



Anoto Group, January – June 2006 Interim Report

- Second quarter sales were SEK 15 million (29). January-June sales totalled SEK 55 million (58).
- The Group's second quarter gross margin was 79% (68), or SEK 11 million (20). The Group's gross margin for January-June was 79% (66), or SEK 43 million (39).
- Earnings before depreciation and amortization for the second quarter were SEK –36 million (–9). The Content and Applications business unit (Anoto Inc., US) accounted for SEK –13 million (0) of the loss. Earnings before depreciation and amortization for January-June were SEK –47 million (–17). The Content and Applications business unit accounted for SEK –22 million (0) of the January-June loss.
- Earnings after taxes were SEK –46 million (–20) for the second quarter and SEK –60 million (–35) for January-June.
- Earnings per share totalled SEK –0.36 (–0.17) for the second quarter and SEK –0.47 (–0.30) for January-June.
- Cash flow amounted to SEK –30 million (36) for the second quarter and SEK 35 million (35) for January-June.
- The Company no longer anticipates a profit before depreciation and amortization for 2006.

Operations

- The new CEO as of today is Anders Norling, former CEO of Sensys Traffic AB. He succeeds Mats Blom who has been acting CEO since June 19. Mats Blom resumes his role as the Company's CFO.
- The Forms Solutions application area continues its growth. The number of active forms users grew to approximately 37,000, up 26% from the previous quarter and 144% from a year ago.
- The third consecutive Anoto Functionality Conference was held in Copenhagen. The conference attracted close to 200 participants, more than ever before, from 29 countries.
- The Anoto Technology application area has signed a new contract with a global manufacturer of mobile phone platforms.
- Anoto has continued to build its Content and Applications business unit, Anoto Inc., US. The Company is currently in discussion with potential strategic partners to drive the Pentop market.

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.



A word from Mats Blom, acting CEO

Forms Solutions has continued to grow during the second quarter and has increased the Company's gross margins.

The Forms Solutions application area focuses on systems, services and products and aim to save time and money in businesses that process large numbers of forms. The number of active forms users continues to grow at a high level.

Among Anoto's partners are system integrators, mobile operators, software developers and IT consultants. We are seeing an increase in the number of business discussions for larger installations of forms solutions. The record number of participants and the many new commercial solutions from around the world, presented at the third Anoto Functionality Conference in Copenhagen, were further evidence of this interest.

Strategic decision to prioritize development of Forms Solutions market

Based on the strong growth in the Forms Solutions application area, we have decided to focus further resources in this area. The aim is to better and faster meet our customers demand as well as shorten the sales cycles in order to further increase growth within Forms Solutions. This will be accomplished through better product development and product packaging.

Non-recurring license and NRE business will decline over time

During the second quarter, the Company received no license or NRE revenues which has previously accounted for a significant part of Anoto's revenues. As the Company accelerates growth in the Forms Solutions market, it expects that non-recurring license fees and NRE revenues will decline over time.

New contract within Anoto Technology application area

During the second quarter, Anoto obtained an additional video technology contract from a global manufacturer of mobile phone platforms. We continue to anticipate good business opportunities and an ongoing expansion in this segment.

Content and Applications business unit (Anoto Inc., US) sees future growth in the Pentop market

The Content and Applications business unit is focused on designing development tools, building a web infrastructure for third-party developers and marketing proprietary and third party applications for the next-generation interactive pen (Pentop).

During the second quarter the Content & Applications unit focused on defining and developing applications for the next generation Pentop. Meanwhile, discussions are under way with potential strategic partners to drive the Pentop market.

LeapFrog, the Company's largest strategic pen partner in the United States, is bullish on its FLY Pentop computer franchise. Jeff Katz, CEO of LeapFrog, stated in LeapFrog's second quarter earnings call, "This is a knockout product...I think that you can expect to see [this] product have important legs...The platform itself will evolve. The software will be broader. The marketing and services around it will also be broader. I think that as a platform this has really more and more appeal to us as we shape the business for the next several years."

