Interim Report January – March 2005

- Group sales decreased by 34 per cent to SEK 29 million (44). Sales in Business Unit Anoto dropped by 23 per cent to SEK 23 million (30). Large license income generated by the LeapFrog project in the first quarter accounts for the decrease, SEK 7 (15) million.

- The Group's profit for the period was 65 per cent (70), SEK 19 million (31).
  The reduced gross profit is also due to the large license income that impacted the margin positively in the first quarter of 2004.

- For the first time in its history Anoto achieved positive cash flow from operations of SEK 1 million (-17). Total cash flow for the period was SEK –1 million (-18).
  The Group is well on the road to achieving the goal of positive cash flow for the full year of 2005.

- Income before depreciation and amortisation was SEK –8 million (-7).

- Income after taxes totalled SEK –15 million (-15).

- Earnings per share amounted to SEK - 0,13 (-0,13).

Operations:

- Anoto partner US-based LeapFrog presented an entirely new product, the FLY Pentop computer, based on Anoto technology. The FLY Pentop computer targets children and teenagers, helping to make it fun to learn to read, write, do mathematics and acquire knowledge in general. Sales in the US will start in the autumn 2005.

- British Magicomm has implemented a forms solution at one of the world's largest insurance loss adjusters, GAB Robbins. The forms solution is utilised by the company's loss adjusters making home visits in order to process the insurance claims of private persons.

- Logitech introduced a bluetooth version of its io2 digital pen.

CEO, Anders Tormod's statement:

LeapFrog's launching of the Fly Pentop Computer, an new product that targets children and teenagers, helping to make it fun to learn to read, write etcetera, is by far the most important event of the first quarter for Anoto. The launching attracted a great deal of media attention and interest in the product is high. This is an important milestone and an entirely new market opening up for Anoto.

The quarter has been marked by intense activity throughout. Our partners are steadily assuming a greater role in the further development and marketing of Anoto functionality, and the results are gradually coming. Anoto's focus on systems and forms solutions for enterprises and organisations has developed successfully. The user base is constantly growing and a large number of pilot projects are ongoing.

The quarter also saw the launch of new product packages for personalised use offering interesting and innovative solutions for notetaking. In addition Maxell and Logitech launched two new digital pens.

In comparison with Q1 of 2004, the Group's income and margin decreased. The reduced sales are mainly due to lower sales of certain C Technologies products that have been phased out. The Company's focus and growth is primarily on Anoto's products and technology where income is based on licenses and royalties that generate a very strong gross margin.

In Q1 of 2004 significant lump sums for licenses were received. These lump sums resulted in Anoto posting a favourable gross profit. Compared with Q1of 2004, Anoto's gross profit in Q1 of 2005 remained unchanged at 6 per cent. Level of costs is stable and cash flow improved considerably.

The first quarter was a step in the right direction towards achieving our goals for the year, one of which is positive cash flow for the full year.

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Anoto Group AB is a Swedish high-tech company with unique solutions for transmission of handwritten text from paper to digital media and scanning of printed text. All products are based on digital camera technology and image processing in real time.

Operations

Business Unit *Anoto*

Anoto continues the increased focus on providing its partners with technology and building blocks. These partners market products and solutions based on Anoto functionality and Anoto technology, frequently subsequent to integration into existing or proprietary products or systems.

System solutions
Application area Systems Solutions focuses on systems, services and products targeting enterprises, primarily emphasising forms processing. Anoto partners include system integrators, mobile operators, software developers, IT consultants and IT solution providers, who on their part provide their enterprise customers with tailor-made solutions with Anoto functionality. In accordance with Anoto's strategy sales and deliveries are to be conducted via these partners. Anoto receives income generated by use of digital pen per unit of time.

Systems solutions based on Anoto functionality continue to generate a lot of interest. The number of commercial users is growing continuously. The growth rate is estimated to gradually increase as more customers shift from pilot projects to commercial use. Today there are installations in a large number of industries, at small companies as well as large enterprises, providing a broad customer reference base facilitating the decision-making of new customers.

Between 250 and 300 pilot projects are estimated to be ongoing, involving some 10-100 users. To date about 13 000 digital pens have been fully commercialised in accordance with the business model service fee per digital pen per unit of time. Furthermore, the Company has knowledge of a further 13 000 digital pens that will be commercialised. However, the Company has not been fully informed about orders placed with partners or the scope of such orders and is consequently not in a position to report the exact number. System services continue to progress favourably, despite the growth rate continuing to be more sluggish than expected.

