Interim Report January – September 2002

- In October a new share issue with preferential rights valued at SEK 207 million before deduction for issue costs was implemented. The issue, fully subscribed, was based on a resolution by the Board of Directors on August 22, subsequently authorised by the Extraordinary General Meeting of September 24.

- Sales increased by SEK 125 million (corresponding period the preceding year: 113), of which SEK 44 (30) million in the third quarter. The gross margin for the period was 36% (1%), of which 49% (-2%) in the third quarter.

- Pre-tax loss amounted to SEK -377 (-417) million, of which SEK -44 (-) million refer to provisions for the below mentioned down sizing primarily in Stockholm.

- Cash flow for the period was SEK -316 (-279), of which SEK -80 (-114) million in the third quarter.

- In quarters 3 and 4 C Technologies received orders for ASIC chips at a total sales value of SEK 112 million. During Q3 chips totalling SEK 16,5 million were delivered, delivery of chips valued at around SEK 60 million is planned for Q4 and in January 2003 the remaining chips valued at SEK 34 million will be delivered. The chips are sold with a good profit and will, when sold to the end customer, generate future royalties per ASIC chip.

- As announced in the interim report for Jan-June 2002, further cost cutting programs were decided upon and implemented, which means that the number of employees in Stockholm were reduced from approx. 100 to around 25, while some 10 positions were offered in Lund. The cost reduction is valued at around SEK 100 million per year as of the end of 2002. Down-sizing expenses, including winding up premises, is valued at SEK 40 million and will be charged in the third quarter.

Anoto Group

Anoto Group is composed of innovative high-tech companies within digital camera technology, image processing and digital pens. The Group is today best known for its subsidiary *Anoto*.

Anoto

The subsidiary *Anoto* is progressing largely according to plan. Seeing that the important basic development of the infrastructure and development of basic consumer services have been completed and that partners to a large extent develop proprietary services, in combination with telephones and computers having integrated support for new server-based services, the demand for new major R&D projects within server development is decreasing. Consequently the Company in the autumn decided upon and carried out significant streamlining of operations in Stockholm. The downsizing will neither affect the Company's undertakings nor the present product and service portfolio.

Business units Enterprise and PC solutions are progressing according to plan or better.

The weak telecom market has affected launching schedules for several of the Company's potential partners among the operators.

<u>Business Unit Enterprise</u> focuses on selling solutions and systems to streamline the flow of paper forms within postal services, medical services, logistics, financial transactions, inventory, market research and others. The Business Unit progressed somewhat better than forecasted in the period and during the remainder of 2002, and in 2003, it will be further prioritised, utilising the keen market interest. In the third quarter MilCom, MediMedia, TIM and Chiahui entered agreements with Anoto and stated their intent to launch enterprise services during the year. At present the biggest customer is Hitachi with orders and NRE[*] valued at approx. SEK 20 million up to and including Q1 2003 for development of the so-called EPLS**. When Hitachi in future sells the system to Japanese customers within mail services, medical services, logistics and the like, Anoto will receive a little more than 50% of the service fee for each pen.

<u>Business Unit PC & Office</u> has progressed excellently and was first launched via Logitech in September. The Company estimates that Logitech's venture will provide *Anoto* with revenues for Anoto enabled digital pens ranging between SEK 40 and 80 million in 2002 and 2003. Logitech collaborates with present *Anoto* partners such as 3M Post-It Notes, MeadWestvaco, Groupe Hamelin and Franklin Covey.

<u>Business Unit Mobile</u>, which offers mobile solutions for private consumers and enterprises to operators and service providers, has progressed less favourably than forecasted. There is still a high interest among operators and service providers to introduce services based on *Anoto* technology, however there is clearly a delay compared with the indications given to *Anoto* at the beginning of the year. As mentioned above, measures to reduce the negative cash flow from this business unit were decided upon and implemented. MilCom, Chiahui and TIM announced their intention to introduce commercial consumer and enterprise services, based on mobile-connected Sony Ericsson's digital pen Chatpen, on the Danish, Taiwanese, English and Italian markets during the present year.

