



Anoto Group January – September 2006 Interim Report

- Third quarter sales were SEK 25 million (23). January-September sales totalled SEK 79 million (81).
- The Group's third quarter gross margin was 70% (75), or SEK 17 million (17). The gross margin for January-September was 76% (69), or SEK 60 million (56).
- Earnings before depreciation and amortization for the third quarter were SEK –28 million (–21). The new Content and Applications business unit (Anoto Inc. in the United States) accounted for SEK –10 million (0) of the loss. Earnings before depreciation and amortization for January-September were SEK –75 million (–37). Content and Applications accounted for SEK –31 million (0) of the January-September loss.
- Earnings after taxes were SEK –33 million (–27) for the third quarter and SEK –93 million (–62) for January-September.
- Earnings per share totalled SEK –0.26 (–0.22) for the third quarter and SEK –0.73 (–0.52) for January-September.
- Cash flow amounted to SEK –42 million (–5) for the third quarter and SEK –7 million (30) for January-September.

Operations

- Anders Norling took over as CEO in the third quarter.
- The Forms Solutions application area continued to grow in the third quarter. Active Forms Solutions users numbered approximately 42,000, up 13% from the previous quarter and 133% from a year ago.
- Anoto signed a service provider agreement with Order-Made Souyaku, a new Japanese partner. The value of the contract is 3 MSEK.
- Anoto reorganised in order to better implement its new strategy.

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.



Key Developments after 31 September

- After the third quarter a new agreement has been signed on development of IP-blocks for a leading manufacturer of mobile phone platforms. The value of the contract is approx. 3,5 MSEK and will be recognized during 2007.
- After the third quarter a new order has also been signed within C Technologies. The value of the order is approx. 13 MSEK and will be recognized mainly during 2007.

A word from CEO Anders Norling

A lot of hard work and many new impressions went into my first quarter as CEO of Anoto AB. Talks with a number of partners and end-customers reinforced my confidence in the potential of Anoto's forms processing solutions. Our operations and new organisational structure both reflect this view.

New organisation in place

We set the stage in the third quarter for a new strategy that focuses even more on the forms business. The decision was based on the strong growth that the forms business has experienced over the past year, as well as the potential we see in this area. The goal of the strategy is to expand the content of Anoto's product offering so as to simplify the sales processes of our partners as well as shorten the sales cycles to end-customers.

As a result of the challenges posed by the new strategy, we adopted substantial reorganisation measures that stressed the promotion of international sales and marketing. As a first step, we hired a new sales and marketing manager, Lars Hermansen who has a broad experience of partner sales.

Big changes within Forms Solutions

We have already started working on developing a complete forms offering. The goal is that within six months we will be able to offer our old and new partners a product that is considerably easier to implement.

Forms Solutions grew somewhat slower than expected

The number of active pens increased somewhat less than anticipated during the third quarter. However we did not note any loss of interest in the area and believe that growth will remain strong.

New Japanese partner

Anoto signed a service provider agreement in the third quarter with Order-Made Souyaku, a promising new Japanese partner. Order-Made Souyaku will develop products and services based on Anoto technology for digital pen and paper. The company, which is headed up by Yozo Ohnishi – one of the leading international genetic engineering specialists – designs electronic medical record and clinical research systems for the Japanese healthcare and pharmaceutical industry.

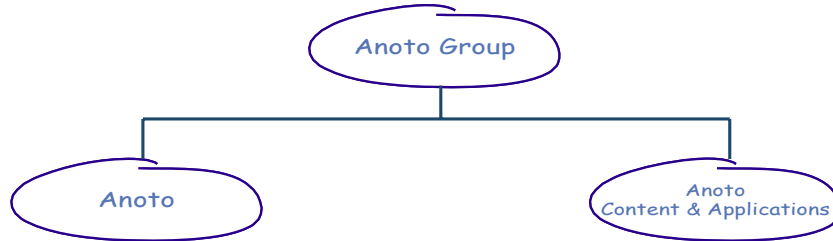
C Technologies

The C Technologies application area did well in the third quarter, and sales proceeded according to plan. After the third quarter also a new big order has been signed. In order to further increase sales we have reviewed the operations and hired yet another sales person.



