



Anoto Group, January – March 2006 Interim Report

- First quarter sales were up 40 % to SEK 40 million (29).
- The Group's first quarter gross margin rose to 79% (65), or up 68 % to SEK 32 million (19), the highest gross profit in Anoto's history.
- The earnings before depreciation and amortisation for the first quarter was SEK –11 million (–8). The new US based Content and Applications business unit accounted for SEK –8 million (0).
- The earnings after tax for the first quarter was SEK –14 million (–15).
- Earnings per share for the first quarter were SEK –0.11 (–0.13).
- First quarter cash flow was SEK 65 million (–1).

Operations

- Active forms users totalled approximately 30,000, up 33% from the previous quarter and 128% from a year ago.
- The Japanese subsidiary of Anoto Group obtained a breakthrough order in the country's public sector. The order initially covers licences for 4,300 forms per users.
- Unimicron Group and Anoto are starting Anoto Taiwan, which will supply Anoto products and solutions to the Taiwanese market. Anoto is receiving initial licence revenue of JPY 300 million (SEK 20 million).
- The company is continuing to build the organisation for the new Content and Applications business unit.

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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.



Remarks by CEO Örjan Johansson

The year has had a positive start. Anoto digital pens and paper accounted for most of our sales, and we reported the best gross profit yet for any single quarter.

Mounting interest in forms solutions

Forms solutions continue to attract growing interest, and the number of active forms users was up sharply from the fourth quarter of 2005. Our partners' efforts to develop solutions, pursue business development and conduct pilot projects with end-customers has begun to pay off. An excellent illustration of that long-term strategy was the receipt of an order, our biggest ever, from the Japanese public sector. Given our reliable technology, users that are enthusiastic about our products and applications, and the larger number of projects that are about to be rolled out, I expect that we will continue to experience strong growth.

Anoto Taiwan

As announced during the first quarter, we and Unimicron Group are starting Anoto Taiwan, which will supply Anoto products and solutions to the Taiwan market. The strategy of working with a strong partner to substantially boost our local presence will be extended to other countries and markets as well.

Unimicron Group is one of the leading PCB suppliers in the world, and is the affiliated organization of UMC Group which is a world-leading semiconductor foundry.

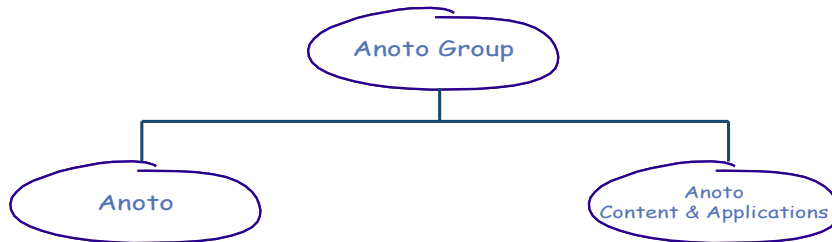
Content and Applications business unit

We are going full steam ahead in setting up the organisation for our new Content and Applications business unit in the United States. We devoted the first quarter to recruiting top-class people for key positions, as well as starting to define and develop applications and tools. I am very impressed by the tremendous expertise that we have managed to attract, not to mention the zeal and speed with which our new employees have thrown themselves into their tasks.



Operations

New business units



As of 2006, Anoto's operations include two new business units.

1. The Anoto business unit consists of the company's traditional activities in the application areas of:
 - Forms Solutions
 - Interactive Media
 - Personal Productivity
 - Technology (ASIC)
 - C Technologies
2. The US based Content and Applications business unit is responsible for Anoto's effort to design applications, development tools and solutions for the next-generation interactive pen (Pentop).

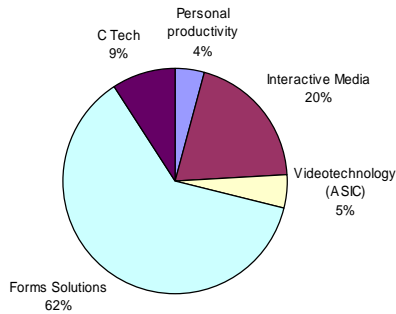
I. Anoto business unit

	Jan-Mar 2006	Jan-Mar 2005
Net sales	40 220	28 757
Gross Profit	31 657	18 791
EBITDA	(2 182)	(7 946)
Operating loss	(8 339)	(14 370)

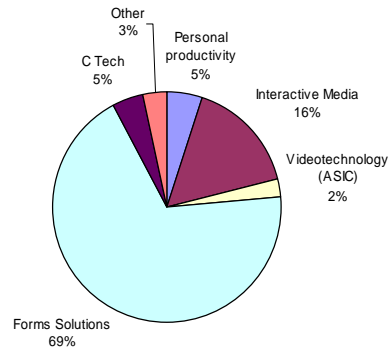
The Anoto business unit enjoyed rapid growth from the first quarter of 2005 in terms of both sales and gross profit. The increase was attributable to higher ongoing Forms Solutions royalties, as well as SEK 16 million in licence revenue from the formation of Anoto Taiwan.



