Anoto Group
Year-end report for January-December 2005

- Fourth quarter sales totalled SEK 32 million (29), while sales for the Anoto business unit increased to SEK 27 million (22). January-December sales were SEK 113 million (147), of which the Anoto business unit accounted for SEK 92 million (95). Within the Anoto Business Unit sales from royalties has increased by 74% as compared to last year.

- The Group's fourth quarter gross profit rose to 73% (65), or SEK 24 million (19). The Group's gross profit for January-December increased to 70% (61), or SEK 79 million (90).

- Cash flow amounted to SEK 140 million (–17) for the fourth quarter and SEK 170 million (–74) for January-December. The issue of new shares carried out in the fourth quarter and the exercising of options in spring boosted cash flow by a total of SEK 182 million (0).

- The loss before depreciation and amortisation was SEK –16 million (1) for the fourth quarter and SEK –53 million (–45) for January-December, of which the new initiative in Anoto Content and Applications accounted for SEK – 6 million (0).

- Earnings after taxes amounted to SEK 48 million (–5) for the fourth quarter and SEK –14 million (–75) for January-December. Financial income of SEK 70 million (0) that arose in connection with restructuring and streamlining of subsidiaries boosted earnings after taxes.

- Earnings per share amounted to SEK 0.38 (–0.04) for the fourth quarter and SEK –0.12 (–0.64) for January-December.

Operations

- Sales of the FLY pentop computer, an interactive pen manufactured by Anoto partner LeapFrog (ticker symbol LF on the New York Stock Exchange) for children and teens, began on 16 October in the United States. The launch was highly successful and the sales figures were excellent.

- Jim Marggraff, LeapFrog's Executive Vice President Worldwide Content, was appointed as new CEO of Anoto, Inc., a wholly owned subsidiary of Anoto Group AB. He began setting up the company's Silicon Valley office and assumed responsibility for promoting the new digital pen and paper segment of pentop computing. To finance this initiative a new issue of shares was carried out in December yielding a net of SEK 163 million..

- An announcement was made in the fourth quarter that Dai Nippon Printing (DNP), Japan's largest publications and printing company with annual sales of SEK 13 billion, was behind the previously disclosed EUR 7 million investment in the next generation Anoto pen.

- Forms sales continued to grow in the fourth quarter, including a number of new commercial installations. Interest in forms solutions has increased as the number of commercial applications has become known. In cooperation with its partners, Anoto launched talks with many new end-customers.

- Anoto Group restructured and streamlined its subsidiaries. Deconsolidation of a previous subsidiary generated 2005 Group financial income of approximately SEK 70 million.

Key Developments after 31 December

- Anoto Group AB's divestment in January of all minority interests in an inactive former subsidiary generated Group financial income of approximately SEK 70 million. The proceeds strengthened cash flow but will have no impact on 2006 earnings.

Remarks by CEO Örjan Johansson

Mounting interest in forms solutions

Pen and paper represents one of the world's leading information technologies. From the very first prototypes some six years ago, Anoto has spearheaded the technology for integrating pen and paper with digital applications. The technology has evolved and matured as we have cooperated with partners in a number of areas to integrate it into their solutions. Our partners have subsequently designed new applications and begun to sell the technology to businesses and end-customers. This was our first full year of forms solutions sales. We are very much aware that selling the merits of a business-to-business solution requires a great deal of time and effort, particularly when there are no previous references. Nevertheless, we are now starting to reap the benefits of our perseverance. The sales cycle is shortening from years to months and weeks. Based on solid references, our volumes are accelerating. The fourth quarter was no exception, and home health care solutions made a particularly significant contribution to stepped-up growth.

FLY pentop computer launched

The FLY pentop computer, which was launched in the fourth quarter, was ranked by eMarketer as one of the most wished-for Christmas presents in the United States. Both the launch and autumn sales were successful, representing a very promising start for the new product category of pentop computers, which will gradually be introduced to additional markets and age groups.

DNP announced that it is a key partner that will work closely with Anoto to develop interactive solutions for the market in general and Japan in particular. We are extremely pleased by our constructive relationship with DNP and are looking forward to many years of cooperation.