Operations

New business units



As of 2006, Anoto is broken down into the following business units.

1. The Anoto business unit consists of the company's traditional activities in the following application areas.
 - Forms Solutions
 - Interactive Media
 - Personal Productivity
 - Technology (ASIC)
 - C Technologies

2. The Content and Applications business unit focuses on the design of development tools and the construction of a network for third-party developers, as well as the marketing of proprietary and third-party applications for the next-generation interactive pen (Pentop).

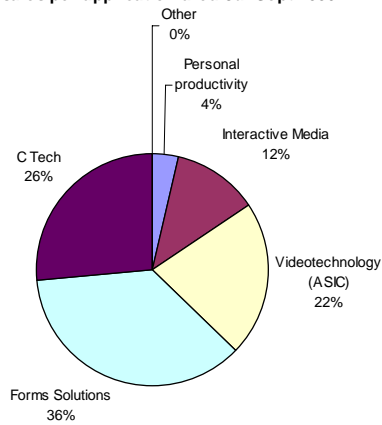
I. Anoto business unit

	Jul-Sept 2 006	Jul-Sept 2 005	Jan-Sept 2 006	Jan-Sept 2 005
Net sales	23 887	22 731	78 650	80 968
Gross profit	16 969	17 019	60 101	55 746
EBITDA	(18 405)	(20 521)	(43 711)	(37 102)
Operating loss	(24 700)	(27 261)	(62 123)	(56 889)

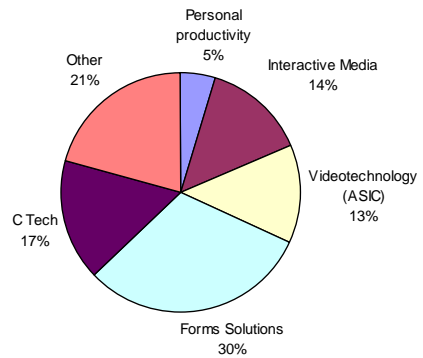
Third quarter sales were in line with 2005, but the revenue mix changed considerably. Revenue more than doubled for Forms Solutions but decreased substantially for Interactive Media. The reduction was due to the fact that 2005 revenue from Interactive Media was largely attributable to non-recurring engineering (NRE) for Dai Nippon Printing (DNP).



Net sales per application area Jul-Sept 2006

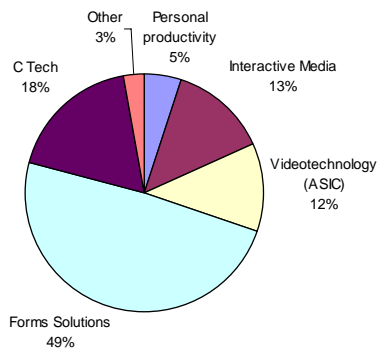


Net sales per application area Jan-Sept 2006

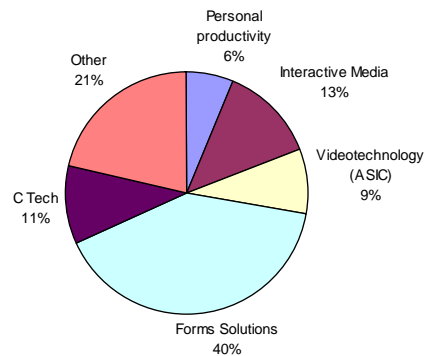


Forms Solutions accounted for 36% of Anoto's sales in the third quarter and 30% (51% including license revenue attributable to Anoto Taiwan in the first quarter) in January-September.

