and book value of financial instruments.

Change in shareholders' equity

	The Group		
	Jan-Jun 2005	Jan-Jun 2004	Jan-Dec 2004
Opening balance	**385 629**	**451 248**	**451 248**
Effects of transition to IFRS, IAS 39, as of 1 January 2005[6]	365	-	-
Opening balance in accordance with new accounting rules	**385 994**	**451 248**	**451 248**
Issue of new shares	18 847	-	-
Recovered VAT for issue costs	-	-	2 902
Costs of granting options	3 052	3 385	6 770
Translation differences	878	-103	-73
Loss for the period	-35 296	-38 065	-75 218
Closing balance in accordance with new accounting rules	**373 475**	**416 465**	**385 629**

Effect on shareholders' equity of transition from Swedish accounting rules to IFRS

	The Group	
	Jan-Jun 2004	Jan-Dec 2004
Closing balance, Swedish accounting rules	**397 397**	**347 493**
Amortization of goodwill	19 068	38 136
Costs of granting options	-	-
Closing balance in accordance with IFRS	**416 465**	**385 629**

[6] Effects of transition to IFRS, IAS 39, as of 1 January 2005, consist of the difference between the market value and book value of financial instruments.

Cash Flow Statement *The Group*

(SEK thousands)	Apr-Jun 2005	Apr-Jun 2004	Jan-Jun 2005	Jan-Jun 2004	Jan-Dec 2004
Loss after financial items	-20 183	-23 294	-35 272	-38 064	-75 091
Adjustment for items not included in cash flow					
Change in provisions	-5 122	-7 666	-11 910	-19 944	-21 448
Amortization, depreciation and write-downs	6 623	6 767	13 047	14 212	28 486
Share of earnings in Group and associated companies	-	-	-	-	-3 033
Costs of granting options	1 359	1 693	3 052	3 385	6 770
Other financial items	7 050	-395	6 407	-1 031	-1 861
Taxes paid	-2	-	-24	-1	-127
Cash flow from operating activities					
before change in working capital	**-10 275**	**-22 895**	**-24 700**	**-41 443**	**-66 304**
Change in working capital	38 667	3 275	53 622	4 436	-4 949
Cash flow from operating activities	**28 392**	**-19 620**	**28 922**	**-37 007**	**-71 253**
Net investments	-4 939	-1 276	-7 310	-2 586	-7 633
Total cash flow before financing activities	**23 453**	**-20 896**	**21 612**	**-39 593**	**-78 886**
Financing activities					
Issues of new shares	18 847	-	18 847	-	-
Change in long-term liabilities	-	-	-	-48	-97
Other financial items	-7 050	395	-6 407	1 031	1 861
Recovered VAT for issue costs	-	-	-	-	2 903
Other items	583	69	957	-120	-74
Cash flow for the period	**35 833**	**-20 432**	**35 009**	**-38 730**	**-74 293**
Liquid assets at the beginning of the period*	41 002	97 735	41 826	116 033	116 033
Liquid assets at the end of the period*	**76 835**	**77 303**	**76 835**	**77 303**	**41 740**

*Cash, bank balances and current investments.

Key ratios ***The Group***

	Apr-Jun 2005	Apr-Jun 2004	Jan-Jun 2005	Jan-Jun 2004	Jan-Dec 2004
Cash flow for the period (SEK thousands)	35 833	-20 432	35 009	-38 730	-74 293
Cash flow per share (kronor) [7]	0,30	-0,17	0,30	-0,33	-0,63
Cash flow per share after dilution (kronor) [7]	0,30	-0,17	0,30	-0,33	-0,63

	30-Jun-2005	**30-Jun-2004**	**31-Dec-2004**
Equity/assets ratio	76,00%	81,80%	81,60%
Number of shares[8]	119 515 201	122 524 201	122 524 201
Shareholders' equity per share (kronor)[8]	3,12	3,40	3,15

[7] 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.

