



## **F-Secure Group January 1 - September 30, 2007, Financial Results**

### **ISP business growth continued strong, total growth accelerated, very good profitability**

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(Unless otherwise stated comparisons are made to the same period one year ago. The currency is euros.)

#### **Q3 Highlights**

- Total revenue growth accelerated to 21% to a record level of 24.3m
- ISP business growth at a sustained strong level of 10% quarter over quarter, and 42% year over year, reaching a volume of 9.4m
- EBIT increased by 63% to 6.2m, 26% of revenues
- Cash flow positive 1.5m (4.5m positive)

#### **Business at the Group level during the first nine months of 2007**

For the first nine months of 2007 total revenues were 70.8m (58.6m), representing 21% growth. EBIT was 14m (9.6m), representing 46% growth. Cash flow was 12.4m positive (zero). Deferred revenues were 29.1m at the end of the quarter (30.2m at the end of 2Q2007).

The total costs were 51.6m (44.5m), representing 16% growth. Cumulative cost increase slowed down during 3Q07 due to seasonality and vacation period, but was also impacted by delayed recruitments and lower marketing activities than anticipated. The Group capitalizes some of its development expenses according to the accounting rules. This had no material impact on the cost level.

The geographical breakdown of the business was as follows: Nordic Countries 39% (37%), Rest of Europe 43% (44%), North America 9% (10%) and Rest of the World 9% (9%). Anti-virus and intrusion prevention represented 99% of the total revenues.

#### **ISP channel during Q3**

In the third quarter of 2007, revenues through the Internet Service Provider (ISP) partners were 9.4m (6.7m), representing 39% of the total revenues (33%) and a growth of 42% from the previous year. The quarter-over-quarter revenue growth remained strong at 10% (11% in 2Q2007).

Strong development in the Service Provider business continued and a total of 9 new ISP partnerships were signed. The total number of ISP partners was 159 operating in 35 countries at the end of Q3. With such a strong base of partners worldwide F-Secure emphasizes end-user subscription growth through close collaboration with the service providers and strengthened account management practises. New service provider partnerships announced in Q3 and early Q4 include DIRECTV (USA), Aster (Poland) and Orange UK (security services for SMB customers).

At the end of 2006 the Group's partners held approximately 34% market share in Europe and approximately 10% in North America (Source: Dataxis and F-Secure).

### **Other channels during Q3**

Other channels, including Value Added Resellers, IT Service Providers, Managed Security Service Providers, e-Store and Retail channels showed an improvement from the previous quarter. Revenues were 14.9m (13.4m). This represented 61% of the total revenues (67%) and a growth of 11% from the previous year.

### **Mobile security during Q3**

The third quarter showed an increased interest in smartphone security trial usage. The perceived malware risk level for smartphone users continues to be fairly low, and consequently revenues for this business area increase at a slow pace, now representing ca. 2% of the Group's total revenues. They are included in the above mentioned channel revenues and the percentage figure is shown as an indicator only.

Close co-operation with Nokia and the current operator partnerships, such as Orange UK, Orange Switzerland, T-Mobile Germany, T-Mobile UK, Swisscom, TeliaSonera and Elisa, is the prime vehicle to make mobile security applications available to a large number of end users.

F-Secure's co-operation with Nokia continued strong. F-Secure Mobile Anti-Virus was the first antivirus software for the S60 3rd edition operating systems and it will be available for majority of the currently shipping or upcoming Nokia S60 3rd edition devices, Nseries & Eseries.

### **Products & Services**

During Q3 F-Secure introduced new solutions both to consumer and business customer segments. The consumer flagship product F-Secure Internet Security 2008 was launched in September and a new version of Client Security for business was released in September.

### **Competitive situation**

There were no significant changes in the competitive landscape nor in the pricing levels during the period.

### **Customer satisfaction**

The Group is in the process of renewing its customer satisfaction survey to be more in line with current channel structures and end-customer segments. The timing of the annual survey is also shifted to the end of each year in order to correspond better to actual business and product cycles. The next annual survey is conducted during the fourth quarter of 2007.

### **Personnel and Organization**

The Group's personnel numbered 543 at the end of the Q3 (464).

The Group's Executive Team consists of the following persons: Mr. Ari Alakiuttu (Vice President, Products and Services), Mr. Kimmo Alkio (President and CEO), Ms. Eila Mustala (Vice President, Human Resources), Mr. Trond Neergaard (Vice President, Marketing), Mr. Pirkka Palomäki (Senior Vice President, Research and Development), Mr. Antti Reijonen, (Vice President, Strategy), Mr. Taneli Virtanen (Chief Financial Officer) and Mr. Travis Witteveen (Senior Vice President, Sales and Geography Operations).