Net sales per application area

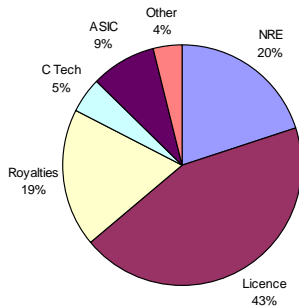


Gross profit by application area



Including licence revenue, Forms Solutions accounted for 62% of Anoto's sales and 69% of its gross profit in the first quarter.

Net Sales by revenue category Jan- Mars 2006



Thanks to AnotoTaiwan, licence revenue represented 43% of Anoto's net sales in the first quarter. Ongoing royalties and product sales (Royalties, C Tech, ASIC and Other) accounted for 37% of net sales.

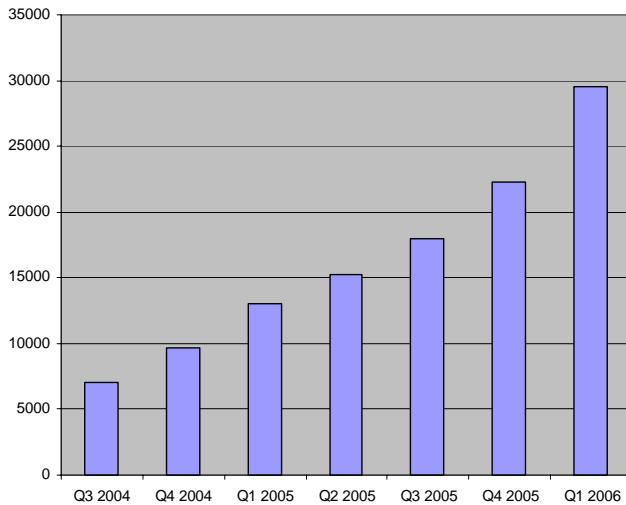
Forms Solutions

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 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 totalled approximately 30,000, up by 128% on a full-year basis and 33% from the previous quarter.



Active forms users



More and more companies in all regions where Anoto partners operate are using Anoto functionality for forms processing. Particularly encouraging is that Anoto received its first large order from the Japanese public sector during the quarter.

Anoto and Unimicron Group decided in the first quarter to start Anoto Taiwan. Reported as an associated company (20% ownership), Anoto Taiwan will supply Anoto products and solutions to the Taiwan market. Anoto is obtaining initial licence revenue of JPY 300 million (approximately SEK 20 million), of which SEK 16 million contributed to first quarter net sales.

Interactive Media

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

After the successful holiday season, sales of LeapFrog's FLY Pentop Computer are proceeding at a more modest level. The segment is highly cyclical, most sales coming in the fourth quarter.

Development of the next-generation interactive pen for Dai Nippon Printing (DNP) is on schedule.

Personal Productivity

The Personal Productivity application area focuses on developing and marketing products that make it easier for consumers 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.

Logitech introduced a new version of its Logitech® io™2 Digital Pen in the first quarter. The pen, offers improved handwriting recognition and a new shortcut for transferring notes directly to a Microsoft Word document, is available to consumers.



Technology

The 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.

Development of the next-generation Argus ASIC, which had been announced earlier, is going well and proceeding on schedule.

After the end of the quarter, Anoto announced that it had obtained an additional video technology order 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, 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.

C-Pen 20 sales are proceeding as planned. As usual at this time of year, first quarter sales were somewhat weak.

II. Anoto Content and Applications business unit

	Jan-Mar 2006	Jan-Mar 2005
Net sales	-	-
Gross Profit	-	-
EBITDA	(8 575)	-
Operating loss	(8 575)	-

The purpose of the new US based Anoto Content and Application business unit is to develop software development tools, build a third party developers community, develop a web infrastructure and bring to market their own developed content and applications for the next generation pentops.