Gross profit per application area Jul-Sept 2006



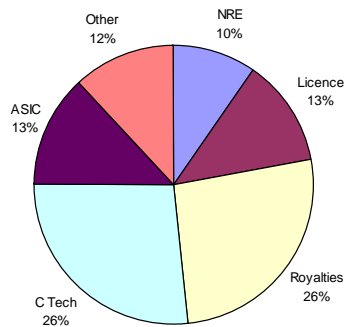
Gross profit per application area July-Sept 2006



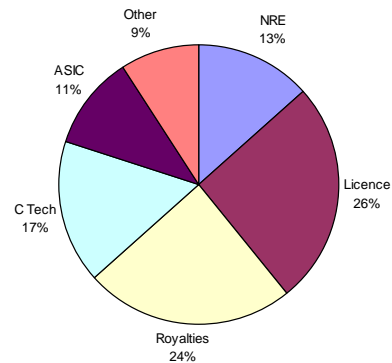
Forms Solutions accounted for 49% of Anoto's gross profit in the third quarter and 40% (61% including license revenue attributable to Anoto Taiwan in the first quarter) in January-September.



Net sales per revenue category Jul-Sept 2006



Net sales per revenue category Jan-Sept 2006



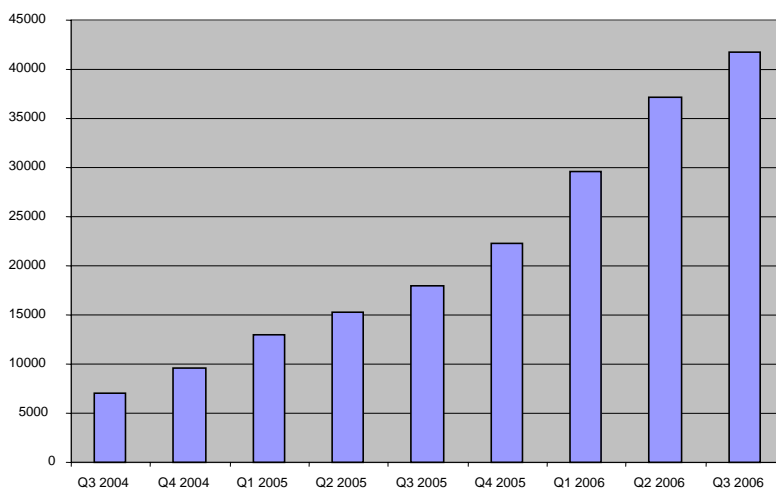
Revenue from ongoing royalties and product sales (Royalties, C Tech, ASIC and Other) accounted for 77% of net sales in the third quarter and 61% in January-September.

Forms Solutions

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

Active forms users rose during the third quarter by 5,000 to approximately 42,000, up by 133% on an annual basis and 13% from the previous quarter. Partly due to the postponement of some planned installations, the increase was less than expected. Considering that orders received were still solid, the growth in the number of active forms users is set to remain vigorous.

Active forms users





Interactive Media

This application area uses Anoto technology for products based on a combination of digital material (books, cards and the like) and a digital pen that enables immediate feedback by means of voice, audio, etc. The concept supports learning and teaching products that are simple, intuitive and entertaining for the user.

Sales of the LeapFrog FLY Pentop Computer are highly cyclical. During the third quarter, LeapFrog began advertising ahead of the new school year. Sales proceeded according to plan and are expected to accelerate in the fourth quarter, as the holiday season approaches.

LeapFrog will launch next generation Fly, FLY Fusion™ in 2007. FLY Fusion™ will expand LeapFrog's age segment profile with an improved software library, web connectivity and a sleeker form factor.

Talks are under way with DNP concerning next-generation digital pen solutions.

Personal Productivity

The Personal Productivity application area focuses on developing and marketing products that make it easier for people to communicate and be efficient in their daily lives. Offering such products through its partners, Anoto targets the end-customer. Digital pens, as well as PC and mobile phone applications, are all included.

Groupe Hamelin are selling Oxford Easybook and have launched version 2 of the Denos software, also the Oxford Digital Diary for 2007 is now for sale. The Oxford Easybook is also used for mobile applications with BlackBerry by Anoto partner PaperIQ.

