Anoto Group

January-September 2005 Interim Report

- Third quarter sales totalled SEK 23 million (32), while sales for the Anoto business unit declined to SEK 18 million (22). January-September sales were SEK 81 million (118), of which the Anoto business unit accounted for SEK 65 million (73).

- The Group's third quarter gross profit rose to 75% (61), or SEK 17 million (20). The Group's gross profit for January-September increased to 69% (60), or SEK 56 million (71).

- Cash flow amounted to SEK –5 million (–18) for the third quarter and SEK 30 million (–57) for January-September. 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 –21 million (–16) for the third quarter and SEK –37 million (–22) for January-September. A restructuring reserve of SEK 15 million for closing the Stockholm office was charged to third quarter earnings.

- The loss after taxes was SEK –27 million (–32) for the third quarter and SEK –62 million (–70) for January-September.

- Earnings per share totalled SEK –0.22 (–0.27) for the third quarter and SEK –0.52 (–0.60) for January-September.

Operations

- Forms sales continued to grow in the third quarter, including a number of new commercial installations. The 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. Approximately 18,000 digital pens have been fully commercialised so far, and the company knows of an additional 19,000 that will be. That represents 20% more commercialised pens than in the second quarter.

- Anoto decided in the third quarter to run its Swedish operations out of Lund only and to close its Stockholm office. The phase-out of the Stockholm office in 2006 will affect some 15 employees. The associated costs have been set aside to a restructuring reserve.

- Anoto CEO Anders Tormod left the company, and Örjan Johansson, board member and manager of strategic business development, took over as acting CEO starting on 1 October 2005. In cooperation with a leading recruitment agency, Anoto has begun looking for a new CEO.

Key Developments after 30 September

- 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 adolescents, began on 17 October in the United States.

- 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 will set up the company's Silicon Valley office and assume responsibility for promoting pentop computing, the new digital pen and paper segment.

Remarks by CEO Örjan Johansson

The third quarter was a kind of transitional period characterised by a great deal of activity and preparation for the key Fly launch, as well as steady growth for pen sales and the number of forms customers, but limited sales from customer financed projects. Given that most Christmas revenue comes in the fourth quarter, sales included only a small percentage of Fly royalties.

Fly Pentop Computer, Interactive Media and Consumer Sales Prospects

Anoto and LeapFrog have been developing LeapFrog's Fly pentop computer over the past 18 months. On 17 October, it was launched throughout the United States at WalMart, Target, Toys "R" Us, Best Buy, K-Mart and Circuit City. Extensive, nationwide television commercials accompanied the effort.

The potential and new uses generated by Fly and real-time audio feedback have created great interest in solutions for age groups besides tweens, in other countries and in connection with applications that go beyond learning. Anoto has hired Jim Marggraff to make sure that we exploit that potential and grow in the interactive applications value chain. As a founder of LeapFrog, he is the man behind both LeapPad, more than 25 million of which have been sold, and the new Fly pentop computer.

Sales of Forms Solutions Approaching a Breakthrough

The number of pens and forms customers is steadily increasing. User feedback has been highly favourable. From the first meeting to pilot installations, procurement, systems design, installation and rollout, the sales process is relatively long. Our integrated forms solution offering is less than two years old, and many projects are now reaching the rollout phase.

Cash Flow to be Positive This Year Despite a Weak Third Quarter

Lower third quarter sales were due to limited revenue from customer-financed projects and the absence of non-recurring revenue from license agreements. Anoto's underlying business and recurring revenue increased once more from the previous quarter. The weak third quarter notwithstanding, we continue to expect positive cash flow for the year, partially due to large anticipated advance payments by LeapFrog.

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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.

Anoto CEO Anders Tormod left the company, and Örjan Johansson, board member and manager of strategic business development, took over as acting CEO starting on 1 October 2005. In cooperation with a leading recruitment agency, Anoto has begun looking for a new CEO.

Anoto decided in the third quarter to run its Swedish operations out of Lund only and to close its Stockholm office. The phase-out of the Stockholm office in 2006 will affect some 15 employees. SEK 14.8 million has been set aside to a restructuring reserve to cover the associated costs.

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.

In Anoto's estimation, 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 not reached 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 18,000 digital pens have been fully commercialised so far. Anoto knows of an additional 19,000 pens that are to be commercialised. But because 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. With an eye toward more rapid increases, Anoto will focus on sales and marketing in that area.