Europe

Several collaborations have been presented by Anoto's partner HP during the first quarter. Co-operation was, for example, initiated with Basel University Hospital, Switzerland and together they develop and market Hospital Forms Solution (HFS), a forms solution for hospitals that helps to streamline workflow and administration routines. Subsequent to a successful pilot installation at the Basel University Hospital the solution is marketed to other hospitals in Switzerland. The solution has attracted major attention after the TV channel Swiss-TV featured the hospital in a programme. HP has also unveiled a partnership with Nokia to sell HP FAS solutions with the Nokia Digital Pen for mobile use, thereby broadening the product range to include mobile applications. In addition HP is partnering with Sweden-based Penbook Sweden AB, which has introduced PenBook Forms System and Services, a solution that enables simplified and enhanced capture and integration of patent information while at the same time resulting in additional time for patent care. Implementations at HP's previously announced customers Eurocopter (a European Aeronautic Defence and Space company and world-leading manufacturer of civil and military helicopters) and APHP (the largest European clinical research center) are running according to plan.

Anoto's partner Magicomm has implemented a forms solution at GAB Robins, one of the world's largest insurance loss adjusters with 750 offices across the globe. The solution is utilised by the company's field workers throughout England to document and process the insurance claims of private persons. Using digital claims forms significantly reduces the handling time and settlement of claims. A number of offices in the GAB Robins group of companies have demonstrated interest in the solution.

Nokia unveiled collaborations with DHL, IBM and Denmark-based Fruits and communicated the joint effort to introduce the solution in several countries. The first phase involving implementation at DHL in Scandinavia and Finland has been completed, and Nokia, IBM and Fruits are now administering a broader deployment of this solution within DHL in Europe.

Anoto's alliances with distributors Destiny Wireless in UK, PinkRoccade in the Netherlands and Digiwrite in Italy continue and the number of users is increasing. Destiny Wireless has completed over 160 forms solutions in England, Australia and South Africa.

Japan

A large number of pilot projects are under way in Japan, conducted mainly by Anoto partners Dai Nippon Printing and Hitachi. These companies have during the first quarter in collaboration with the WAO educational company launched another education application, targeting young people who for various reasons cannot attend school. By the use of a forms solution service with Anoto functionality these youths are given distance tuition and can then transmit material to the school. Thereafter the pupils have contact with the teacher via mobile telephony and sms. This forms solution provides individuals choosing not to attend school with the opportunity of graduating anyway.

The implementation of the previously communicated application simplifying teachers' marking of test papers is progressing according to plan.

USA

Logitech announced that Logitech io2 is marketed together with Salesforce.com's CRM system. Anoto partner Talario is the first company to sell the combination solution to increase the efficiency of a sales team and enhance the value of the CRM system as well as simplifying the use of it, making it easier and quicker for the salesperson to share the information with the whole sales organisation.

Anoto partner Mi-Co, an American technology company specialising in solutions for data capture, announced the alliance with Portable Computer Systems (PCS) to jointly deliver a stable and comprehensive solution for mobile data capture to be used in extreme environmental conditions such as the military and federal offices other federal agencies.

China

Anoto's collaboration with Usyston in China is progressing according to previous communications. Today the company has about 75 employees and three offices in Beijing, Jinan and Shenzhen. Usyston collaborates with a number of Chinese software companies and several interesting pilot projects are in progress.

Consumer Products

Application area Consumer Products focuses on development and sales of products enabling individual users to improve their daily efficiency and communication. These products are offered through partners and target end users, and comprise digital pens, PC applications and applications for mobile phones. The products and solutions also serve as building stones for customised solutions.

Anoto's partner Logitech during the quarter announced the launching of a Bluetooth enabled version of its io2 Digital Pen beginning this summer. At the same time sales of io2 Digital Pen (USB version) continues, concentrated to the US, Germany and England and via www.logitech.com. Sales volumes are increasing but still relatively moderate.

Teaming up with different paper partners, Nokia continues the product package sales of its Nokia Digital Pen SU-1B, where personalised applications such as notes and mobile messaging services are important. They are sold on numerous markets through the company's and paper partners' retailers. Mobile enterprise solutions continue to generate keen interest and Nokia is seeing an increasing number of pilots on many markets, both in Europe, Asia and the US, some of which in global enterprises.