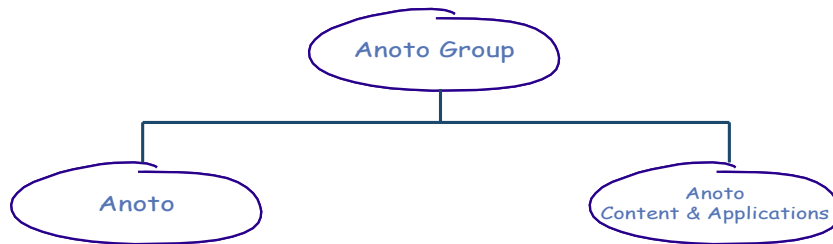
New CEO

We are very pleased to present Anders Norling as Anoto's new CEO. I and the Board are confident that Anders' past success in developing a fast growing, profitable technology company will be a great asset to Anoto. I will return to my position as the Company's CFO.



Operations

Business units



As of 2006, Anoto’s operations include 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 is focused on designing development tools, building a web infrastructure for third-party developers, and marketing proprietary and third party applications for the next-generation interactive pen (Pentop).

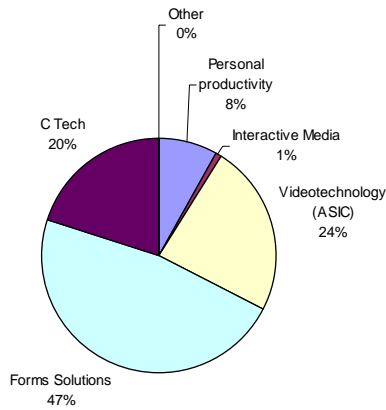
I. Anoto business unit

	Apr-Jun 2 006	Apr-Jun 2 005	Jan-Jun 2 006	Jan-Jun 2 005
Net sales	14 543	29 480	54 764	58 237
Gross profit	11 475	19 936	43 133	38 727
EBITDA	(23 124)	(8 635)	(25 306)	(16 581)
Operating loss	(29 084)	(15 258)	(37 423)	(29 628)

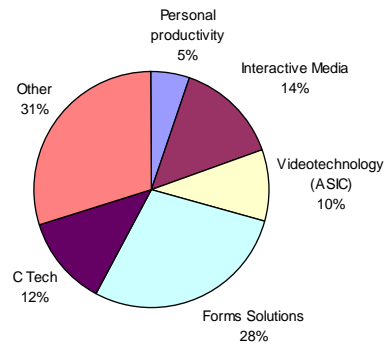
The lower second quarter sales for the Anoto business unit were primarily due to the absence of non-recurring revenue from licenses, NRE (product development for external partners), etc., as opposed to approximately SEK 17 million during the same period of 2005. Revenue from ongoing royalties and product sales were higher than the year before.



Net sales per application area Apr-Jun 2006

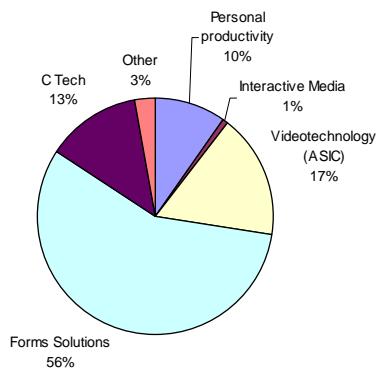


Net sales per application area Jan-Jun 2006

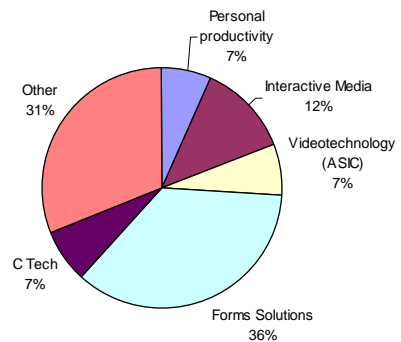


Forms Solutions accounted for 47% of Anoto's sales in the second quarter. Forms Solutions accounted for 28% (59% including license revenue attributable to Anoto Taiwan in the first quarter) of Anoto's sales in January-June.