### **Financing**

The Group's financial position remained strong. The Group's equity ratio on September 30, 2007, was 81% (81%). Financial income for first nine months was 0.5m (0.4m).

During the first nine months the cash flow was 12.4m positive (zero). The market value of the liquid assets of the Group on September 30, 2007 was 79.9m (61.9m).

The change in the USD-EUR exchange has had some negative effect on revenues and results.

### **Capital Expenditures**

The Group's capital expenditures during first nine months 2007 were 1.6m (2.8m). These consisted mainly of IT hardware, software and capitalization of development expenses.

### **Shares, Shareholders' Equity, and Option Programs**

During Q3, A total of 18,020 F-Secure shares were subscribed for with the A1/A2 warrants attached to the F-Secure 2002 Warrant Plan.

The corresponding increase in the share capital, in total EUR 180.20 has been registered in the Finnish Trade Register.

As a result of the increases in Q3, the share capital of F-Secure currently is EUR 1,550,563.38 and the total number of shares is 155,056,338. F Secure received as additional shareholders' equity a total of EUR 10,821. The corresponding number of shares fully diluted would be 161,464,443 including all stock option programs.

It was decided in the latest AGM on March 20, 2007 to decrease share premium by 36m. During the reporting period the F-Secure Corporation share premium has been decreased and the amount (FAS 36,000,000 €, IFRS 33,582,113 €) transferred to the company's distributable equity.

### **Corporate Governance**

F-Secure complies with the Corporate Governance recommendations for public listed companies published in December 2003 by OMX Nordic Exchange Helsinki, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers as explained on the Group's web pages.

### **Risks and Uncertainties in the Near Future**

The Group has not seen any material changes to the risks and uncertainties during the reporting period. As noted in the previous interim report, the Group's risks and uncertainties are related to, among other things, the competitiveness of the Group's product portfolio, competitive dynamics in the industry, the impact of changes in technology, timely and successful commercialization of complex technologies as new products and solutions, the ability to protect own intellectual property (IPR) in the Group's solutions as well as the use of third party technologies on reasonable commercial terms, subcontracting relationships, regional development in new growth markets, sustainability of partner relationships, service quality level requirements and the overall development of value added security solutions in the Service Provider and mobile operator market.

### **Future Outlook**

The Group's first priority is to drive strong growth. The core growth driver is the ISP channel.

The Group continues to invest in new sales and marketing activities to build scalability for future growth especially for the service providers and in the mobile segment. The Group continues to pursue innovations in security related technologies as well as in new services related to the online wellbeing of internet users.

The quarter-over-quarter growth rate in the ISP business is expected to remain at a good level, around 10%, during Q4 2007. In the mobile security business, revenue continues to grow, but slower than anticipated at the beginning of the year. Mobile security is expected to remain a small part of the Group's revenues during 2007.

Based on the performance of the first nine months and the current outlook, the management expects full year 2007 revenues to be between 96m and 98m and an EBIT between 18% and 21% of revenues. Guidance given at the end of the second quarter for the full year was; revenues 94-100m and EBIT of 16-19% (original guidance in January for the full year was; revenues 95m +/- 10% and EBIT of 14%-18% of revenues).

In the 3-5-year horizon the Group aims to exceed market growth rates in revenues and seeks an EBIT level around 25%.

The fourth quarter 2007 revenues are estimated to be between 25.5m and 27.5m. The estimates are based on the sales pipeline at the time of publishing, existing subscriptions and support contracts and a EUR/USD exchange rate of 1.40. Fixed costs are estimated to be around 19m in Q4.

## **Financial Reporting**

A press and analyst conference will be arranged today, October 23rd, at 11 am Finnish time at the Group's Headquarters, Tammasaarekatu 7, Helsinki. A conference call for international investors and analysts will be arranged at 1530 Finnish time (1430 CET, 1.30 pm UK time). Instructions can be found in investor pages.

The quarterly report for Q4 will be published on January 30, 2008. The audited annual report for the full year 2007 will be announced during the week beginning February 11 and the Annual Report will be published in mid March, 2008. The Annual General Meeting will be held on March 26, 2008.

Quarterly reports for 2008 will be published on April 23 (Q1), July 29 (Q2) and October 21 (Q3). A Stock Exchange bulletin will be sent at 9 am Finnish time to the Helsinki Exchanges, a press and analyst conference will be arranged at 11 am Finnish time in Helsinki, and an international conference call will be arranged in the afternoon. Full details will be provided later on the Group's web site.

## **F-Secure Corporation**

Board of Directors

This interim report is prepared in accordance with IAS 34 standard.