[8] Including outstanding warrants (30 June 2005: 0; 31 December 2004: 4,655,000; 30 June 2004: 4,655,000). 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.

Accounting Per Segment ***The Group***

(SEK thousands)	Apr-Jun 2005	Apr-Jun 2004	Jan-Jun 2005	Jan-Jun 2004	Jan-Dec 2004
Sales					
Anoto	24 245	20 044	46 817	50 949	94 900
C Technologies	5 235	22 061	11 420	35 432	52 492
Total	**29 480**	**42 105**	**58 237**	**86 381**	**147 392**
Operating profit/loss					
Anoto	-17 062	-28 937	-33 771	-46 241	-90 649
C Technologies	1 804	5 248	4 144	7 146	10 638
Total	**-15 258**	**-23 689**	**-29 627**	**-39 095**	**-80 011**

Accounting Rules, Anoto Group's Transition to IAS/IFRS 2005

This interim report has been prepared in accordance with IAS 34. In June 2002, the Council of the European Union adopted the IAS 2005 regulation. According to the regulations placed on listed companies in the EU with effect as of 2005, reporting and publication of consolidated accounts shall be carried out in compliance with International Financial Reporting Standards (IFRS), previously International Accounting Standards (IAS). The term (IFRS) in this document includes the adoption of both IAS and IFRS, as well as interpretations of these standards, which have been published by the Standards Interpretation Committee (SIC) and the International Financial Reporting Standards Committee (IFRIC).

As of 2005 the Anoto Group publishes its financial reports in accordance with IFRS. The interim reports shall contain a comparative year, 2004, in accordance with IFRS. Thus, 1 January 2004 is Anoto Group's transition date to IFRS. Two standards, IAS 32 and IAS 39, will be observed with effect as of 1 January 2005, which, according to IFRS, is allowed in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards. An opening balance as of 1 January 2005, including the effects of IAS 32 and 39, has been recorded.

The information below on the effects of the transition is preliminary and could be changed since IFRS may be updated in 2005. The Company will update recalculated information if and when any changes occur.

Comparison and Information on Effects

IFRS 1 deals with the transition rules in force upon introduction of IFRS. IFRS 1 requires that a comparative year and an opening balance be accounted for according to IFRS on each transition date. 1 January 2004 is Anoto Group's transition date to IFRS.

The accounting rules followed in the opening balance shall generally comply with IFRS rules in force at the time of reporting. A few exceptions from full retroactive implementation are allowed. When the opening balance according to IFRS is reported, Anoto Group will be applying the following exceptions from full compliance with IFRS:

• IAS 32 and 39 will be observed as of 1 January 2005, and no recalculation of comparative figures for 2004 is required. Financial assets, liabilities and derivative instruments are recorded according to IAS 32 and 39 with effect as of 1 January 2005.

Up to the end of the year, Anoto Group has prepared its financial reports in accordance with the Swedish Financial Accounting Standards Council Recommendations, which have been largely adjusted to IAS/IFRS in recent years. In combination with optional exceptions described above, that will limit the effects of the transition to IFRS in the income statement and the balance sheet to the following items:

• Amortisation of goodwill is discontinued (IFRS 3 and IAS 38)
• Fair value of outstanding employee stock options (IFRS 2) and costs pertaining to such options are recorded in the income statement.
• Derivative instruments are recorded at fair value in the balance sheet (IAS 39).

Payments to employees are already reported in accordance with IAS 19, since RR 29 was implemented as of 1 January 2004.

Changed Accounting Rules

IFRS 3 Acquisitions and Mergers Including Goodwill (Business Combinations)

The rules for accounting acquisitions and mergers (IFRS 3) change the way in which the acquisition of companies is accounted for. A more detailed acquisition analysis and allocation of the purchase sum is required, in which acquired intangible assets – such as customer relationships, trademarks and patents – are identified and valued at fair value. Goodwill arises when the purchase sum exceeds the actual value of the net assets. The accounted goodwill is no longer subject to write-down; instead the recovery value is subject to annual assessment. Assessment of the recovery value shall also be made whenever impairment is indicated. The value, subsequent to an impairment test, of goodwill on 1 January 2004 is ”locked” and depreciations are reported according to Swedish accounting rules in force in 2004 and are reversed in the translated comparative figures for 2004 according to IFRS. The consequence would be an increase in operating earnings of SEK 38,136 thousand in 2004.