Gross profit per application area Apr-Jun 2006



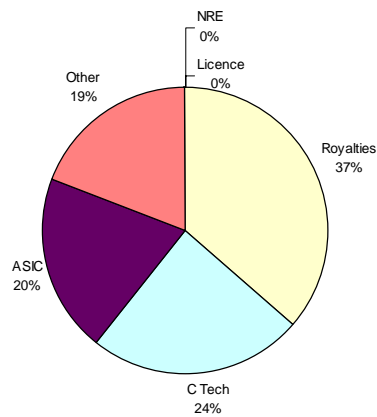
Gross profit per application area Jan-Jun 2006



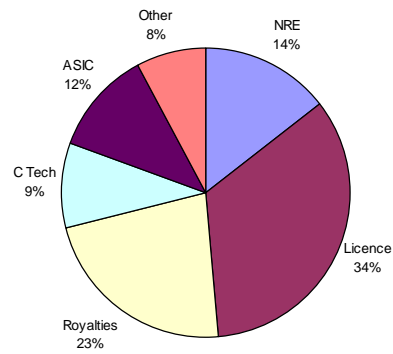
Forms Solutions accounted for 56% of Anoto's gross profit in the second quarter. Forms Solutions accounted for 36% (67% including license revenue attributable to Anoto Taiwan in the first quarter) of Anoto's gross profit in January-June.



Net sales per revenue category Apr- Jun 2006



Net sales per revenue category Jan-Jun 2006



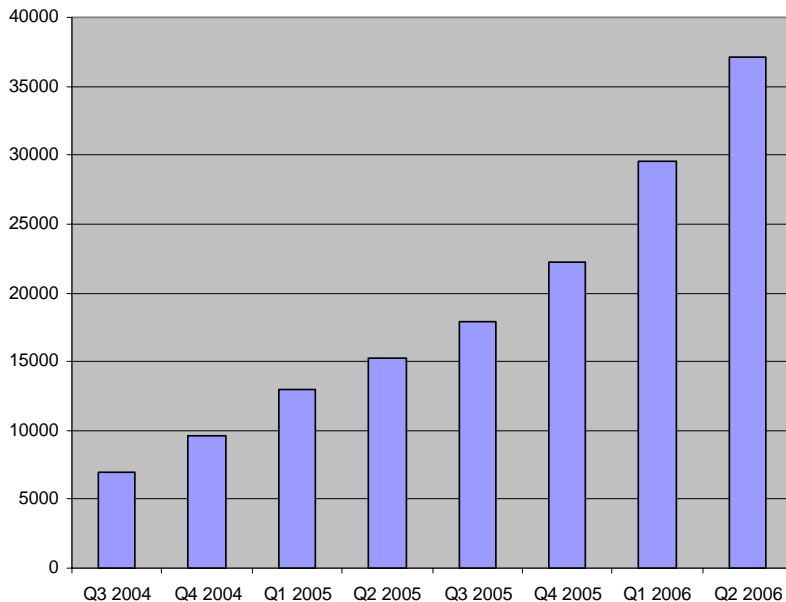
Revenue from ongoing royalties and product sales (Royalties, C Tech, ASIC and Other) accounted for 100% of net sales in the second quarter and 52% in January-June.

Forms Solutions

The Forms Solutions application area focuses on systems, services and products that target businesses, primarily those in the field of forms processing. Among Anoto's partners are system integrators, mobile operators, software developers, IT consulting firms and IT solutions providers, all of whom offer customized 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 increased by 8,000 during the quarter and totalled approximately 37,000, up by 144% on a full-year basis and 26% from the previous quarter.

Active forms users



The third consecutive Anoto Functionality Conference for Anoto's partners was held in Copenhagen in June. The conference attracted over 200 participants, more than ever before, from 29 countries. That represents further evidence that there is great interest in Anoto functionality and that the Company's network of partners is still growing.



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

LeapFrog Fly Pentop Computer sales, which are highly cyclical, remained slow in the second quarter. Sales are expected to increase in the third and fourth quarters with holiday sales.

Talks are proceeding with DNP regarding next-generation digital pen solutions.

Personal Productivity

The Personal Productivity 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.

During the second quarter Nokia launched its new SU-27W digital pen, which is now on the consumer market.

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 customers' products or components, such as other pen-like units, mobile phones and mobile phone accessories or components.