In addition to the announced partners *Anoto* has entered agreements with further major companies, which, on request by the respective partner, for the time being will remain confidential for reasons of secrecy and competition.

In April 2002 Anoto functionality was launched on the Swedish consumer market in collaboration with Vodafone, Sony Ericsson, Esselte and 3M, thereby making Chatpen™ by Sony Ericsson the first digital pen with Anoto functionality worldwide. Heavy focus on vertical applications has been initiated and in the autumn Anoto, Vodafone and the other partners count on being able to get a large number of additional pilot projects under way in several areas of forms processing.

In Q2 Anoto initiated a new agreement with a major mobile phone manufacturer no less important than Sony Ericsson and Logitech and received its first order valued at SEK 2 million. Launching is planned during the fist half of 2003.

In quarter 3 Anoto signed license agreements with Japan-based Hitachi Maxell regarding manufacture of digital pens with Anoto functionality, to be introduced in Japan in Q2, 2003.

*) NRE = ”Non Refundable Engineering” (Development fee)
**) EPLS = “Enterprise Paper Lookup Service” (Customised intranet solutions for Anoto’s pen and paper-based services)

C Technologies

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

As of the third quarter the company has seen a significant increase in orders for so-called ASIC chips utilised in camera modules for mobile phones. During the year’s first three quarters, chips totalling some SEK 16,5 million were delivered, and as of the third quarter customers have placed orders for approx. SEK 61,5 million to be delivered in the last quarter 2002, and an additional SEK 34 million to be delivered in January 2003.

There is continued strong interest in C-Pen 10, which also achieved improved margins during the period due to the production having been moved to Asia. Further orders relating to bank customers in Switzerland were received, which are planned for delivery in the fourth quarter.

In the second quarter the company was reorganised, resulting in staff cuts by about ten.

WeSpot

In the subsidiary WeSpot (in which Anoto Group AB controls 54.7 % of votes and capital) applications based on so-called intelligent camera technology, advanced image processing and the Group’s proprietary ASIC chip are developed. Subsequent to the reporting period WeSpot signed a further agreement, with Securitas Direct, in addition to the initial commercial contracts from the previous year, with US-based Overhead Door Corporation (part of Japan-based Sanwa Group) and Attendo Senior Care AB in Sweden.

Operations have progressed as planned during the period.

Invoicing and results for the first nine months

Invoicing for the first nine months of the year totalled SEK 125 (113) million, of which SEK 96 (112) million is attributable to C Technologies, SEK 28 (-) million is attributable to *Anoto* and SEK 1 (1) million is attributable to WeSpot.

The Group’s gross margin for the period was 36 % (1 %).

Consolidated operating loss for the period was SEK -377 (-417) million. Sales, administration and research expenses have continued to decrease according to plan and amounted to SEK -368 million, including one-off costs amounting to SEK 44 million, compared to SEK -406 million for the corresponding period the previous year.

Pre-tax loss for the period was SEK -363 (-282) million. The result for the year was charged with depreciation of goodwill totalling SEK 29 (-) million. The result for the corresponding period the previous year included a positive item in the amount of SEK 59 million regarding the Group’s profit in connection with directed new share issues in subsidiaries after taking the minority share into consideration.

Adjusted for lump-sum expenditures, pre-tax loss for the corresponding period the year before was SEK -341 million.

Financing and liquidity

Consolidated liquid assets amounted to SEK 52 million at the end of the period compared to SEK 133 million at the end of Q2 and SEK 368 million at the beginning of the year.

As previously reported, a process was implemented in the first quarter whereby the employees of the parent company and wholly owned subsidiaries were offered to acquire warrants in the parent company at market price. Fully utilised the parent company would be contribute SEK 123 million. The said salary cuts accepted by employees subscribing for warrants would during 18 months be equivalent to consolidated cost reductions totalling about SEK 15 million.

In the second quarter the major shareholders of the partly owned subsidiary WeSpot AB (including Anoto Group AB) decided to, pro rata and in the form of interest-bearing loans, advance totally SEK 16,5 million in respect of the next share issue in WeSpot. With this advance WeSpot's funding is secured into the first quarter 2003. Of this advance SEK 7,3 million refers to minority shares, thus constituting a contribution to the Group's liquidity.