Through the co-operation with Dai Nippon Printing and Hitachi, Hitachi Maxell's digital pen, Maxell Digital Pen, is successfully sold for enterprise use and solutions in Japan as well as China. In addition a consumer solution has been launched.

Anoto's paper partner Clairefontaine/MetaLink's mobile notes concept Paper PC has been launched in France at an earlier occasion. A comprehensive advertising campaign in the French papers was very well received and local language versions of Paper PC has during the quarter been launched also in England, Spain, Italy, Belgium, the Netherlands and Germany.

Anoto Interactive Learning

In this application area Anoto technology is utilised in products based on a combination of digital material (books, cards or similar) and a digital pen enabling immediate feedback in the form of speech, sound, etcetera. The concept is used for learning products that are simple, intuitive and amusing for the user.

Anoto has previously unveiled projects where Anoto's core technology is employed in applications other than digital pens and digital paper with Anoto functionality. One of these projects is conducted with Anoto's American partner LeapFrog Enterprises Inc, which during the quarter announced its FLY Pentop Computer product.

FLY Pentop Computer is an entirely new product category aimed at children and young people, making it fun to learn to read, write, do maths and learn things in general. The product is based on Anoto technology and is launched together with various applications and books that stimulate the learning and creative processes. LeapFrog is a world-leading producer of innovative technology-based teaching media and toys that has developed numerous products used for childrens' learning and development. LeapFrog's products are today sold in high volumes in more than 25 countries.

The project is running according to plan and is progressing highly satisfactorily. Anoto continues to foresee a big business potential in this area and new projects are being discussed.

Anoto Technology

Anoto Technology develops and sells 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, however products/solutions are being developed or produced and are progressing well according to plan.

Anoto continues to anticipate excellent business opportunities in this segment and expects continued growth.

Business Unit C Technologies

Business Unit C Technologies' products, of which the scanning pen C-Pen is best known, are based on digital camera technology with integrated advanced image processing in products with low energy consumption and high speed processing. Since the end of 1998 C Technologies has established its technology platform on the global market through license and OEM partnerships as well as sales of proprietary products.

In the first quarter an order for 13 000 pens was placed by C-Channel in Switzerland. Delivery is expected to take place during a period of twelve months. Additionally an agreement was signed with Hong Kong- based Thinking Group Ltd. regarding an Asian version of C Technologies' new scanning pen, the C-Pen 20. The agreement encompasses 6 000 pens to be delivered during the second half of 2005. The product will be introduced under TGL's brand name.

The production of C-Pen 600/800 was terminated during the previous year. The stock has been sold, the majority of which was delivered in Q1. Final sales of C-Pen 10 are ongoing. It is expected that the remaining stock will be sold out in Q2. Initial deliveries of the new C-Pen 20, replacing C-Pen 10, will be executed in the coming quarter. Volumes are stable but relatively moderate.

C Technologies' pilot installation of electricity meters at Öresundskraft was terminated during the first quarter, however statistical data are collected continuously. Actual meter readings can be viewed on www.metercam.com. Discussions with potential partners regarding projects aimed at commercialising the product are taking place.

Anoto Group AB January – March 2005 in figures

Sales and results for Q1 (January-March)

First quarter sales totalled SEK 29 million (44), of which SEK 23 million (30) is attributable to Anoto and SEK 6 million (14) to C Technologies. The reduction in sales is due to decreased income derived from licenses pertaining to the Leapfrog project which amounted to SEK 7 million (15), and a drop in camera sales in C Technologies which amounted to SEK 0 (6) million.

The gross profit for the period was SEK 19 million (31) or 65 per cent (70). Also the gross profit decrease is owing to the significant license income from Leapfrog in the first quarter of 2004.

Income before depreciation and amortisation was SEK –8 million (-7).

Operating income for Q1 was SEK – 14 million (-15), of which SEK – 17 million (-17) in Business Unit Anoto and SEK 3 (2) in Business Unit C Technologies.

Sales, administration and research costs amounted to SEK – 33 million (-47). These costs are expected to remain on the present level.

Income before taxes in Q1 was SEK – 15 million (-15).

Depreciation of intangible and tangible fixed assets of SEK – 6 million (-7) was charged to the quarter.