Europe

In cooperation with Anoto partner Destiny Wireless, the Leeds City Council will implement a large Destiny Digital Pen and Paper solution worth GBP 366,000 for 1,300 home help service employees. The order stems from a successful pilot project with 100 digital pens at the council's social services. The council expects to save GBP 1.2 million over the next two years by equipping home help service employees with the pens. The digital pen and paper solution will help the council cut down on administration and free up more time for providing services.

Working with Anoto partner Cartrel, the city of Solna in Sweden developed the Mobipen Care digital pen and paper solution for its home health care service employees. Using notepads kept by their clients and a digital pen, employees can quickly and easily document whom they call on, when they arrive and leave and what they do during the visit. Back at the office, they place their pens in a docking station for data transmission to a computer system.

In cooperation with G5ve Digital Solutions, Anoto partner Magicomm implemented a forms solution for TAC in Australia. Over 100 employees are using the solution when they are on the road to fill out service and risk assessment forms. Implementation took only three weeks following the agreement.

Rollout of Magicomm's application for the British police began with the Dorset and Lincolnshire authorities.

Japan

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

In cooperation with Anoto partner Nihon Unisys, Dai Nippon Printing provided the Tokyo Electric Power Company (TEPCO) with a forms solution for service technicians who maintain and inspect telephone poles. After the technician fills out a form with a digital pen, the data is transmitted in real time to TEPCO's central computer system. That allows TEPCO to monitor the data for future maintenance planning.

Dai Nippon Printing and Prof. Noguchi of Aichi Medical University tested a forms solution for emergency medical care of visitors to Expo 2005. It is Japan's first digital pen and paper solution for emergency medical care.

Anoto estimates that more than 100 pilot projects are under way in Japan and expects implementation to start in the fourth quarter.

United States

Interest by prospective new partners in the United States remains great.

Anoto partner Satori Labs obtained an order from the Livermore Optometry Group, a large northern California clinic. Livermore will be using Satori Lab's Fusion Form™ to automatically digitalise handwritten patient data and incorporate it into their existing electronic records.

Anoto partner Cardinal Brands has during the quarter been certified for Digital print.

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.

In September, LSA Magazine of Paris awarded two of Anoto's creative note solutions partners in its Innovative Concept Product of the Year category – Clairefontaine for its Paper PC Technology and Groupe Hamelin for its OXFORD Digital Notebook Easybook M3.

Maxell launched its new digital DP-201 pen in the third quarter. Slimmer and more elegant than Maxell's previous models, DP-201 is designed for systems integrators. 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.

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 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.

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 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 effort was completed in the third quarter. On 17 October, the pen was launched throughout the United States at WalMart, Target, Toys "R" Us, Best Buy, K-Mart and Circuit City. Extensive, nationwide television commercials accompanied the launch.

A brand new kind of product, the pen 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. Anoto receives royalties on pens, notepads, books and applications.

Having identified major remaining business potential in this area, Anoto will continue working with LeapFrog and other pen partners to develop the next-generation standard pentop based on Anoto technology.

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 in 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. Names of customers have not yet been unveiled, but products and solutions are being developed or manufactured and are progressing 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.

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

Öresundskraft AB confirmed during the second quarter that it is pursuing its optical scanning initiative.. Testing and assessment systems of MeterCam are now available for ordering. During the third quarter, Öresundskraft completed an end-to-end installation with MeterCam integrated into its Metrima metering database system. Expectations are that a commercial product will be ready in the fourth 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-September 2005 in Figures

Sales and Earnings for January-September

January-September sales totalled SEK 81 million (118), of which Anoto accounted for SEK 65 million (73) and C Technologies for SEK 16 million (45). The lower sales were due to a drop to SEK 7 million (29) in non-recurring revenue attributable to the LeapFrog project and a decline to SEK 0 million (23) in C Technologies camera sales.

The gross profit was 69% (60), or SEK 56 million (71). The lower gross profit 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 –37 million (–22).

January-September operating earnings of SEK –57 million (–71) were broken down between SEK –65 million (–82) for the Anoto business unit and SEK 8 million (11) for the C Technologies business unit.

Sales, administrative and research costs amounted to SEK –113 million (–143). 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 –107 million (–111). OpEx included SEK 14.7 million set aside to a restructuring reserve for closing the Stockholm office.

The pre-tax loss for January-September was SEK –62 million (–70).

SEK –20 million (–49) in depreciation of tangible fixed assets and amortisation of intangible fixed assets was charged to January-September earnings.