In the third quarter two new share issues directed at industrial partners Hitachi and Groupe Hamelin were implemented within the frame of the General Meeting's authorisation. The new issues contributed SEK 25 million before issue costs.

Cash flow

Cash flow from current operations amounted to SEK -309 (-391) million for the period. The improvement is entirely attributable to a corresponding improvement in consolidated results before depreciation and amortisation.

Cash flow for the year amounted to SEK -316 (-279) million.

Cash flow has been charged with net investments of SEK 43 (49) million for the period.

Investments

Net investments for the period amounted to SEK 43 (49) million, referring mainly to capitalised development and patent expenditures and tangible fixed assets.

Third quarter (July – September)

Invoicing in the third quarter was SEK 44 (30) million, of which C Technologies accounted for SEK 31 (30) million and *Anoto* for SEK 13 (-) million. Sales in *Anoto* during the quarter is equivalent to the double in comparison with the first quarter of the year, which can be explained by the increasing number of strategic partnerships that were entered and the NRE fees and licensing income generated by these.

The gross margin was 49 % (-2 %).

Consolidated operating loss for the third quarter was SEK -141 (-154) million, which was charged with provisions totalling about SEK 44 million in respect of the above mentioned downsizing. Sales, administration and research expenses have continued to decrease according to plan, amounting to SEK -141 (-149) million in the third quarter, in spite of the above-mentioned provisions of SEK 44 million. Excluding this, the quarterly costs have thus been reduced by 35 % compared to the same period the previous year.

Pre-tax loss was SEK -138 (-124) million. Adjusted for the above-mentioned provisions of SEK 44 million, result improvement for the third quarter was SEK 30 million.

The quarter has been charged with depreciation of goodwill according to plan amounting to approx. SEK 10 million, with no corresponding item the previous year.

Cash flow from current operations amounted to SEK -99 (-147) million in the third quarter.

Cash flow for the year was SEK -80 (-114) million, charged with net investments amounting to SEK 4 (19) million.

Parent company

Subsequent to the legal restructuring of the Group in connection with the previous turn of the year, the parent company operates solely as a holding company with a limited number of consolidated functions.

As previously advised, Christer Fåhraeus was appointed new CEO and president of the parent company, which in connection with the Annual General Meeting on April 24 changed its name to Anoto Group AB.

Accounting Principles

The Company has during the period applied the same accounting principles that were used in the Annual Report 2001. The Company observes the Swedish Financial Accounting Standard Council's recommendations and statements. The Interim Report has been made in accordance with the Swedish Financial Accounting Standards Council RR 20 – Interim Reports.

Share data

Anoto Group's share is listed on Stockholmsbörsen's O list (Attract 40). Upon expiration of the reporting period the number of shares 77.676.901, in addition to which 11.609.939 * outstanding warrants.

Ownership structure

On September 30, 2002 the number of shareholders in the Anoto Group was approximately 15.300. Foreign shareholders hold 27 % of the shares. Major shareholders at the same point of time are shown below.

Shareholder	No. of shares	% of capital & votes
Ericsson	18.253.549	23,5 %
Capital Group	9.322.333	12,0 %
Christer Fåhraeus	6.952.870	9,0 %
Robur funds	3.702.648	4,8 %
Fourth Swedish Pension Fund	3.653.846	4,7 %
Skandia Liv	2.475.038	3,2 %
The Swedish Metalworkers' Union	1.805.454	2,3 %
Others	31.511.163	40,5%
Total	77.676.901	100,0 %

*) 5.170.714 of these are warrants issued in connection with the agreement with holders of stock options in Anoto AB regarding exchange of shares, whereby subscription for new shares based on warrants in Anoto AB entitles the subscriber to 1 new share in the parent company per 8,1915 shares in Anoto AB. Full utilisation of all warrants would provide the Group with SEK 247 million. In addition there are 1.639.225 staff warrants in the parent company, of which only 55 % up to now have been offered to employees. Fully utilised the program may provide future subscription payments amounting to SEK 123 million. The salary relinquishment program implemented in the year's first quarter comprises 1.856.440 warrants, whereby the remaining warrants authorised by the General Meeting (2.943.560) will not be utilised and consequently do not constitute a potential dilution exposure. Given these conditions, the actual potential dilution exposure at September 30, 2002 will be approx. 10,0 %.