Both our collaboration with LeapFrog and the success of the FLY pentop computer clearly demonstrate the major potential that we face in the area of consumer products. We employed Jim Marggraff to help us exploit that potential. He has begun to put together a Silicon Valley organisation that will specialise in developing content and applications that allow us to grow in the consumer market and rise in the value chain.

Positive cash flow and strong financial position

This was the first time that Anoto reported a positive operating cash flow for the full year. Half of the expected prepaid royalty due in the fourth quarter within Learning and Education was received in January 2006 and did not affect cash flow for the year. During the year The Group received SEK182 million from new issues of which most will be used to finance its initiative in Anoto Content and Applications. The restructuring of subsidiaries late in the year generated additional cash of approximately SEK 70 million in January 2006. As a result, we are entering the new year with a strong financial position.

Major opportunities in 2006

Given that our partners are continuing to exhibit great interest and forms solutions are still growing rapidly, we are in a position to ensure that Anoto's traditional pen and paper business spurs greatly increased sales and generates a profit. Meanwhile we have identified excellent potential for Anoto Content and Applications, in which we will invest during 2006.

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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.

Systems Solutions for Forms Processing
The Systems Solutions application area focuses on systems, services and products that target businesses, primarily 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.

According to Anoto's assessment, the number of pilot projects is continually increasing from the 250-300 that were under way one quarter ago. Given that we are not fully familiar with projects that have yet to reach the commercial phase, our estimates may be low. The ongoing projects involve 10-100 users. Based on the business model of charging per unit of time used, approximately 22,000 digital pens have been fully commercialised so far. Because Anoto does not have full knowledge of the number and size of the orders received by its customers and partners, we will no longer attempt to estimate the size of their backlogs. With an eye toward more rapid growth, Anoto will focus on sales and marketing in this area.

Europe

Exhibitors at Munich International Trade Fairs (MMI) use the SRS LeadManagement Solution® (LMS) and FAS based on Anoto technology. LMS offers an intelligent approach to collecting and saving data from visitors. Information from lead sheets are saved immediately, after which they can be analysed and processed the same day. Rapidity, accuracy and traceability are highly valuable features of the solution. Real-time analysis yields instant data and paves the way for a successful exhibition. "We needed a mobile application, and SRS Management in Germany convinced us that digital pen and paper was the way to go," says Martina Ritzer, web service manager at MMI. "It is a tried-and-true technology that works very well. I recommend it highly."

Nobody likes to get a parking ticket, and the first reaction is often to phone the company and protest. The problem is that the agents at the parking company may not find out about violations until long afterwards. The Parknote system, which was developed by Smartnote in Sweden, uses digital pens and paper with Anoto functionality, along with mobile phones equipped with built-in cameras and XMS Penvision technology. Parknote allows a parking company to provide quick, accurate information on various violations, as well as the opportunity to appeal a fine.

We mentioned Catrel's Mobipen home health care service solution for the city of Solna in our third quarter report. We are pleased to announce that the solution has also aroused great interest among a number of other Swedish municipalities.

Japan

With both commercial installations and a large number of pilot projects, activity in the Japanese market remains brisk. Anoto partners DNP and Hitachi are leading the way.

Anoto estimates that more than 100 pilot projects are under way in Japan and expects steady implementation in 2006.

United States

Anoto was able to attract a number of new service providers during the first quarter. Some of them have extensive plans for launching products and solutions in the first quarter of 2006, primarily in the healthcare sector.

Two of the partners have obtained licenses for the Forms Automation System developed by Hewlett-Packard, which will enable them to offer print-on-demand solutions for the U.S. market.

Talario has launched its Xpaper product, a simple, cost-effective way of converting paper to digital forms and subsequently sending them to other users. The user can print out a blank Xpaper document from any Windows application, write on it with a digital pen and immediately obtain a PDF copy.

Anoto partner Tegrity has sold 2,000 digital pens that link lecture notes to an audio recording of the talk itself. As a result, students can leaf through their notes and pick out the parts of the lecture that they want to hear again.

Mi-Co has launched release 5.5 of its Mi-Forms system. The system provides a flexible design tool for forms, expanded support for Nokia's Bluetooth pen in addition to the current Logitech USB and Bluetooth pen, and improved data validation. All in all, it is a comprehensive turnkey forms solution based on Anoto functionality.

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 applications also serve as the building blocks of customised solutions.