During the second quarter, Anoto obtained an additional video technology contract from a global manufacturer of mobile phone platforms. Anoto continues to anticipate excellent business opportunities and ongoing expansion in this segment.

C Technologies

The products of the C Technologies application area, exemplified by the C-Pen scanning pen, are based on the integration of digital camera technology with leading-edge image processing. These products are characterized by energy efficiency and high performance.

C-Pen 20 sales are proceeding as planned. Deliveries to C-Channel AG in Switzerland of PayPen, a customer-specific and application-adapted version of C-Pen 20, began during the second quarter.

II. Anoto Content and Applications business unit

	Apr-Jun 2 006	Apr-Jun 2 005	Jan-Jun 2 006	Jan-Jun 2 005
Net sales	-	-	-	-
Gross profit	-	-	-	-
EBITDA	(12 663)	-	(21 238)	-
Operating loss	(13 196)	-	(21 771)	-

Anoto Content & Applications

The Content and Applications business unit is focused on designing development tools, building a web infrastructure for third-party developers, and marketing proprietary and third party applications for the next-generation interactive pen (Pentop).

During the second quarter the Content & Applications unit focused on defining and developing applications for the next generation Pentop. Meanwhile, discussions are under way with potential strategic partners to drive the Pentop market.



Anoto Group AB – the second quarter in figures

Sales and earnings for the second quarter (April-June)

Second quarter sales declined by 51% to SEK 15 million (29). The decrease was due to the lack of non-recurrent revenue, such as licenses or NRE, which had totalled SEK 17 million in the second quarter of 2005.

The gross profit was down by 42% to SEK 11 million (20) but the gross margin rose to 79% (68%). The improvement stemmed from a higher percentage of ongoing royalties.

The loss before depreciation and amortization was SEK –36 million (–9). The Anoto Content and Applications business unit accounted for SEK –13 million (0) of the loss.

Sales, administrative and research costs amounted to SEK –54 million (–35), of which depreciation accounted for SEK –6 million (–7) and Anoto Content and Applications for SEK –13 million (0).

The second quarter operating loss of SEK –42 million (–15) was comprised of SEK –29 million (–15) for the Anoto business unit and SEK –13 million (0) for the Anoto Content and Applications business unit.

Cash flow for the second quarter (April-June)

Cash flow from operating activities totalled SEK –34 million (28) for the second quarter. Payments of previous provisions had an impact of SEK –7 million (–5) on cash flow.

Cash flow for the period amount to SEK -30 million (35) and has been affected by net investments of SEK -5 million (-5) as well as SEK 12 million (19) as a new share issue for redemption of employee stock options.

Financing and liquidity

At the close of January-June, the Group's liquid assets, including current investments, amounted to SEK 247 million (77).

Anoto Group AB

As a pure holding company, Anoto Group AB, has a limited number of corporate functions and employees. January-June sales were SEK 15 million (18), while pre-tax earnings were SEK 1 million (0). At the close of January-June, Anoto Group AB's liquid assets, including current investments, amounted to SEK 221 million (52). Investments came to SEK 0 million (0).

Accounting policies

This interim report has been 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 Company's share is quoted on the Attract 40 list of the Stockholm Stock Exchange. Shares numbered 128,583,867 as of June 30, in addition to which 5,932,542 warrants were outstanding, of which 0 were deemed to have a value as of June 30.

Shareholders

The total number of Anoto Group AB shareholders for the period ending January-June was 10,631 – 54% of the shares were held abroad and 88% by institutional and industrial investors. Norden Technology AS, DNB, Robur Fonder, Logitech, SEB Enskilda Securities ASA and Carlsson Fonder were the largest shareholders as of June 30, controlling 52% of Anoto Group shares.



Option programs

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

Significant events after June 30

Anders Norling is appointed as the new CEO for Anoto Group, effective August 16, 2006.

Anders Norling has been the CEO of Sensys Traffic AB for the last five years. During this time, Sensys Traffic AB has grown from a company with significant problems to become a highly profitable, rapidly growing global business. Anders Norling will continue as Member of the Board of Sensys Traffic AB.

Outlook for 2006

Group

Excluding the U.S.-based Content and Applications business unit, the Anoto business unit no longer anticipates a profit before depreciation and amortization for 2006, as non-recurring licence revenues are expected to be lower than planned.