Significant events following the end of the reporting period

Since the end of the reporting period, in accordance with the Board of Director's resolution on August 22, the Company has implemented a new share issue with preferential rights for Anoto Group shareholders. The issue is being fully subscribed and has contributed approx. SEK 207,1 million before deduction for issue costs. For each three shares held, shareholders have been able to subscribe for one new share at a price of SEK 8. The new share issue comprises 25 892 300 shares and subsequent to the issue the total number of shares in the Company is 103 569 201.

C Technologies received further orders for ASIC chips (the company's proprietary System-on-a-chip Argus). Total volume of orders for delivery in the fourth quarter is presently equivalent to a value of SEK 61,5 million. Such units will at a later stage also generate royalties. An additional order valued at SEK 34 million for delivery in January 2003 has been received.

Argus II, the next generation of the proprietary circuit, was completed and launched. The circuit is designed for use in embedded systems such as digital cameras and pens, i.e. the special fields of the company, resulting in smaller, less expensive and more electricity-saving products in the future.

Anoto entered an agreement with MilCom, one of the largest distributors of mobile phones and accessories in Denmark. The agreement regards pen and paper-based services and the launching took place in October.

In October Anoto functionality was launched on the American consumer market in collaboration with Logitech, MeadWestvaco, 3M and Franklin Covey.

MediMedia, USA's largest company in medical forms for care centres, doctors and hospitals, has subsequent to the reporting period introduced services to process forms based on Logitech's IO, Logitech's digital pen with Anoto functionality.

Anoto also initiated co-operation with SysNet regarding the launching of services with Anoto functionality to consumers and enterprises in the United Kingdom throughout the year.

Outlook

Anoto

Within Business Unit Enterprise, enterprise services have progressed satisfactorily. Extensive cooperation with Hitachi has previously been announced and at least one further agreement of the same distinction will be disclosed in Q4, 2002

The PC solution for consumers will be introduced by Logitech in November as a digital pen, Logitech IO. It will probably constitute the bulk of pen sales in Q4 and 2003.

The launching of Anoto's consumer services by operators and service providers was delayed compared with indications given at the beginning of the year. It is estimated that 3-6 operators and service providers will have introduced some type of commercial service in 2002. Focus on vertical applications within Business Unit Mobile will be increased.

As from Q 4 monthly costs are expected to total about SEK 16 million for *Anoto*, implying cost savings of approx. SEK 100 million per annum compared with the level of costs prior to the significant restructuring of the organisation that was decided upon and accomplished during the third quarter.

Anoto is expected to launch collaboration before the end of the year with a printer manufacturer to further increase the supply of paper and create opportunities for new types of services.

C Technologies

In the previous report a gradual recovery in respect of sales was expected, reaching full effect in the fourth quarter. It is estimated that orders for ASIC chips equal to a value of SEK 61,5 million will be delivered in the last quarter. A further order for chips equal to a value of SEK 34 million will be delivered in January 2003.

Sales of ASIC chips for camera solutions is expected to progress at the same pace during 2003.

C Technologies' sales in the last quarter are estimated to reach a minimum of SEK 80 million, which is in line with previous information.

WeSpot

According to the above, the company has been financed into 2003 through its major shareholders. Parallel activities to secure the company's long-term capital requirements will be carried out. It is estimated that Anoto Group AB's holding in WeSpot is likely to have decreased below 50 percent within 1-2 quarters. In such a case WeSpot would no longer be consolidated and would instead be accounted as an associated company within the Anoto Group.

The Anoto Group

The Group is forecasting sales ranging between SEK 95-105 million for Q4.