Maxell continued to market its new digital DP-201 pen in the fourth quarter. Slimmer and more elegant than Maxell's previous models, DP-201 is designed for systems integrators. Partnerships with DNP and Hitachi enable the marketing of Hitachi’s Maxell Digital Pen for business use and enterprise applications in both Japan and China. A consumer application has also been launched.

Anoto partner Logitech is continuing to market both the USB and Bluetooth versions of its Logitech io2 Digital Pen in the United States and Europe, 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 numerous markets.

Mobile enterprise solutions continue to attract a great deal of attention. Nokia is seeing more pilot projects, some of which are with international companies, in a large number of markets.

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 a digital pen that permits immediate feedback by means of voice, audio, etc. The concept supports learning products that are simple, intuitive and entertaining for the user.

Anoto and LeapFrog have been developing LeapFrog's FLY pentop computer over the past 18 months. The project was completed in the third quarter, and sales began throughout the United States on 17 October. The launch and autumn sales were both successful – the FLY pentop computer appeared high on several lists of popular Christmas presents. The enthusiastic response represented a very promising start for the new product category of pentop computers, which will gradually be introduced to additional markets and age groups. Meanwhile, DNP announced that it is a key partner that will work closely with Anoto to develop the next generation digital pen and applications, particularly for the Japanese market.

A brand new kind of product, the FLY pentop computer makes it more fun for children and teens to learn reading, writing, arithmetic and other subjects. Based on Anoto technology, the product launch included 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. Anoto receives royalties on pens, notepads, books and applications.

Anoto Technology

Anoto Technology develops and markets Anoto's core technology. Within this segment, Anoto delivers and licenses 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, which has announced that a number of projects are under way in this segment, received a SEK 5-8 million order in the fourth quarter to develop the next generation Argus chip. Although the identities 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.

Fourth quarter sales consisted primarily of C-Pen 20 and MyPen Pro to C Channel in Switzerland. Sales volumes are stable and proceeding as planned.

Anoto signed a new C-Pen agreement, worth almost SEK 5 million, in the fourth quarter with C Channel for a next generation bank pen.

Anoto also signed a SEK 1 million agreement with Iniris for distribution and sale of the Metercam product.

Anoto Group AB, January-December 2005 in Figures

Sales and Earnings for January-December 2005

January-December sales were SEK 113 million (147), of which Anoto accounted for SEK 92 million (95) and C Technologies for SEK 21 million (52). The lower sales were primarily due to trends at C Technologies, particularly the decline of camera revenue to SEK 0 million (24). The decrease from the Anoto business unit's high license revenue in 2004 was almost wholly offset by royalties from the Learning & Education segment (which accounted for approximately 10% of 2005 sales), revenue stemming from cooperation with DNP and other revenue. Within the Anoto Business Unit sales from royalties increased by 74% as compared to last year.

The gross profit was SEK 79 million (90) or 70% (61%), The lower gross profit was also due to high license revenue from LeapFrog and C Technologies camera sales in the first half of 2004, both of which were offset by royalties from LeapFrog and overall revenue growth for the Anoto business unit.

The loss before depreciation and amortisation was SEK –53 million (–45).

January-December operating earnings of SEK –80 million (–80) were broken down between SEK –85 million (–91) for the Anoto business unit and SEK 5 million (11) for the C Technologies business unit.

Sales, administrative and research costs amounted to SEK –159 million (–170). OpEx (sales, administrative and research costs, including capitalised development costs and allocation to costs of goods and services sold, less depreciation and amortisation) was SEK –150 million (–163). Anoto's new initiative to develop pentop computer applications affected OpEx by SEK –6 million (0).

The pre-tax loss for January-December was SEK –14 million (–75). Financial income of SEK 70 million (0) that arose in connection with restructuring and streamlining of subsidiaries boosted earnings.

SEK –26 million (–28) in depreciation of tangible fixed assets and amortisation of intangible fixed assets was charged to January-December earnings.

Cash Flow (January-December)

Cash flow from operating activities totalled SEK 7 million (–71) for January-December. The improvement stemmed primarily from better working capital as the result of large royalty prepayments and the new interactive media order. However, cash flow was lower than expected due to the fact that some of the prepaid royalties in the Learning & Education segment were not received until early January 2006 and the payment from the second part of the DNP agreement is not anticipated until the first half of 2006.