Cash Flow (January-September)

Cash flow from operating activities totalled SEK 25 million (–54) for January-September. 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 –15 million (–10) impact on cash flow.

SEK –10 million (–4) in net investments was charged to January-September cash flow of SEK 30 million (–57).

Sales and Earnings for July-September

Third quarter sales totalled SEK 23 million (32), of which Anoto accounted for SEK 18 million (22) and C Technologies for SEK 4 million (10). The lower sales were due to a drop to SEK 0 million (7) in non-recurring revenue attributable to the LeapFrog project and a decline in C Technologies camera sales.

The gross profit was 75% (61), or SEK 17 million (20). 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 –21 million (–16). SEK 14.7 million was set aside to a restructuring reserve for closing the Stockholm office and was charged to earnings.

The third quarter operating loss of SEK –27 million (–32) was broken down between SEK –31 million (–35) for the Anoto business unit and SEK 4 million (3) for the C Technologies business unit.

Sales, administrative and research costs amounted to SEK –44 million (–52). 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 –42 million (–42). OpEx included SEK 14.7 million set aside to a restructuring reserve for closing the Stockholm office.

The pre-tax loss for the third quarter was SEK –27 million (–32).

SEK –7 million (–16) in depreciation of tangible fixed assets and amortisation of intangible fixed assets was charged to the quarter's earnings.

Cash Flow (July-September)

Cash flow from operating activities totalled SEK –4 million (–17) for the third quarter. The improvement was chiefly attributable to better working capital as a result of large prepaid royalties. Payments of previous provisions had an impact of SEK –3 million (–2) on cash flow.

SEK –3 million (–2) in net investments was charged to the quarter's cash flow of SEK –5 million (–18).

Financing and Liquidity

The Group's liquid assets totalled SEK 71 million (59) on 30 September, representing a decrease of SEK 5 million for the third quarter.

The Parent Company

As a pure holding company, the parent company has a limited number of corporate functions and employees. January-September sales were SEK 24 million (17), while pre-tax earnings were SEK 0 million (–4). Liquid assets improved by SEK 8 million since the beginning of the year and totalled SEK 35 million (42) as of 30 September. 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. Shares numbered 119,535,201 on 30 September, in addition to which 3,966,725 warrants were outstanding, of which 2,327,500 were deemed to have a value as of 30 September.

Shareholders

The total number of shareholders in Anoto Group at the end of September was 10,815 and 64% of the shares were held abroad. Institutional and industrial shareholders controlled 89% of the shares. Norden Technology AS (19%), Logitech (10%), Robur Fonder (9%), DNB (7%), Enskilda Securities ASA (6%) and Odin Norden (4%) were the largest shareholders as of 30 September, controlling 55% 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), Bernard Gander (Logitech), Britt Reigo (Robur) and Svein Carlsson (Odin förvaltning AS). Board chairman Christer Fåhreaus is also a member, as well as convenor.

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 entitled per option	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 15 May 2003 annual meeting authorised the board to issue 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. A total of 1,595,000 of the remaining options have been awarded to employees as of 30 September 2005.

Key Developments after 30 September

Sales of LeapFrog’s Fly pentop computer began throughout the United States on 17 October at WalMart, Target, Toys “R” Us, Best Buy, K-Mart and Circuit City. Extensive, nationwide television commercials accompanied the launch.

Anoto hired Jim Marggraff to promote its growth in the interactive applications value chain. As a founder of LeapFrog, he is the man behind both LeapPad, more than 25 million of which have been sold, and the new Fly pentop computer.

Outlook

The Group

We expect service and royalty revenues in the area of forms processing to rise.

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. Some of the payments will be taken up as revenue in the fourth quarter of 2005.

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

Upcoming Interim Reports

Preliminary earnings report for 2005	9 February 2006

The company’s auditors have not examined this report.