The operating loss before depreciation is expected to range between SEK -30 million and SEK -40 million for the fourth quarter. After depreciation (primarily in respect of Goodwill) the loss is estimated to range between SEK -45 million and SEK -55 million for the fourth quarter.

The Group's fixed costs as from Q1 2003 are expected to total about SEK 21 million per month and cash flow in Q1 is estimated to fall below SEK -30 million (excluding WeSpot in accordance with the assessment of reduced future ownership).

It is presently estimated that positive cash flow will be achieved during the second half of 2003.

Lund, October 30, 2002

Christer Fåhraeus
President

This report has not been subject to special review by the Company's accountant.

Income Statement in summary ***The Group***

(Amounts in SEK thousands)	Quarter 3		Accumulated		Year
	Juli - Sept 2002	Juli - Sept 2001	Jan - Sept 2002	Jan - Sept 2001	Jan - Dec 2001
Net sales	43,728	30,436	125,403	112,688	156,204
Costs of goods sold	(22,448)	(30,943)	(80,408)	(111,829)	(141,506)
Gross profit	**21,280**	**(507)**	**44,995**	**859**	**14,698**
Sales, administration & research	(140,939)	(149,033)	(368,398)	(406,035)	(587,537)
Depreciation of intangible assets	(13,215)	(798)	(36,592)	(3,325)	(10,809)
Depreciation of tangible assets	(7,983)	(3,375)	(16,917)	(8,584)	(12,735)
Operating profit/loss	**(140,857)**	**(153,713)**	**(376,912)**	**(417,085)**	**(596,383)**
Result from participation in group companies [1]	-	-	-	59,394	68,210
Other financial items	280	1,442	3,862	7,445	7,938
Minority share	3,062	28,475	9,838	68,731	80,042
Profit/loss before taxes	**(137,515)**	**(123,796)**	**(363,212)**	**(281,515)**	**(440,193)**
Taxes	(116)	(91)	(234)	(187)	(488)
Profit/loss after taxes [6]	**(137,631)**	**(123,887)**	**(363,446)**	**(281,702)**	**(440,681)**
Key ratios:					
Gross margin	48.7%	-1.7%	35.9%	0.8%	9.4%
Operating margin	Neg	Neg	Neg	Neg	Neg
Earnings per share (SEK) [5]	(1.78)	(2.73)	(4.74)	(6.21)	(8.97)

Balance Sheet in summary

(Amounts in SEK thousands)	*The Group*		
	9/30/2002	12/31/2001	9/30/2001
Goodwill	346,344	374,946	-
Other fixed assets	126,129	107,933	79,005
Other current assets	107,248	111,388	140,339
Cash and bank balances, incl. current investments	52,359	368,313	141,958
Total assets	632,080	962,580	361,302
Shareholders' equity	467,415	798,963	168,612
Minority interests	-	2,568	-
Interest-bearing liabilities	5,845	5,417	833
Other liabilities	158,820	155,632	191,857
Total shareholders' equity and liabilities	632,080	962,580	361,302

Changes in equity

	The Group		
	1/1/2002-9/30/2002	**1/1/2001-9/30/2001**	**1/1/2001-12/31/2001**
Opening balance according to the adopted balance Sheet for the previous year	**798,963**	**503,055**	**503,055**
Effect of change of accounting principle [4]	-	(68,545)	(68,545)
Minority share hereof	-	3,979	3,979
Opening balance adjusted according to the New accounting principle	**798,963**	**438,489**	**438,489**
New share issue	24,950	-	450,000
Non-cash issue	-	-	347,016
Issue expenses	(1,639)	(205)	(12,638)
Redemption of warrants	-	975	975
Subordinated debentures with detachable warrants [6]	7,998	1,732	1,733
Minority share of submitted stockholders' share in subsidiaries	-	(588)	(573)
Minority share of the result for the year not recorded in the income statement [2]	-	12,684	16,928
Translation difference	589	(2,773)	(2,286)
Loss for the year	(363,446)	(281,702)	(440,681)