Cash flow (January-March)

Cash from operations in Q1 amounted to SEK 2 million (-17).

Cash flow for Q1 was SEK – 1 million (-18), and was charged with net investments totalling SEK 2 million (1). The vastly improved cash flow reflects the benefit of the reduced cost structure and prepaid royalties.

Financing and liquidity

At the close of the period the Group's liquid assets amounted to SEK 41 million (98).

The Parent Company

The parent company is a pure holding company comprising a limited number of corporate functions and staff.

Accounting principles

The Company follows the Annual Accounts Act and general advice, statements and recommendations issued by the Swedish Financial Accounting Standards and the Swedish Institute of Authorised Public Accountants. With effect from 2005 the Anoto Group of companies' financial reporting is carried out in accordance with IFRS. A more detailed account of the changeover to IFRS is presented in a separate part of this report. In order to achieve comparability between the accounting periods, all comparative figures have been adjusted. As for the remainder the accounting principles are unchanged compared with the Annual Report 2004.

Share Data

The Anoto Group share is listed on Stockholmsbörsen's O-list. On expiration of the report period, the total number of shares was 117.869.201 and in addition 6.294.225 outstanding warrants, of which 2.327.500 were expected to have a value on March 31, 2005.

Ownership Structure

The total number of shareholders in Anoto Group at the end of the report period was 11 819 and foreign shareholders owned 45 per cent of the shares. Institutional and industrial owners controlled 88 per cent. Major shareholders at the time of the report were Ericsson, Logitech, Robur fonder, DNB, Odin Norden and Capital Research Company, together controlling 55 per cent of the shares in Anoto Group.

Options program

The parent company has issued options within the framework of an incentive program. Current options programs are listed below.

Options program	No. of options	Right to subscribe for no. of shares per option	Providing no. of shares	Subscription price SEK	Subscription period up to and including	Fully subscrib-ed the program could provide MSEK	
Employee option program 2001	1 639 225	1,03	1 688 402	72,70	2005-12-15	123	1)
Employee option program 2003	4 655 000	1	4 655 000	11,45-13,09	2006-05-31	57	2)
Total amount	6 294 225		6 343 402				

1) Only 11per cent has been offered to employees.

2) The Annual General Meeting of May 15, 2003 authorised the Board to issue 4.655.000 options, so- called employee options. 3.500.000 options were allocated to employees in Q4 of 2003 and 1.155.000 options were allocated to the company for the purpose of hedging against possible future social costs.

Full utilisation of all option programs would result in a total deferred dilution of about 5, 4 per cent on March 31, 2005.

Partner Conference

For the second consecutive time Anoto Group will be hosting a partner conference for all members of its partner network on June 2-3. Similar to last year partners will be presenting their commercially used applications based on Anoto functionality.

Outlook

The Group

A major part of invoicing in 2005 will refer to up-front payments from one of Anoto's biggest customers. Such payments will not be recognised as income, however they will impact cash flow positively.

Revenues derived from services and royalties are expected to show continued strong growth.

The Group maintains its goal of achieving positive cash flow for the full year of 2005.

Interim Reports

Semi-annual report	August 17, 2005
Q3 Report	November 3, 2005
Year-end Report 2005	February 9, 2006

Lund, May 11, 2005

Anders Tormod
President and CEO

Financial report for Q1 2005

Income statement in summary — ***The Group***

(Amounts in SEK 000)	Quarter1		Full year
	Jan - Mar 2005	Jan - Mar 2004	Jan - Dec 2004
Net sales	28 757	44 276	147 392
Costs of goods / services sold	(9 966)	(13 087)	(57 456)
Gross profit	**18 791**	**31 189**	**89 936**
Sales, administration & research costs	(33 161)	(46 596)	(169 921)
Share of income in associated companies	-	-	(26)
Operating income	**(14 370)**	**(15 407)**	**(80 011)**
Share of income in group companies	-	-	3 059
Other financial items	(719)	636	1 861
Income before taxes	**(15 089)**	**(14 771)**	**(75 091)**
Taxes	(22)	(1)	(127)
Income after taxes	**(15 111)**	**(14 772)**	**(75 218)**
Result for the period attributable to the parent company's shareholders	(15 111)	(14 772)	(75 218)
Result for the period attributable to minority interests	-	-	-
Result for the period	**(15 111)**	**(14 772)**	**(75 218)**
Key ratios:			
Gross margin	65,3%	70,4%	61,0%
Operating margin	Neg	Neg	Neg
Earnings per share (SEK) [1]	(0,13)	(0,13)	(0,64)
Earnings per share after dilution (SEK) [1]	(0,13)	(0,13)	(0,64)

[1] Key ratios pertaining to Earnings per share are based on the weighted average number of shares and outstanding warrants for the respective periods. Only warrants with a present subscription value lower than the fair value of the ordinary share is included in the calculation.