Anoto Content and Applications has devoted the first quarter to recruiting top-class people for key positions, as well as starting to define and develop applications and tools.



Anoto Group AB – the first quarter of 2006 in figures

Sales and earnings for the first quarter (January-March)

First quarter sales were up 40% to SEK 40 million (29). The increase was due to higher Forms Solutions royalties and licence revenue of SEK 16 million from the formation of Anoto Taiwan.

The gross margin was 79% (65), or up 68% to SEK 32 million (19). The improvement stemmed from a higher percentage of royalties and licence revenue.

Excluding depreciation and amortisation, the loss was SEK –11 million (–8). The Content and Applications business unit accounted for SEK –9 million (0) of the loss.

Sales, administrative and research costs amounted to SEK –49 million (–33), of which depreciation accounted for SEK –6 million (–6) and the Content and Applications business unit for SEK –9 million (0).

The first quarter operating loss of SEK –17 million (–14) was broken down between SEK –8 million (–14) for the Anoto business unit and SEK –9 million (0) for the Content and Applications business unit.

Cash flow

Operating cash flow totalled SEK –15 million (–14) for the first quarter. Payments of previous provisions had an impact of SEK –6 million (–7) on cash flow.

SEK –5 million (–2) in net investments was charged to the quarter's cash flow of SEK 65 million (–1).

The large positive cash flow was due to payment of the SEK 70 million (0) in financial income that arose in connection with the Group's legal restructuring at the beginning of the year, as well as a SEK 16 million (0) new share issue for redemption of employee stock options.

Financing and liquidity

At the end of the quarter, the Group's liquid assets, including current investments, amounted to SEK 277 million (41).

Parent company

As a pure holding company, the parent company has a limited number of corporate functions and employees. First quarter sales were SEK 10 million (9), while the pre-tax profit was SEK 1 million (0). At the end of the quarter, the parent company's liquid assets, including current investments, totalled SEK 261 million (12). 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 Attract 40 list of the Stockholm Stock Exchange. Shares numbered 126,535,201 at the end of the quarter, in addition to which 6,863,380 warrants were outstanding, of which 2,309,213 were deemed to have a value as of 31 March.



Shareholders

The total number of shareholders in Anoto Group at the end of the quarter was 10,717. Foreign shareholders held 57%, and institutional and industrial shareholders 89%, of the shares. Norden Technology AS, Robur fonder, DNB, Logitech, SEB Enskilda Securities ASA and Carlsson Fonder were the largest shareholders as of 31 March, controlling 56% of Anoto Group shares.

Option programmes

The parent company has issued options as part of various incentive programmes. Full exercise of all programmes would result in total dilution of about 5% as of 31 March 2006.

Outlook for 2006

Group

Excluding the new US based Content and Applications business unit, the Anoto business unit is expected to report a profit before depreciation and amortisation for the year.

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

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

The Content and Applications business unit is expected to obtain its first license revenue from external customers during the second half of the year.

Upcoming interim reports

January-June	16 August 2006
January-September	8 November 2006
Year-end report for 2006	7 February 2007

Lund May 16, 2006

Örjan Johansson
President & CEO



Summary of Income Statement

The Group

	(SEK thousand)			
	Q1	Full year		
	Jan - Mar 2006	Jan - Mar 2005	Jan - Dec 2005	Jan - Dec 2004
Net sales	40 220	28 757	113 230	147 392
Costs of goods and services sold	(8 563)	(9 966)	(33 835)	(57 456)
Gross profit/loss	31 657	18 791	79 395	89 936
Sales, administrative and research costs	(48 571)	(33 161)	(159 162)	(169 921)
Share of earnings in associated companies	-	-	(8)	(26)
Operating profit/loss	(16 914)	(14 370)	(79 775)	(80 011)
Profit on shares in subsidiaries			70 457	
Profit on shares in associated companies	-	-		3 059
Other financial items	2 752	(719)	(4 446)	1 861
Pre-tax profit/loss	(14 162)	(15 089)	(13 764)	(75 091)
Taxes	(77)	(22)	(120)	(127)
Profit/loss for the period	(14 239)	(15 111)	(13 884)	(75 218)
Key ratios				
Gross profit	78,7%	65,3%	70,1%	61,0%
Operating margin	Neg	Neg	Neg	Neg
Earnings per share (kronor) ¹	(0,11)	(0,13)	(0,12)	(0,64)
Earnings per share after dilution (kronor) ¹	(0,11)	(0,13)	(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)	2006-03-31	2005-03-31	2005-12-31	2004-12-31
Intangible fixed assets	354 866	364 913	357 536	368 031
Tangible assets	5 213	4 631	3 568	5 589
Financial fixed assets	5 308	5 209	5 346	5 155
Other current assets	58 522	40 357	128 200	52 210
Liquid assets, including current investments	276 809	41 002	211 490	41 740
Total assets	700 718	456 112	706 140	472 725
Shareholders' equity	558 260	372 702	555 690	385 629
Long-term provisions	4 231	11 142	4 231	13 692
Interest-bearing liabilities	-	-	-	-
Current provisions	29 912	15 172	28 021	19 410
Other current liabilities	108 315	57 096	118 198	53 994
Total liabilities and shareholders' equity	700 718	456 112	706 140	472 725