For 2006 Anoto expects continued strong growth of active users of forms pens. In 2005 the growth was 120%.

For 2006 Anoto also expects 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-September	November 8, 2006
Year-end report for 2006	February 7, 2007

Lund, August 16, 2006

Mats Blom
CEO



Report on Review of Interim Financial Information

We have reviewed the accompanying balance sheet of Anoto Group AB as of June 30, 2006 and the related statements of income, changes in equity and cash flows for the six-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 interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our 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.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at June 30, 2006, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34.

Malmö, August 16, 2006

Deloitte AB

Per-Arne Pettersson
Authorized public accountant

Resultaträkning i sammandrag
The Group

(SEK thousand)

	Quarter 2		Half year		Full year	
	Apr - Jun 2006	Apr - Jun 2005	Jan - Jun 2006	Jan - Jun 2005	Jan - Dec 2005	Jan - Dec 2004
Net sales	14 543	29 480	54 764	58 237	113 230	147 392
Costs of goods and services sold	(3 068)	(9 544)	(11 631)	(19 510)	(33 835)	(57 456)
Gross profit/loss	11 475	19 936	43 133	38 727	79 395	89 936
Sales, administrative and research costs	(53 755)	(35 194)	(102 327)	(68 355)	(159 162)	(169 921)
Share of earnings in associated companies	-	-	-	-	(8)	(26)
Operating profit/loss	(42 280)	(15 258)	(59 194)	(29 628)	(79 775)	(80 011)
Share of earnings in group companies	(769)	-	(769)	-	70 457	-
Share of earnings in associated companies	-	-	-	-	-	3 059
Other financial items	(2 614)	(4 925)	137	(5 644)	(4 446)	1 861
Resultat efter finansiella poster	(45 663)	(20 183)	(59 826)	(35 272)	(13 764)	(75 091)
Taxes	(298)	(2)	(376)	(24)	(120)	(127)
Profit/loss for the period	(45 961)	(20 185)	(60 202)	(35 296)	(13 884)	(75 218)
Key ratios						
Gross profit	78,9%	67,6%	78,8%	66,5%	70,1%	61,0%
Operating margin	Neg	Neg	Neg	Neg	Neg	Neg
Earnings per share (kronor) ¹	(0,36)	(0,17)	(0,47)	(0,30)	(0,12)	(0,64)
Earnings per share after dilution (kronor) ¹	(0,36)	(0,17)	(0,47)	(0,30)	(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

	The Group				
	(SEK thousand)	2006-06-30	2005-06-30	2005-12-31	2004-12-31
Intangible fixed assets		352 631	363 800	357 536	368 031
Tangible assets		5 877	4 019	3 568	5 589
Financial fixed assets		5 216	5 419	5 346	5 155
Other current assets		49 876	41 319	128 200	52 210
Liquid assets, including current investments		246 658	76 835	211 490	41 740
Total assets		660 258	491 392	706 140	472 725
Shareholders' equity		526 541	373 475	555 690	385 629
Long-term provisions		4 231	6 843	4 231	13 692
Interest-bearing liabilities		-	-	-	-
Current provisions		9 352	14 349	28 021	19 410
Other current liabilities		120 134	96 725	118 198	53 994
Total liabilities and shareholders' equity		660 258	491 392	706 140	472 725

Change in shareholders' equity

	The Group			
	Jan - Jun 2006	Jan - Jun 2005	Jan - Dec 2005	Jan - Dec 2004
Opening balance	555 690	385 629	385 629	451 248
Effects of transition to IFRS, IAS 39, as of 1 Jan 2005		365	365	
Issue of new shares	27 261	18 847	181 859	
Recovered VAT for underwriting expenses		-	175	2 902
Costs of granting options	4 021	3 052	1 190	6 770
Translation differences	(230)	878	356	(73)
Profit/loss for the period	(60 201)	(35 296)	(13 884)	(75 218)
Closing balance in accordance with new accounting rules	526 541	373 475	555 690	385 629