Effect of changeover from Swedish accounting principles and IFRS on the result for the period

Jan - Mar 2004	Swedish accounting principles	Effect of changeover to IFRS	IFRS
Net sales	44 276	-	44 276
Costs of goods sold	(13 087)	-	(13 087)
Gross profit	**31 189**	**-**	**31 189**
Sales, administration & research costs [2]	(54 437)	7 842	(46 596)
Operating income	**(23 248)**	**7 842**	**(15 407)**
Other financial items	636	-	636
Income before taxes	**(22 612)**	**7 842**	**(14 771)**
Taxes	(1)	-	(1)
Income after taxes	**(22 613)**	**7 842**	**(14 772)**

[2] Effect at changeover to IFRS consists of costs for granting options to employees -1.692 and non-depreciation of goodwill of 9.534.

Jan - Dec 2004	Swedish accounting principles	Effect of changeover to IFRS	IFRS
Net sales	147 392	-	147 392
Costs of goods sold	(57 456)	-	(57 456)
Gross profit	**89 936**	**-**	**89 936**
Sales, administration & research costs [3]	(201 287)	31 366	(169 921)
Share of income in associated companies	(26)	-	(26)
Operating income	**(111 377)**	**31 366**	**(80 011)**
Share of income in associated companies	3 059	-	3 059
Other financial items	1 861	-	1 861
Income before taxes	**(106 457)**	**31 366**	**(75 091)**
Taxes	(127)	-	(127)
Income after taxes	**(106 584)**	**31 366**	**(75 218)**

[3] Effect of changeover to IFRS consists of costs for granting options to employees -6.770 as well as non-depreciation of goodwill of 38.136.

Balance sheet in summary — ***The Group***

(Amounts in SEK 000)	March 31, 2005	March 31, 2004	Dec 31, 2004
Intangible fixed assets	364 913	375 724	368 031
Tangible fixed assets	4 631	9 480	5 589
Financial fixed assets	5 209	5 417	5 155
Other current assets	40 357	43 739	52 210
Liquid assets incl. current investments	41 002	97 735	41 740
Total assets	456 112	532 095	472 725
Shareholders' equity	372 702	438 065	385 629
Long-term provisions	11 142	27 707	13 692
Interest-bearing liabilities	-	49	-
Current provisions	15 172	14 565	19 410
Other current liabilities	57 096	51 709	53 994
Total shareholders' equity and liabilities	456 112	532 095	472 725

Effect of changeover from Swedish accounting principles and IFRS

March 31, 2004

(Amounts in SEK 000)	Swedish accounting principles	Effect of changeover to IFRS	IFRS
Intangible fixed assets	366 190	9 534	375 724
Tangible fixed assets	9 480	-	9 480
Financial fixed assets	5 417	-	5 417
Other current assets	43 739	-	43 739
Liquid assets incl. current investments	97 735	-	97 735
Total assets	522 561	9 534	532 095
Shareholders' equity	428 531	9 534	438 065
Long-term provisions	27 707	-	27 707
Interest-bearing liabilities	49	-	49
Current provisions	14 565	-	14 565
Other current liabilities	51 709	-	51 709
Total shareholders' equity and liabilities	522 561	9 534	532 095

Dec 31, 2004

(Amounts in SEK 000)	Swedish accounting principles	Effect of changeover to IFRS	IFRS
Intangible fixed assets	329 895	38 136	368 031
Tangible fixed assets	5 589	-	5 589
Financial fixed assets	5 155	-	5 155
Other current assets	52 210	-	52 210
Liquid assets incl. 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 shareholders' equity and liabilities	434 589	38 136	472 725

Opening balance Jan 1, 2005 [4]

(Amounts in SEK 000)	IFRS Dec 31, 2004	IFRS changeover effects IAS 39 Jan 1, 2005	IFRS Jan 1, 2005
Intangible fixed assets	368 031	-	368 031
Tangible fixed assets	5 589	-	5 589
Financial fixed assets	5 155	-	5 155
Other current assets	52 210	279	52 489
Liquid assets incl. 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 shareholder's equity and liabilities	472 725	365	473 090

[4] IFRS transition effects IAS 39, Jan 1, 2005 consist of the difference between market value and booked value pertaining to financial instruments.