Anoto Technology

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

The application area did well during the quarter and proceeded with development efforts based on previously announced contracts.

C Technologies

The products of the C Technologies application area, 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 energy efficiency and high performance.

Sales of the C-Pen 20 rose after several sluggish quarters, and its prospects are good going forward.

II. Content and Applications business unit

	Jul-Sept 2 006	Jul-Sept 2 005	Jan-Sept 2 006	Jan-Sept 2 005
Net sales	752	-	752	-
Gross profit	217	-	217	-
EBITDA	(9 630)	-	(30 868)	-
Operating loss	(9 997)	-	(31 768)	-

Content and Applications

The Content and Applications business unit focuses on the design of development tools and the construction of a network for third-party developers, as well as the marketing of proprietary and third-party applications for the next-generation interactive pen (Pentop).

Sales of Anoto's proprietary Suduko application for the FLY Pentop Computer were launched in the third quarter.



In addition, the business unit concentrated on defining and developing applications for the next-generation Pentop. Meanwhile, discussions proceeded with prospective strategic partners for the purpose of driving the Pentop market.

Anoto Group AB, the third quarter of 2006 in figures

Sales and earnings for July-September

Third quarter sales increased by 8% to SEK 25 million (23). Sales rose at Forms Solutions, C Technologies and ASIC while falling at Interactive Media.

The gross profit held steady at SEK 17 million (17), but the gross margin declined to 70% (75) due to a somewhat larger percentage of revenue from C Technologies and ASIC.

The loss before depreciation and amortisation was SEK –28 million (–21). The Content and Applications business unit accounted for SEK –10 million (0) of the loss.

Sales, administrative and research costs amounted to SEK –52 million (–44), of which depreciation and amortisation accounted for SEK –7 million (–7) and Content and Applications for SEK –10 million (0).

The third quarter operating loss of SEK –35 million (–27) was broken down between SEK –24 million (–27) for the Anoto business unit and SEK –10 million (0) for the Content and Applications business unit.

Cash flow (July-September)

Cash flow from operating activities totalled SEK –39 million (–4) for the third quarter. Payments of previous provisions had an impact of SEK –6 million (–3) on cash flow. SEK –2 million (–3) in net investments was charged to January-September cash flow of SEK –42 million (–5).

Financing and liquidity

At the close of January-September, the Group's liquid assets, including current investments, amounted to SEK 204 million (71).

Anoto Group AB

As a pure holding company, Anoto Group AB has a limited number of corporate functions and employees. January-September sales were SEK 9 million (24), while pre-tax earnings were SEK 3 million (0). At the close of January-September, liquid assets, including current investments, amounted to SEK 172 million (35). Investments came to SEK 0 million (0).

Accounting policies

This interim report was prepared in accordance with IAS 34, Interim Financial Reporting. For information about the accounting policies applied, refer to the 2005 annual report. The accounting policies are unchanged from those applied in 2005.

Share data

The Anoto Group share is quoted on the Mid Cap list of the Nordic Exchange. Shares totalled 128,583,867 at the end of January-September, in addition to which 4,799,400 warrants were outstanding, of which 0 were deemed to have a value as of 30 September.

Shareholders

Anoto Group shareholders numbered 10,217 at the end of January-September. Foreign shareholders held 56%, and institutional and industrial shareholders 86%, of the shares. Norden Technology AS, DNB, Robur Fonder, Logitech, Carlsson Fonder and Sofa were the largest shareholders as of 30 September, controlling 52% of Anoto Group shares.

Incentive programmes

Anoto Group AB has issued options as part of various incentive programmes. Full exercise of all programmes would result in total dilution of about 5% as of 30 September 2006.



Prospects for 2006

Group

Anoto anticipates that the number of active users of forms pens will continue to grow rapidly in 2006. The 2005 increase was 120%.

Anoto also believes that all ongoing royalties will rise sharply in 2006. Last year saw 74% growth from SEK 14 million to SEK 25 million.

Anoto expects the Content and Applications business unit to obtain its initial revenue from external customers during the second half of the year.