Payments of previous provisions had an impact of SEK –18 million (–23) on cash flow.

SEK –15 million (–7) in net investments affected January-December cash flow of SEK 170 million (–74). The large positive cash flow was chiefly attributable to issues of new shares, both option redemptions and the directed issue in December, netting a total of SEK 182 million (0).

Sales and Earnings for October-December

Fourth quarter sales totalled SEK 32 million (29), of which Anoto accounted for SEK 27 million (22) and C Technologies for SEK 5 million (7). The increase at Anoto was due to higher royalties for Learning & Education and the forms business, as well as revenue recognition according to percentage of completion related to the DNP agreement. That was partially offset by lower license revenue than in the fourth quarter of 2004. Within the Anoto Business Unit sales from royalties has tripled as compared to the same quarter last year.

The gross profit was 73% (65), or SEK 24 million (19). The higher gross profit stemmed from an increase in the Anoto business unit’s share of sales.

The loss before depreciation and amortisation was SEK –16 million (1).

The fourth quarter operating loss of SEK –23 million (–9) was broken down between SEK –23 million (–9) for the Anoto business unit and SEK 0 million (0) for the C Technologies business unit.

Sales, administrative and research costs amounted to SEK –47 million (–27). OpEx (sales, administrative and research costs, including capitalised development costs and allocation to costs of goods and services sold, less depreciation and amortisation) was SEK –43 million (–29). Anoto's new initiative to develop pentop computer applications affected OpEx by SEK –6 million (0). Bad debt losses, primarily as the result of a C Technologies customer that declared bankruptcy, affected OpEx by SEK –2 million.

Pre-tax earnings for the fourth quarter were SEK 48 million (–5).Financial income of SEK 70 million (0) that arose in connection with restructuring and streamlining of subsidiaries boosted earnings.

SEK –7 million (–8) in depreciation of tangible fixed assets and amortisation of intangible fixed assets was charged to the quarter's earnings.

Cash Flow (October-December)

Cash flow from operating activities totalled SEK –18 million (–17) for the fourth quarter. Payments of previous provisions had an impact of SEK –4 million (–8) on cash flow. Cash flow was less than expected due to the fact that some of the prepaid royalties in the Learning & Education segment were not received until early January.

SEK –5 million (–3) in net investments affected the quarter's cash flow of SEK 140 million (–18). The large positive cash flow was attributable to the issue of new shares during the quarter, which netted SEK 163 million (0).

Financing and Liquidity

At the close of January-December, the Group's liquid assets, including current investments, amounted to SEK 211 million (42). The exercise of an options program and the new issue of shares added in total a net of SEK 182 million to the liquid assets.

Parent Company

As a pure holding company, the parent company has a limited number of corporate functions and employees. January-December sales were SEK 35 million (22), while pre-tax earnings were SEK –420 million (–360). At the close of January-December, the parent company's liquid assets, including current investments, amounted to SEK 194 million (27). Investments came to SEK 0 million (0).

Accounting Rules

From January 1 2005 Anoto Group AB publishes its group financial reports in accordance with International Financial Reporting Standards (IFRS). The interim report for the group has been prepared in accordance with IAS 34 "Interim Financial Reporting", and the recommendation RR 31 "Interim Reporting for Groups" issued by the Swedish Financial Accounting Standards Council. 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.

The accounting records for the parent company have been prepared in accordance with the Annual Accounts Act and the recommendation RR 32 "Accounting for Legal Entities" from the Swedish Financial Accounting Standards Council.

Share Data

The Anoto Group share is quoted on the O list of the Stockholm Stock Exchange. Shares numbered 126,535,201 on 31 December, in addition to which 6,278,380 warrants were outstanding, of which 2,209,213 were deemed to have a value as of 31 December.

Shareholders

The total number of Anoto Group shareholders at the end of December was 10,624 and 60% of the shares were held abroad. Institutional and industrial shareholders controlled 89% of the shares. Norden Technology AS, Logitech, Robur Fonder, DNB, Enskilda Securities ASA and Christer Fåhraeus were the largest shareholders as of 31 December, controlling 52% of Anoto Group shares.