Cash Flow Statement

	The Group						
	(SEK thousand)	Apr - Jun 2006	Apr - Jun 2005	Jan - Jun 2006	Jan - Jun 2005	Jan - Dec 2005	Jan - Dec 2004
Profit/loss after financial items		(45 663)	(20 183)	(59 825)	(35 272)	(13 764)	(75 091)
Adjustment for items not included in cash flow							
Change in provisions		(12 560)	(5 122)	(18 669)	(11 910)	(931)	(21 448)
Depreciation, amortisation and write-downs		6 493	6 623	12 650	13 047	26 299	28 486
Profit on shares in Group and associated companies		769		769	-	(70 449)	(3 033)
Costs of granting options		2 086	1 359	4 021	3 052	1 190	6 770
Other financial items		2 614	7 050	(138)	6 407	4 446	(1 861)
Taxes paid		(299)	(2)	(376)	(24)	(114)	(127)
Cash flow from operating activities before change in working capital		(46 560)	(10 275)	(61 568)	(24 700)	(53 323)	(66 304)
Change in working capital		12 464	38 667	80 260	53 622	60 251	(4 949)
Cash flow from operating activities		(34 096)	28 392	18 692	28 922	6 928	(71 253)
Net investments		(4 833)	(4 939)	(9 965)	(7 310)	(14 933)	(7 633)
Total cash flow before financing activities		(38 929)	23 453	8 727	21 612	(8 005)	(78 886)
Financing activities							
Issues of new shares		12 359	18 847	27 261	18 847	187 635	-
Cost of issues of new shares		-	-	-	-	(5 776)	-
Change in long-term liabilities		-	-	-	-	-	(97)
Other financial items		(2 614)	(7 050)	(631)	(6 407)	(4 446)	1 861
Recovered VAT for underwriting expenses		-	-	-	-	175	2 903
Other items		(967)	583	(189)	957	81	(74)
Cash flow for the period		(30 151)	35 833	35 168	35 009	169 664	(74 293)
Liquid assets at the beginning of the period*		276 809	41 002	211 490	41 826	41 826	116 033
Liquid assets at the end of the period*		246 658	76 835	246 658	76 835	211 490	41 740

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



Key ratios

The Group

	Apr - Jun 2006	Apr - Jun 2005	Jan - Jun 2006	Jan - Jun 2005	Jan - Dec 2005	Jan - Dec 2004
Cash flow for the year (ksek)	(30 151)	35 833	35 168	35 009	169 664	(74 293)
Cash flow per share (sek) ²	(0,23)	0,30	0,27	(0,01)	1,42	(0,63)
Cash flow per share after dilution (sek) ²	(0,23)	0,30	0,27	(0,01)	1,40	(0,63)

	2006-06-30	2005-06-30	2005-12-31	2004-12-31
Equity/assets ratio	79,7%	76,0%	78,7%	81,6%
Number of shares ³	128 583 867	119 515 201	128 744 414	122 524 201
Shareholders' equity per share (kronor) ³	4,09	3,12	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 (06-06-30: 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

The Group

(SEK thousand)	Apr - Jun 2006	Apr - Jun 2005	Jan - Jun 2006	Jan - Jun 2005	Jan - Dec 2005	Jan - Dec 2004
Sales						
Anoto	14 543	29 480	54 764	58 237	113 230	147 392
Anoto Content & Applications	-	-	-	-	-	-
Total	14 543	29 480	54 764	58 237	113 230	147 392
Operating profit/loss						
Anoto	(29 084)	(15 258)	(37 423)	(29 628)	(73 722)	(80 011)
Anoto Content & Applications	(13 196)	-	(21 771)	-	(6 053)	-
Total	(42 280)	(15 258)	(59 194)	(29 628)	(79 775)	(80 011)
Cash flow						
Anoto	(15 267)	35 833	58 855	35 009	175 717	(74 293)
Anoto Content & Applications	(14 884)	-	(23 687)	-	(6 053)	-
Total	(30 151)	35 833	35 168	35 009	169 664	(74 293)



For more information:

You are welcome to take part in Anoto's upcoming teleconference for media and financial analysts at 10.00 on Wednesday, 16 August.

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Anoto's 2005 annual report is available at
<http://www.anotogroup.com/cldoc/aog-ir-reports.htm>

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