Upcoming interim reports

Year-end report for 2006 7 February 2007

The company's auditors have not reviewed this report.

Lund, 8 November 2006

Anders Norling
CEO



Profit & Loss statement summary

The Group

(SEK thousand)

	Quarter 3		2006 (Q1-Q3)		Full year	
	July - Sept 2006	July - Sept 2005	Jan - Sept 2006	Jan - Sept 2005	Jan - Dec 2005	Jan - Dec 2004
Net sales	24 639	22 731	79 402	80 968	113 230	147 392
Costs of goods and services sold	(7 453)	(5 712)	(19 084)	(25 222)	(33 835)	(57 456)
Gross profit/loss	17 186	17 019	60 318	55 746	79 395	89 936
Sales, administrative and research costs	(51 883)	(44 280)	(154 209)	(112 635)	(159 162)	(169 921)
Share of earnings in associated companies	-	-	-	-	(8)	(26)
Operating profit/loss	(34 697)	(27 261)	(93 891)	(56 889)	(79 775)	(80 011)
Share of earnings in group companies	-	-	(769)	-	70 457	-
Share of earnings in associated companies	-	-	-	-	-	3 059
Other financial items	1 599	688	1 737	(4 956)	(4 446)	1 861
Profit before taxes	(33 098)	(26 573)	(92 923)	(61 845)	(13 764)	(75 091)
Taxes	8	-	(367)	(24)	(120)	(127)
Profit/loss for the period	(33 090)	(26 573)	(93 290)	(61 869)	(13 884)	(75 218)
Key ratios						
Gross profit	69,8%	74,9%	76,0%	68,8%	70,1%	61,0%
Operating margin	Neg	Neg	Neg	Neg	Neg	Neg
Earnings per share (kronor) ¹	(0,26)	(0,23)	(0,73)	(0,52)	(0,12)	(0,64)
Earnings per share after dilution (kronor) ¹	(0,26)	(0,23)	(0,73)	(0,52)	(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.



Summary of Balance Sheet

(SEK thousand)

Intangible fixed assets
Tangible assets
Financial fixed assets
Other current assets
Liquid assets, including current investments
Total assets
Shareholders' equity
Long-term provisions
Interest-bearing liabilities
Current provisions
Other current liabilities
Total liabilities and shareholders' equity

The Group

2006-09-30	2005-09-30	2005-12-31	2004-12-31
348 654	360 830	357 536	368 031
5 343	3 195	3 568	5 589
5 190	5 371	5 346	5 155
48 214	33 862	128 200	52 210
204 219	71 371	211 490	41 740
611 620	474 629	706 140	472 725
494 810	344 411	555 690	385 629
4 231	6 088	4 231	13 692
-	-	-	-
3 437	28 796	28 021	19 410
109 142	95 334	118 198	53 994
611 620	474 629	706 140	472 725

Change in shareholders' equity

Opening balance
Effects of transition to IFRS, IAS 39, as of 1 Jan 2005
Issue of new shares
Recovered VAT for underwriting expenses
Costs of granting options
Translation differences
Profit/loss for the period
Closing balance in accordance with new accounting rules

The Group

Jan - Sept 2006	Jan - Sept 2005	Jan - Dec 2005	Jan - Dec 2004
555 690	385 629	385 629	451 248
-	365	365	-
27 261	19 076	181 859	-
-	175	175	2 902
5 406	(219)	1 190	6 770
(257)	1 254	356	(73)
(93 290)	(61 869)	(13 884)	(75 218)
494 810	344 411	555 690	385 629

Cash Flow Statement

(SEK thousand)