Nominating Committee

In accordance with a resolution of the 11 May 2005 annual general meeting, a nominating committee was formed. The members of the committee are Stein Revelsby (Norden Technology) as chairman, Bernard Gander (Logitech), Britt Reigo (Robur), Svein Carlsson (Odin förvaltning AS) and Christer Fåhreaus. The committee will present its proposals by the end of March 2006.

Option Programs

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, 2003	2,175,880	1	2,175,880	13.09	31 May 2006	28	1)
Employee stock option program, 2005	1,862,000	1	1,862,000	31.35	30 Nov 2007	58	2)
Warrant program, 2005	640,500	1	640,500	31.35	30 Nov 2008	20	3)
Employee stock option program in the United States, 2005	1,600,000	1	1,600,000	20.90	30 Nov 2009	33	4)
Total no.	6,278,380		6,278,380				

1) The 15 May 2003 general meeting authorised the board to issue 4,655,000 employee stock options, 3,500,000 of which were awarded to employees in the fourth quarter of 2003 and 1,155,000 of which were awarded to the company as a hedge against social security expenses. Half of the options expired on 31 May 2005. A total of 1,646,000 of the 2,327,500 options were subscribed for. A total of 2,175,880 of the 2,327,500 remaining options have been offered to employees (including the hedge against social security expenses). The rest of the options have been returned to the company.

2) The 10 November 2005 general meeting authorised the board to issue 1,995,000 employee stock options, 1,400,000 of which were awarded to employees in the fourth quarter of 2005 and 462,000 of which were awarded to the company as a hedge against social security expenses.

The options, which are tied to employment, may be exercised from 1 September to 30 November 2007.

3) The general meeting of 10 November 2005 authorised the board to issue 2,000,000 warrants, 640,500 of which were subscribed for in the fourth quarter of 2005. New shares may be subscribed for from 1 September to 30 November 2008.

4) The 10 November 2005 general meeting authorised the board to issue 3,200,000 employee stock options to new personnel in the United States. A total of 1,600,000 options were awarded to employees in the fourth quarter of 2005. The options may be exercised from 1 November 2005 to 30 November 2009. The right to acquire and exercise the options are linked to the holder's retaining his or her position in the Anoto Group, as well as the attainment of certain performance criteria established by the board and associated with the business plan and a targeted operating profit for Anoto Inc.

Full exercise of all option programs would result in a dilution of about 5% as of 31 March 2005.

The programs deemed to have a value as of 31 December 2005 are the 2003 employee stock options (2,175,880) and the 2005 employee stock options in the United States with 1/48 or 33,333 of the awarded options.

Key Developments after 31 December

Anoto Group AB's divestment in January 2005 of all minority interests in an inactive former subsidiary generated Group financial income of approximately SEK 70 million. The proceeds strengthened cash flow but will have no impact on 2006 earnings.

Outlook for 2006

The Group

Excluding the new Content and Applications initiative, the current Anoto is expected to report a profit before depreciation and amortisation for the year.

For 2006 Anoto expect a continued strong growth of active users of forms pens. In 2005 the growth was 120% for the year.

For 2006 Anoto also expect a strong growth from all running royalties. In 2005 the growth was 74%, from SEK 14 million to SEK 25 million

Content and Applications is expected to obtain its first license revenue from external customers during the year.

Upcoming Interim Reports

January-March report and annual general meeting	16 May 2006
January-June report	16 August 2006
January-September report	8 November 2006
Preliminary earnings report for January-December 2006	7 February 2007

The annual report is available on April 29 and will not be automatically distributed to the shareholders. The annual report can be ordered by the company or viewed on Anotos homepage www.anoto.com.

Lund, 9 February 2006

Örjan Johansson
CEO

Report on Review of Interim Financial Information

Introduction

We have reviewed the accompanying balance sheet of Anoto Group AB as of December 31, 2005 and the related statements of income, changes in equity and cash flows for the twelve-month period then ended, and a summary of significant accounting policies and other explanatory notes. The board of directors is responsible for the preparation and fair presentation of this year-end financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this year-end financial information based on our review.