Cash flow analysis

	The Group				
	Quarter 3		**Accumulated**		**Year**
(Amounts in SEK thousands)	July - Sept 2002	July - Sept 2001	Jan - Sept 2002	Jan - Sept 2001	Jan - Dec 2001
Operating profit/loss before depreciation	(119,659)	(149,540)	(323,403)	(405,176)	(572,839)
Change in warranty provision	(60)	549	82	1,798	(60)
Taxes paid	(116)	(91)	(234)	(187)	(488)
Change in working capital	20,339	2,427	14,937	12,649	32,775
Cash flow from operations	**(99,496)**	**(146,655)**	**(308,618)**	**(390,916)**	**(540,612)**
Net investments	(3,761)	(19,450)	(43,103)	(49,173)	(83,379)
Operating cash flow before financing	**(103,257)**	**(166,105)**	**(351,721)**	**(440,089)**	**(623,991)**
Financing:					
New share issues	23,311	-	23,311	-	438,338
New share issues directed at subsidiary minorities	-	-	-	101,267	120,751
Increased long-term liability	-	51,554	-	52,401	-
Other financial items	280	1,442	3,862	7,445	7,938
Other items [6]	(527)	(703)	8,594	(272)	4,071
Cash flow for the year	**(80,193)**	**(113,812)**	**(315,954)**	**(279,248)**	**(52,893)**
Liquid assets at the beginning of the period *	132,552	255,770	368,313	421,206	421,206
Liquid assets at the end of the period *	**52,359**	**141,958**	**52,359**	**141,958**	**368,313**

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

Key ratios

	The Group				
	July - Sept 2002	July - Sept 2001	Jan - Sept 2002	Jan - Sept 2001	Jan - Dec 2001
Cash flow for the year (SEK 000s)	(80,193)	(113,812)	(315,954)	(279,248)	(52,893)
Cash flow / share (SEK) [5]	(1.04)	(2.51)	(4.12)	(6.15)	(1.08)
Cash flow / share (SEK) after dilution [5]	(0.90)	(2.36)	(3.60)	(5.81)	(1.02)

	9/30/2002	12/31/2001	9/30/2001
Equity	73.9%	83.0%	46.7%
Number of sharesr [3]	89,286,840	79,225,551	48,274,670
Equity per share (SEK) [3]	5.23	10.08	3.49

Notes (SEK 000s)

[1] During the previous year the Group made a profit through a new share issue in the subsidiary Anoto AB directed at Ericsson Mobile Communications AB. This profit amounted to 49,377 after taking the minority share into consideration. The Group made a similar profit the previous year through a new share issue directed at minority holders in the subsidiary WeSpot AB. The profit in this case amounted to 18,833 after taking the minority share into conside ration

[2] The minority share in Anoto AB increased from 15% to 30% at the end of March 2001. In order to give a more true and fair view of the profit and loss statement, 15% in the profit and loss statement has been used when eliminating the minority share of the result for the period Jan 1, 2001 – March, 31 2001. The effect of the remaining 15% became a positive item in the Group's equity. Effective Nov 1, 2001 Anoto AB is fully consolidated. Similarly the increasing minority share in the subsidiary WeSpot AB in the previous year has been taken into consideration.

[3] Incl. Outstanding warrant (Sept 30,2002: 11 609 939 ; Dec 31, 2001: 2 698 650 ; Sept 30, 2001: 2 880 800).

[4] Effective as of Jan 1, 2001 the Swedish Financial Accounting Standards Council's Recommendation RR15 (Intangible assets) is applied. In accordance with the transitional regulations of this principle, a lump sum write-down of a total of 68 545 (corresponding to the residual value according to plan). This lump sum write-down was recorded as an adjustment entry in the equity opening balance on Jan 1, 2001 in accordance with the Swedish Financial Accounting Standards Council's recommendation RR5 (change of accounting principle).

[5] Key ratios regarding earnings and cash flow per share are based on weighted average number of shares and outstanding warrants for the respective periods.

[6] In Q1, 2002 warrant premiums received have been recorded directly against equity, implying a re-classification in relation to Interim Report 1 (Jan-March) in which this item was recorded as other operating income. The item in question amounts to 7 392.