Change in shareholders' equity ***The Group***

	Jan - Mar 2005	Jan - Mar 2004	Jan - Dec 2004
Opening balance	**385 629**	**451 248**	**451 248**
IFRS transition effects IAS 39, Jan 1, 2005 [5]	365	-	-
Opening balance in accordance with new accounting principles	**385 994**	**451 248**	**451 248**
Recovered VAT in respect of issue costs	-	-	2 902
Costs for granting options	1 693	1 693	6 770
Translation differences	126	(104)	(73)
Income for the period	(15 111)	(14 772)	(75 218)
Closing balance in accordance with new accounting principles	**372 702**	**438 065**	**385 629**

Effect of changeover from Swedish accounting principles and IFRS on shareholders' equity:

	The Group	
	Jan - Mar 2004	Jan - Dec 2004
Closing balance Swedish accounting principles	**428 531**	**347 493**
Depreciation of goodwill	9 534	38 136
Costs for granting options	-	-
Closing balance according to IFRS	**438 065**	**385 629**

[5] IFRS transition effects IAS 39, Jan 1, 2005 consist of the difference between market value and booked value pertaining to financial instruments.

Cash flow statement

(Amounts in SEK 000)		*The Group*	
	Jan - Mar 2005	Jan - Mar 2004	Jan - Dec 2004
Income after financial items [6]	(15 089)	(14 771)	(75 091)
Adjustment for items not included in cash flow:			
Change in provisions	(6 788)	(12 278)	(21 448)
Depreciations and write-downs	6 424	7 445	28 486
Share of income in group and associated companies	-	-	(3 033)
Costs of granting options	1 693	1 693	6 770
Other financial items	(643)	(636)	(1 861)
Taxes paid	(22)	(1)	(127)
Cash flow from operations before change in working capital	**(14 425)**	**(18 548)**	**(66 304)**
Change in working capital	14 955	1 161	(4 949)
Cash flow from operations	**530**	**(17 387)**	**(71 253)**
Net investments	(2 371)	(1 310)	(7 633)
Total cash flow before financing	**(1 841)**	**(18 697)**	**(78 886)**
Financing:			
Change in long-term liability	-	(48)	(97)
Other financial items	643	636	1 861
Recovered VAT respecting issue costs	-	-	2 903
Other items	374	(189)	(74)
Cash flow for the year	**(824)**	**(18 298)**	**(74 293)**
Liquid assets at the beginning of the period *	41 826	116 033	116 033
Liquid assets at the end of the period *	**41 002**	**97 735**	**41 740**

*) Liquid assets refer to cash, bank balances and current investments

[6] With effect from Q2 of 2004 the cash flow statement emanates from the item "Result after financial items". Previous periods have been recalculated.

Key ratios — *The Group*

	Jan - Mar 2005	Jan - Mar 2004	Jan - Dec 2004
Cash flow for the year (SEK 000)	(824)	(18 298)	(74 293)
Cash flow / share (SEK) [7]	(0,01)	(0,16)	(0,63)
Cash flow / share (SEK) after dilution [7]	(0,01)	(0,16)	(0,63)

	Mar 31, 2005	Mar 31, 2004	Dec 31, 2004
Equity / Assets ratio	81,7%	82,3%	81,6%
Number of shares [8]	120 196 701	122 524 201	122 524 201
Equity per share (SEK) [8]	3,10	3,58	3,15

[7] Key ratios regarding Cash flow per share is based on the weighted average number of shares and outstanding warrants for the respective periods. Only warrants with a net present value of the subscription value that is lower than the fair value of the ordinary share are included in the calculation.

[8] Including outstanding warrants (Mar 31, 05: 2 327 500; Dec 31, 04: 4 655 000; Mar 31, 04: 4 655 000). Only warrants with a net present value of the subscription value that is lower than the fair value of the ordinary share are included in the calculation.