Scope of Review

We conducted our review in accordance with Standard för översiktlig granskning SÖG 2410 *Översiktlig granskning av finansiell delårsinformation utförd av företagets valda revisor* issued by FAR. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying year-end financial information does not give a true and fair view of the financial position of the entity as at December 31, 2005, and of its financial performance and its cash flows for the twelve-month period then ended in accordance with IAS 34.

Malmö, February 9, 2006

Deloitte AB

Per-Arne Pettersson
Authorized public accountant

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

(SEK thousand)	Q 4		Full Year	
	Okt - Dec 2005	Okt - Dec 2004	Jan - Dec 2005	Jan - Dec 2004
Net sales	32 262	28 896	113 230	147 392
Costs of goods and services sold	(8 613)	(10 126)	(33 835)	(57 456)
Gross profit/loss	**23 649**	**18 770**	**79 395**	**89 936**
Sales, administrative and research costs	(46 527)	(27 352)	(159 162)	(169 921)
Share of earnings in associated companies	(8)	(26)	(8)	(26)
Operating profit/loss	**(22 886)**	**(8 608)**	**(79 775)**	**(80 011)**
Share of earnings in group companies	70 457	-	70 457	
Share of earnings in associated companies	-	3 059	-	3 059
Other financial items	510	566	(4 446)	1 861
Pre-tax profit/loss	**48 081**	**(4 983)**	**(13 764)**	**(75 091)**
Taxes	(96)	(76)	(120)	(127)
Profit/loss after taxes	**47 985**	**(5 059)**	**(13 884)**	**(75 218)**
Profit/loss for the period attributable to shareholders of the parent company	47 985	(5 059)	(13 884)	(75 218)
Profit/loss for the period attributable to minority interests	-	-	-	-
Profit/loss for the period	**47 985**	**(5 059)**	**(13 884)**	**(75 218)**
Key ratios				
Gross profit	73,3%	65,0%	70,1%	61,0%
Operating margin	Neg	Neg	Neg	Neg
Earnings per share (kronor) [1]	0,38	(0,04)	(0,12)	(0,64)
Earnings per share after dilution (kronor) [1]	0,37	(0,04)	(0,12)	(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

Oct - Dec 2004	Swedish accounting rules	Effect of transition to IFRS	IFRS
Net sales	28 896	-	28 896
Costs of goods sold	(10 126)	-	(10 126)
Gross profit/loss	**18 770**	**-**	**18 770**
Sales, administrative and research costs [2]	(35 193)	7 842	(27 352)
Share of earnings in associated companies	(26)	-	(26)
Rörelseresultat	**(16 449)**	**7 842**	**(8 608)**
Share of earnings in group companies	-	-	-
Share of earnings in associated companies	3 059	-	3 059
Other financial items	566	-	566
Pre-tax profit/loss	**(12 824)**	**7 842**	**(4 983)**
Taxes	(76)	-	(76)
Profit/loss after taxes	**(12 900)**	**7 842**	**(5 059)**

[2] Consists of costs of granting options to employees in the amount of -1.692 and reversed goodwill med in the amount of 9.534.

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/loss	**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 group companies	-	-	-
Share of earnings in associated companies	3 059	-	3 059
Other financial items	1 861	-	1 861
Pre-tax profit/loss	**(106 457)**	**31 366**	**(75 091)**
Taxes	(127)	-	(127)
Profit/loss after taxes	**(106 584)**	**31 366**	**(75 218)**

[3] Consists of costs of granting options to employees in the amount of –6,770 reversed goodwill in the amount of 38.136.

Summary of Balance Sheet

(SEK thousand)	*The Group*	
	2005-12-31	2004-12-31
Intangible fixed assets	357 536	368 031
Tangible assets	3 568	5 589
Financial fixed assets	5 346	5 155
Other current assets	128 200	52 210
Liquid assets, including current investments	211 490	41 740
Total assets	706 140	472 725
Shareholders' equity	555 690	385 629
Long-term provisions	4 231	13 692
Interest-bearing liabilities	-	-
Current provisions	28 021	19 410
Other current liabilities	118 198	53 994
Total liabilities and shareholders' equity	706 140	472 725