IFRS 2 Share-based Payments to Employees.

Anoto Group applies IFRS 2 to all option programs. Anoto Group records a cost in the income statement corresponding to the fair value on the date of granting the outstanding employee options. The fair value of each option issued is calculated according to a valuation model for options. Total costs are distributed over the recovery period (20 months for class A and 32 months for class B, where the total amount of options is distributed equally between series A and series B). The effect on operating earnings is a cost amounting to SEK 6,770 thousand in 2004 and approximately SEK 4,443 thousand in 2005. Anoto Group has no other share-based payments.

IAS 32 and 39 Financial Instruments and Hedging Reporting

IAS 32 and 39 are standards dealing with recognition, classification and measurement of financial instruments.

Anoto Group states currency hedging and current investments at fair value. Anoto Group hedges its outflow of U.S. dollars on a continuous basis. However, none of its currency hedging can be regarded as effective hedging. All excess liquid assets are placed in current investments with different durations. There are no investments with durations exceeding 90 days; thus all current investments are accounted for under the item Liquid Assets.

Derivative instruments are reported at fair value in the balance sheet. Changes pertaining to derivative instruments are reported in the income statement, except in the case of the derivative instrument being designated as hedging instrument in (i) cash flow hedging or (ii) hedging net investments in foreign subsidiaries. In such cases, the effective part of the change in value with respect to the derivative instrument is reported under shareholder’s equity until such time as the hedged transaction impacts the result. At this time the accumulated change in value of shareholders’ equity is entered in the income statement. For the derivative instruments regarding (iii) fair value hedging, the change in value from the derivative instruments and the hedged object, pertaining to the hedged risk, will be accounted for in the income statement and will cancel each other out to the extent that the hedging is effective. Anoto Group has had no effective hedging of foreign currencies during the period, since all hedging has been in the form of forward agreements extending over various periods of time, though no longer than 90 days.

Loans and receivables are financial assets not designated as derivatives with fixed or estimated payments quoted and for which no purpose of speculation exists. Loans and receivables are valued at amortised acquisition value. Such assets are reported as current assets, except for duration times exceeding 12 months after the balance sheet day, which are reported as fixed assets.

According to Swedish accounting rules, shares and participation rights are reported at acquisition value or fair value, whichever is less. Such investments shall be reported at the fair value in accordance with IAS 39 and unrealised changes of the fair value will be reported directly under shareholders’ equity. With respect to investments in listed companies, the market value is determined by the share price on the balance sheet day, whereas the fair value for unlisted companies is estimated.

IAS 19 Payments to Employees

Anoto Group reports pensions and similar benefits in compliance with IFRS (IAS 19).

Effect of IFRS on the Consolidated Cash flow Statement

In accordance with IAS 7 Cash Flow Statements, Anoto Group defines current, highly liquid investments extending, at the time of investment, over a remaining period of less than three months as liquid assets. Anoto Group has not previously had current investments extending over more than three months. Thus, the Group's cash flow statement is not affected.

Reclassification of Provisions

In accordance with IAS 1 Presentation of Financial Statements, provisions shall be reported as current and long-term liabilities. A liability shall be classified as current when one of the following criteria has been met: a) it is expected to be paid within a normal business cycle; (b) the main aim is that it be sold; (c) it falls due within twelve months of the balance sheet date; (d) the company has no unconditional right to postpone payment of the debt at least twelve months after the balance sheet date. All other provisions shall be classified as long-term. In compliance with IFRS, Anoto Group has reclassified provisions in the balance sheet to current and long-term liabilities respectively. Anoto Group's business cycle is approximately 12 months.