Accounting per segment — ***The Group***

(Amounts in SEK 000)	Jan - Mar 2005	Jan - Mar 2004	Jan - Dec 2004
Sales			
Anoto	22 572	30 395	94 900
C Technologies	6 185	13 881	52 492
Total	**28 757**	**44 276**	**147 392**
Operating income			
Anoto	(16 710)	(17 305)	(90 649)
C Technologies	2 340	1 898	10 638
Total	**(14 370)**	**(15 407)**	**(80 011)**

Accounting Principles, Anoto Group's changeover to IAS/IFRS 2005

This interim report has been made 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 from 2005, the reporting and publication of the 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 from 2005 the Anoto Group of companies will be publishing financial reports in accordance with IFRS. The interim reports shall contain a comparative year, 2004, in accordance with IFRS. Thus January 1, 2004 is Anoto Group's date of changeover to IFRS. Two standards, IAS 32 and IAS 39, will be observed with effect from January 1, 2005, which, according to IFRS, is allowed in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards. An opening balance as from January 1, 2005, including the effects of IAS 32 and 39, has been recorded.

The information below on the effects of the changeover 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 1deals with the transition rules in force at the introduction of IFRS. IFRS 1 requires that a comparative year and an opening balance according to IFRS on each transition date be accounted for. January 1, 2004 is Anoto Group's transition date for the change to IFRS.

The accounting principles observed in the opening balance shall, as a rule, comply with the IFRS 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 from January 1, 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 from January 1, 2005.

Anoto Group has up to the end of the year reported the Group's financial reports in accordance with the Swedish Financial Accounting Standards Council Recommendations, which to a large extent over the recent years have been adjusted to IAS/IFRS. This in combination with optional exceptions described above will limit the effects of the changeover to IFRS in the income statement and the balance sheet to the following items:

- Depreciation of goodwill is discontinued (IFRS 3 and IAS 38)
- Fair value of outstanding employee options (IFRS 2) and costs pertaining to such employee 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 from January 1, 2004.

Changed accounting principles

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 relations, trademarks and patents, are identified and valued at the 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 January 1, 2004 is ”locked” and depreciations are reported according to Swedish accounting principles in force in 2004 and are reversed in the translated comparative figures for 2004 according to IFRS. The consequence would be an increase of the operating income of SEK 38.136 thousand in 2004.

IFRS 2 Share-based payments to employees.

Anoto Group applies IFRS 2 to all options programs. Anoto Group records a cost in the income statement corresponding to the fair value at 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 series A and 32 months for series B where the total amount of options is distributed equally between series A and series B). The effect on the operating income is a cost amounting to SEK 6.770 thousand in 2004 and approximately SEK 4.443 thousand in 2005. Anoto Group has no other share-based payments.

IAS 32 och 39 Financial instruments and hedging reporting

IAS 32 and 39 are standards dealing with recognition, classification and measurement of financial instruments.

Hedging and current investments are stated at fair value. No hedging can be regarded as so-called effective hedging since Anoto Group hedges against its outflow of US dollars on a continuous basis. All excess liquid assets are placed in current investments with different duration times. There are no investments with durations exceeding 90 days, thus all current investments are accounted 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 the net investments in foreign subsidiaries. In these cases the effective part of the change in value in respect of the derivative instrument is reported under shareholder’s equity until the time when 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 as well as the hedged object, pertaining to the hedged risk, will be accounted in the income statement and will neutralise each other to the extent that the hedging is effective. Anoto Group has during the period had no effective hedging of foreign currencies since all hedging has been in the form of forward agreements extending over various periods of time, however no longer than 90 days.

Loans and receivables are financial assets not designated as derivatives with fixed or estimated payments quoted and where no purpose of speculation exists. Loans and receivables are valued at amortised acquisition value. Such assets are reported as current assets except for the duration times exceeding 12 months after the balance sheet day, which are reported as fixed assets.

According to Swedish accounting principles shares and participation rights are reported at the minimum acquisition value and fair value. 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. In respect of investments in listed companies the market values 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 time less than three months, as liquid assets. Anoto Group has not previously had current investments extending over more than three months and as a consequence 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; or (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. Anoto Group has in compliance with IFRS reclassified provisions in the balance sheet to current and long-term liabilities respectively. Anoto Group's business cycle is approximately 12 months.