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

30 Dec 2004 (SEK thousand)	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 on 1 January 2005 [5] (SEK thousand)	IFRS 2004-12-31	Effect of transition to IFRS, IAS 39 2005-01-01	IFRS 2005-01-01
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 - Dec 2005	Jan - Dec 2004
Opening balance	**385 629**	**451 248**
Effects of transition to IFRS, IAS 39, as of 1 Jan 2005 [6]	365	-
Opening balance in accordance with new accounting rules	**385 994**	**451 248**
Issue of new shares	187 635	-
Costs of issuing new shares	(5 776)	
Recovered VAT for underwriting expenses	175	2 902
Costs of granting options [7]	1 190	6 770
Underwriting expenses		
Translation differences	356	(73)
Profit/loss for the period	(13 884)	(75 218)
Closing balance in accordance with new accounting rules	**555 690**	**385 629**

Effect of transition from Swedish accounting principles to IFRS on shareholders' equity — ***TheGroup***

	Jan - Dec 2004
Closing balance, Swedish accounting rules	**347 493**
Amortisation of goodwill	38 136
Costs of granting options	-
Closing balance in accordance with IFRS	**385 629**

[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.

Cash Flow Statement

The Group

(SEK thousand)	Q 4 Oct - Dec 2005	Oct - Dec 2004	Full Year Jan - Dec 2005	Jan - Dec 2004
Profit/loss after financial items	48 081	(4 983)	(13 764)	(75 091)
Adjustment for items not included in cash flow				
Change in provisions	(2 713)	(8 033)	(931)	(21 448)
Depreciation, amortisation and write-downs	6 512	7 591	26 299	28 486
Share of earnings in Group and associated companies	(70 449)	(3 033)	(70 449)	(3 033)
Costs of granting options	945	1 693	1 190	6 770
Other financial items	(510)	(566)	4 446	(1 861)
Taxes paid	(90)	(76)	(114)	(127)
Cash flow from operating activities before change in working capital	**(18 224)**	**(7 407)**	**(53 323)**	**(66 304)**
Change in working capital	564	(9 613)	60 251	(4 949)
Cash flow from operating activities	**(17 660)**	**(17 020)**	**6 928**	**(71 253)**
Net investments	(4 677)	(3 389)	(14 933)	(7 633)
Total cash flow before financing activities	**(22 337)**	**(20 409)**	**(8 005)**	**(78 886)**
Financing activities				
Issues of new shares	168 559	-	187 635	-
Cost of issues of new shares	(5 776)		(5 776)	
Change in long-term liabilities	-	(43)		(97)
Other financial items	510	566	(4 446)	1 861
Recovered VAT for underwriting expenses		2 903	175	2 903
Other items	(837)	(95)	81	(74)
Cash flow for the period	**140 119**	**(17 078)**	**169 664**	**(74 293)**
Liquid assets at the beginning of the period	71 371	58 818	41 826	116 033
Liquid assets at the end of the period	**211 490**	**41 740**	**211 490**	**41 740**

Key ratios — ***The Group***

	Oct - Dec 2005	Oct - Dec 2004	Jan - Dec 2005	Jan - Dec 2004
Cash flow for the year (tkr)	140 119	(17 078)	169 664	(74 293)
Cash flow per share (kronor) [7]	1,11	(0,14)	1,42	(0,63)
Cash flow per share after dilution (kronor) [7]	1,09	(0,14)	1,40	(0,63)

	2005-12-31	2004-12-31
Equity/assets ratio	78,7%	81,6%
Number of shares [9]	128 744 414	122 524 201
Shareholders' equity per share (kronor) [9]	4,32	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 (31 Dec 2005: 2,209,213; 31 Dec 2004: 4,655,000; 30 Sept 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 thousand)	Oct - Dec 2005	Oct - Dec 2004	Jan - Dec 2005	Jan - Dec 2004
Sales				
Anoto	27 069	21 542	92 316	94 900
C Technologies	5 193	7 354	20 914	52 492
Total	**32 262**	**28 896**	**113 230**	**147 392**
Operating profit/loss				
Anoto	(22 356)	(8 715)	(84 378)	(90 649)
C Technologies	(530)	107	4 603	10 638
Total	**(22 886)**	**(8 608)**	**(79 775)**	**(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.

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. The effect on operating earnings is a cost amounting to SEK 6,770 thousand in 2004 and approximately SEK 1,190 thousand in 2005. The reason for the lower cost in 2005 is new assumptions for the 2003 optionsprogramme. 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.

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 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.