July - Sept 2006	July - Sept 2005	Jan - Sept 2006	Jan - Sept 2005	Jan - Dec 2005	Jan - Dec 2004	
Profit/loss after financial items	(33 099)	(26 573)	(92 924)	(61 845)	(13 764)	(75 091)
Adjustment for items not included in cash flow						
Change in provisions	(5 915)	13 692	(24 584)	1 782	(931)	(21 448)
Depreciation, amortisation and write-downs	6 663	6 740	19 312	19 787	26 299	28 486
Profit on shares in Group and associated companies	-	-	-	-	(70 449)	(3 033)
Costs of granting options	1 385	(2 807)	5 406	245	1 190	6 770
Other financial items	1 599	(1 451)	1 736	4 956	4 446	(1 861)
Taxes paid	8		(367)	(24)	(114)	(127)
Cash flow from operating activities before change in working capital	(29 359)	(10 399)	(91 421)	(35 099)	(53 323)	(66 304)
Change in working capital	(9 330)	6 065	70 931	59 687	60 251	(4 949)
Cash flow from operating activities	(38 689)	(4 334)	(20 490)	24 588	6 928	(71 253)
Net investments	(2 154)	(2 946)	(12 169)	(10 256)	(14 933)	(7 633)
Total cash flow before financing activities	(40 843)	(7 280)	(32 659)	14 332	(8 005)	(78 886)
Financing activities						
Issues of new shares	-	229	27 261	19 076	187 635	-
Cost of issues of new shares	-	-	-	-	(5 776)	-
Change in long-term liabilities	-	-	-	-	-	(97)
Other financial items	(1 599)	1 451	(1 736)	(4 956)	(4 446)	1 861
Recovered VAT for underwriting expenses	-	175	-	175	175	2 903
Other items	3	(39)	(137)	918	81	(74)
Cash flow for the period	(42 439)	(5 464)	(7 271)	29 545	169 664	(74 293)
Liquid assets at the beginning of the period*	246 658	76 835	211 490	41 826	41 826	116 033
Liquid assets at the end of the period*	204 219	71 371	204 219	71 371	211 490	41 740

The Group

*Cash, bank balances and current investments with a duration of less than 6 months



Key ratios

	The Group					
	July - Sept 2006	July - Sept 2005	Jan - Sept 2006	Jan - Sept 2005	Jan - Dec 2005	Jan - Dec 2004
Cash flow for the year (ksek)	(42 439)	(5 464)	(7 271)	29 545	169 664	(74 293)
Cash flow per share (sek) ²	(0,33)	(0,05)	(0,06)	(0,01)	1,42	(0,63)
Cash flow per share after dilution (sek) ²	(0,33)	(0,05)	(0,06)	(0,01)	1,40	(0,63)

	2006-09-30	2005-09-30	2005-12-31	2004-12-31
Equity/assets ratio	80,9%	72,6%	78,7%	81,6%
Number of shares ³	128 583 867	121 862 701	128 744 414	122 524 201
Shareholders' equity per share (kronor) ³	3,85	2,83	4,32	3,15

2 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.

3 Including outstanding warrants (06-09-31: 0; 05-12-31: 2 209 213; 05-06-30: 0 04-12-31: 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

(SEK thousand)	The Group					
	July - Sept 2006	July - Sept 2005	Jan - Sept 2006	Jan - Sept 2005	Jan - Dec 2005	Jan - Dec 2004
Sales						
Anoto	23 887	22 731	78 650	80 968	113 230	147 392
Anoto Content & Applications	752	-	752	-	-	-
Total	24 639	22 731	79 402	80 968	113 230	147 392
Operating profit/loss						
Anoto	(24 700)	(27 261)	(62 123)	(56 889)	(73 722)	(80 011)
Anoto Content & Applications	(9 997)	-	(31 768)	-	(6 053)	-
Total	(34 697)	(27 261)	(93 891)	(56 889)	(79 775)	(80 011)
Cash flow						
Anoto	(31 987)	(5 464)	27 004	29 545	175 717	(74 293)
Anoto Content & Applications	(10 452)	-	(34 275)	-	(6 053)	-
Total	(42 439)	(5 464)	(7 271)	29 545	169 664	(74 293)



For more information

You are welcome to take part in Anoto's upcoming teleconference for financial analysts and the media.

Date	Wednesday, 8 November 2006
Time	10.00
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