Lund, 3 November 2005

Örjan Johansson
CEO

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

(SEK thousand)	Q3		Cumulative		Full year
	July-Sept 2005	July-Sept 2004	Jan-Sept 2005	Jan-Sept 2004	Jan-Dec 2004
Net sales	22 731	32 115	80 968	118 496	147 392
Costs of goods and services sold	(5 712)	(12 477)	(25 222)	(47 330)	(57 456)
Gross profit/loss	**17 019**	**19 638**	**55 746**	**71 166**	**89 936**
Sales, administrative and research costs	(44 280)	(51 946)	(112 635)	(142 569)	(169 921)
Share of earnings in associated companies	-	-	-	-	(26)
Operating profit/loss	**(27 261)**	**(32 308)**	**(56 889)**	**(71 403)**	**(80 011)**
Share of earnings in associated companies	-	-	-	-	3 059
Other financial items	688	264	(4 956)	1 295	1 861
Pre-tax profit/loss	**(26 573)**	**(32 044)**	**(61 845)**	**(70 108)**	**(75 091)**
Taxes	-	(50)	(24)	(51)	(127)
Profit/loss after taxes	**(26 573)**	**(32 094)**	**(61 869)**	**(70 159)**	**(75 218)**
Profit/loss for the period attributable to shareholders of the parent company	(26 573)	(32 094)	(61 869)	(70 159)	(75 218)
Profit/loss for the period attributable to minority interests	-	-	-	-	-
Profit/loss for the period	**(26 573)**	**(32 094)**	**(61 869)**	**(70 159)**	**(75 218)**
Key ratios					
Gross profit	74,9%	61,1%	68,8%	60,1%	61,0%
Operating margin	Neg	Neg	Neg	Neg	Neg
Earnings per share (kronor) [1]	(0,22)	(0,27)	(0,52)	(0,60)	(0,64)
Earnings per share after dilution (kronor) [1]	(0,22)	(0,27)	(0,52)	(0,60)	(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

July-Sept 2004	Swedish accounting rules	Effect of transition to IFRS	IFRS
Net sales	32 115	-	32 115
Costs of goods sold	(12 477)	-	(12 477)
Gross profit/loss	**19 638**	**-**	**19 638**
Sales, administrative and research costs [2]	(59 787)	7 842	(51 946)
Operating profit/loss	**(40 149)**	**7 842**	**(32 308)**
Other financial items	264	-	264
Pre-tax profit/loss	**(39 885)**	**7 842**	**(32 044)**
Taxes	(50)	-	(50)
Profit/loss after taxes	**(39 935)**	**7 842**	**(32 094)**

[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-Sept 2004	Swedish accounting rules	Effect of transition to IFRS	IFRS
Net sales	118 496	-	118 496
Costs of goods sold	(47 330)	-	(47 330)
Gross profit/loss	**71 166**	**-**	**71 166**
Sales, administrative and research costs [3]	(166 093)	23 525	(142 569)
Share of earnings in associated companies	-	-	-
Operating profit/loss	**(94 927)**	**23 525**	**(71 403)**
Other financial items	1 295	-	1 295
Pre-tax profit/loss	**(93 632)**	**23 525**	**(70 108)**
Taxes	(51)	-	(51)
Profit/loss after taxes	**(93 683)**	**23 525**	**(70 159)**

[3] Consists of costs of granting options to employees in the amount of –5,077 and non-amortization of goodwill in the amount of 28,602.

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 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)**

[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 thousand)	2005-09-30	2004-09-30	2004-12-31
Intangible fixed assets	360 830	368 185	368 031
Tangible assets	3 195	6 514	5 589
Financial fixed assets	5 371	5 274	5 155
Other current assets	33 862	43 598	52 210
Liquid assets, including current investments	71 371	58 818	41 740
Total assets	474 629	482 389	472 725
Shareholders' equity	344 411	386 142	385 629
Long-term provisions	6 088	16 433	13 692
Interest-bearing liabilities	-	43	-
Current provisions	28 796	24 702	19 410
Other current liabilities	95 334	55 069	53 994
Total liabilities and shareholders' equity	474 629	482 389	472 725

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

30 Sept 2004 (SEK thousand)	Swedish accounting rules	Effect of transition to IFRS	IFRS
Intangible fixed assets	339 583	28 602	368 185
Tangible assets	6 514	-	6 514
Financial fixed assets	5 274	-	5 274
Other current assets	43 598	-	43 598
Liquid assets, including current investments	58 818	-	58 818
Total assets	453 787	28 602	482 389
Shareholders' equity	357 540	28 602	386 142
Long-term provisions	16 433	-	16 433
Interest-bearing liabilities	43	-	43
Current provisions	24 702	-	24 702
Other current liabilities	55 069	-	55 069
Total liabilities and shareholders' equity	453 787	28 602	482 389