Change in shareholders' equity

The Group

	Jan - Mar 2006	Jan - Mar 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	15 807	-	181 859	
Recovered VAT for underwriting expenses	-	-	175	2 902
Costs of granting options	1 935	1 693	1 190	6 770
Translation differences	(933)	126	356	(73)
Profit/loss for the period	(14 239)	(15 111)	(13 884)	(75 218)
Closing balance in accordance with new accounting rules	558 260	372 702	555 690	385 629

Cash Flow Statement

The Group

(SEK thousand)	Jan - Mar 2006	Jan - Mar 2005	Jan - Dec 2005	Jan - Dec 2004
Profit/loss after financial items	(14 162)	(15 089)	(13 764)	(75 091)
Adjustment for items not included in cash flow				
Change in provisions	(6 109)	(6 788)	(931)	(21 448)
Depreciation, amortisation and write-downs	6 157	6 424	26 299	28 486
Profit on shares in Group and associated companies	-	-	(70 449)	(3 033)
Costs of granting options	1 935	1 693	1 190	6 770
Other financial items	(2 752)	(643)	4 446	(1 861)
Taxes paid	(77)	(22)	(114)	(127)
Cash flow from operating activities before change in working capital	(15 008)	(14 425)	(53 323)	(66 304)
Change in working capital	67 796	14 955	60 251	(4 949)
Cash flow from operating activities	52 788	530	6 928	(71 253)
Net investments	(5 133)	(2 371)	(14 933)	(7 633)
Total cash flow before financing activities	47 655	(1 841)	(8 005)	(78 886)
Issues of new shares	15 807	-	187 635	-
Cost of issues of new shares	-	-	(5 776)	-
Change in long-term liabilities	-	-	-	(97)
Other financial items	2 752	643	(4 446)	1 861
Recovered VAT for underwriting expenses	-	-	175	2 903
Other items	(895)	374	81	(74)
Cash flow for the period	65 319	(824)	169 664	(74 293)
Liquid assets at the beginning of the period*	211 490	41 826	41 826	116 033
Liquid assets at the end of the period*	276 809	41 002	211 490	41 740

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



Key ratios

The Group

	Jan - Mar 2006	Jan - Mar 2005	Jan - Dec 2005	Jan - Dec 2004
Cash flow for the year (tkr)	65 319	(824)	169 664	(74 293)
Cash flow per share (kronor) ²	0,52	(0,01)	1,42	(0,63)
Cash flow per share after dilution (kronor) ²	0,51	(0,01)	1,40	(0,63)
	2006-03-31	2005-03-31	2005-12-31	2004-12-31
Equity/assets ratio	79,7%	81,7%	78,7%	81,6%
Number of shares ³	128 844 414	120 196 701	128 744 414	122 524 201
Shareholders' equity per share (kronor) ³	4,33	3,10	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 (06-03-31: 2 309 213; 05-12-31: 2 209 213; 05-03-31: 2 327 500 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

(Amount in tkr)	Jan - Mars 2006	Jan - Mars 2005	Jan - Dec 2005	Jan - Dec 2004
Sales				
Anoto	40 220	28 757	113 230	147 392
Anoto Content & Applications	-	-	-	-
Total	40 220	28 757	113 230	147 392
Operating profit/loss				
Anoto	(8 339)	(14 370)	(73 722)	(80 011)
Anoto Content & Applications	(8 575)	-	(6 053)	-
Total	(16 914)	(14 370)	(79 775)	(80 011)



For more information:

You are cordially invited to take part in Anoto's upcoming teleconference for media and financial analysts:

Day: Wednesday, 17 May 2006
Time: 10.00
Phone No.: +44 (0) 207 162 0125
Specify: anoto

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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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