31 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-Sept 2005	Jan-Sept 2004	Jan-Dec 2004
Opening balance	**385 629**	**451 248**	**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**	**451 248**
Issue of new shares	19 076	-	-
Recovered VAT for underwriting expenses	175	-	2 902
Costs of granting options [7]	(219)	5 077	6 770
Underwriting expenses	(43)	-	-
Translation differences	1 297	(24)	(73)
Profit/loss for the period	(61 869)	(70 159)	(75 218)
Closing balance in accordance with new accounting rules	**344 411**	**386 142**	**385 629**

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

	Jan-Sept 2004	Jan-Dec 2004
Closing balance, Swedish accounting rules	**357 540**	**347 493**
Amortisation of goodwill	28 602	38 136
Costs of granting options	-	-
Closing balance in accordance with IFRS	**386 142**	**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.

[7] During the third quarter of 2005, the Group incurred a negative expense for awarding options due to returned options and changed conditions.

Cash Flow Statement **_The Group_**

(SEK thousand)	July-Sept 2005	July-Sept 2004	Jan-Sept 2005	Jan-Sept 2004	Jan-Dec 2004
Profit/loss after financial items	(26 573)	(32 044)	(61 845)	(70 108)	(75 091)
Adjustment for items not included in cash flow					
Change in provisions	13 692	6 529	1 782	(13 415)	(21 448)
Depreciation, amortisation and write-downs	6 740	6 683	19 787	20 895	28 486
Share of earnings in Group and associated companies	-	-	-	-	(3 033)
Costs of granting options	(2 807)	1 692	245	5 077	6 770
Other financial items	(1 451)	(264)	4 956	(1 295)	(1 861)
Taxes paid	-	(50)	(24)	(51)	(127)
Cash flow from operating activities					
before change in working capital	**(10 399)**	**(17 454)**	**(35 099)**	**(58 897)**	**(66 304)**
Change in working capital	6 065	228	59 687	4 664	(4 949)
Cash flow from operating activities	**(4 334)**	**(17 226)**	**24 588**	**(54 233)**	**(71 253)**
Net investments	(2 946)	(1 658)	(10 256)	(4 244)	(7 633)
Total cash flow before financing activities	**(7 280)**	**(18 884)**	**14 332**	**(58 477)**	**(78 886)**
Financing activities					
Issues of new shares	229	-	19 076	-	-
Change in long-term liabilities	-	(6)	-	(54)	(97)
Other financial items	1 451	264	(4 956)	1 295	1 861
Recovered VAT for underwriting expenses	175	-	175	-	2 903
Other items	(39)	141	918	21	(74)
Cash flow for the period	**(5 464)**	**(18 485)**	**29 545**	**(57 215)**	**(74 293)**
Liquid assets at the beginning of the period*	76 835	77 303	41 826	116 033	116 033
Liquid assets at the end of the period*	**71 371**	**58 818**	**71 371**	**58 818**	**41 740**

*Cash, bank balances and current investments

Key ratios ***The Group***

	July-Sept 2005	July-Sept 2004	Jan-Sept 2005	Jan-Sept 2004	Jan-Dec 2004
Cash flow for the period (SEK thousand)	(5 464)	(18 485)	29 545	(57 215)	(74 293)
Cash flow per share (kronor) [8]	(0,05)	(0,16)	0,25	(0,49)	(0,63)
Cash flow per share after dilution (kronor) [8]	(0,05)	(0,16)	0,24	(0,49)	(0,63)

	2005-09-30	2004-09-30	2004-12-31
Equity/assets ratio	72,6%	80,0%	81,6%
Number of shares [9]	121 862 701	122 524 201	122 524 201
Shareholders' equity per share (kronor) [9]	2,83	3,15	3,15

[8] 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.

[9] Including outstanding warrants (30 Sept 2005: 2,327,500; 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)	July-Sept 2005	July-Sept 2004	Jan-Sept 2005	Jan-Sept 2004	Jan-Dec 2004
Sales					
Anoto	18 429	22 409	65 247	73 358	94 900
C Technologies	4 302	9 706	15 721	45 138	52 492
Total	**22 731**	**32 115**	**80 968**	**118 496**	**147 392**
Operating profit/loss					
Anoto	(31 353)	(35 693)	(65 125)	(81 934)	(90 649)
C Technologies	4 092	3 385	8 236	10 531	10 638
Total	**(27 261)**	**(32 308)**	**(56 889)**	**(71 403)**	**(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 695 thousand in 2005. The reason for the lower cost in 2005 is new assumptions for class B. 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.