**Key figures (unaudited):**

Euro million

<b>INCOME STATEMENT</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>Chge</b>	<b>2006</b>
	7-9	7-9	1-9	1-9	%	1-12
Revenues	24.3	20.0	70.8	58.6	21	80.7
Cost of revenues	2.0	1.7	5.6	5.1	11	7.3
Gross margin	22.3	18.4	65.2	53.6	22	73.4
Other operating income	0.1	0.1	0.4	0.5	-18	0.6
Sales and marketing	10.0	9.0	31.7	28.8	10	38.6
Research and development*)	5.0	4.7	15.6	12.7	22	22.5
Administration	1.3	0.9	4.3	2.9	50	4.1
Operating result	6.2	3.8	14.0	9.6	46	8.9
Financial net	0.1	0.1	0.5	0.4		1.5
Result before taxes	6.3	3.9	14.5	10.0		10.4
Income taxes	-1.7	-0.9	-3.8	-2.6		-3.1
Result for the period	4.6	3.0	10.7	7.5		7.3

Earnings per share, e			0.07	0.05		0.05
EPS, diluted, e			0.07	0.05		0.05

\*) 1-12/2006 includes impairment loss of 4.8

**BALANCE SHEET**

<b>ASSETS</b>	<b>30/9/2007</b>	<b>30/9/2006</b>	<b>31/12/2006</b>
Intangible assets	4.0	9.5	4.5
Tangible assets	3.2	3.2	3.2
Other financial assets	0.8	2.2	0.9
Non-current assets total	8.0	14.9	8.7
Inventories	0.3	0.2	0.2
Other receivables	18.8	15.3	19.4
Available-for-sale financial assets	68.2	49.4	54.7
Cash and bank accounts	11.8	12.7	12.2
Current asset total	99.2	77.6	86.4
Total	107.2	92.5	95.1

**SHAREHOLDERS' EQUITY**

<b>AND LIABILITIES</b>	<b>30/9/2007</b>	<b>30/9/2006</b>	<b>31/12/2006</b>
Equity	63.1	54.5	54.2
Other non-current	0.3	1.2	0.1
Provisions	1.3	1.2	1.2
Deferred revenues	3.8	4.1	4.4
Non-current liabilities total	5.4	6.5	5.7

Other current	13.4	10.8	12.1
Deferred revenues	25.3	20.7	23.2
Current liabilities total	38.7	31.6	35.2
Total	107.2	92.5	95.1

<b>Cash flow statement</b>	<b>30/9/2007</b>	<b>30/9/2006</b>	<b>31/12/2006</b>
Cash flow from operations	17.0	13.5	19.5
Cash flow from investments	-1.5	-2.8	-3.5
Cash flow from financing Activities*	-3.1	-10.8	-10.6
Change in cash	12.4	0.0	5.4
Cash and bank at 1 Jan	66.6	61.7	61.7
Change in net fair value of Available-for-sale	0.9	0.2	-0.4
Cash and bank at 30 Sep	79.9	61.9	66.7
* dividends paid/increase in share capital			

Statement of changes in shareholders' equity

	share capital	share premium fund	transl. diff.	reval. reserve	unres- tricted reserve	retained earnings	total
Equity on 31.12.2006	1.5	33.7	0.0	-0.1	0.0	19.0	54.2
Available-for-sale financial asset, net				0.7			0.7
Translation diff.			0.0				0.0
Cost of share based payments						0.7	0.7
Profit						10.7	10.7
Dividend						-3.1	-3.1
Exercise of options	0.0	0.0					0.0
Other change							
Equity on 30.9.2007	1.5	-33.6 0.1	0.0	0.6	33.6 33.6	27.2	63.1

<b>Key ratios</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>
	<b>9 m</b>	<b>9 m</b>	<b>12 m</b>
Operating result, % of revenues	19.8	16.4	11.0
ROI, %	33.9	24.7	19.3
ROE, %	24.3	17.9	13.1
Equity ratio, %	80.8	80.5	80.2
Debt-to-equity ratio, %	-126.6	-113.7	-123.2
Earnings per share (EUR)	0.07	0.05	0.05
Earnings per share diluted	0.07	0.05	0.05
Shareholders' equity per share, e	0.41	0.35	0.35
P/E ratio	26.2	33.7	47.6
Capitalized expenditures (Me)	1.6	2.8	3.7

Contingent liabilities (Me)	9.8	11.5	11.2
Personnel, average	519	429	439
Personnel, Sep 30	543	464	479

### **Segment information**

The Group has only one primary segment; data security.

### **Quarterly development**

	<b>1/06</b>	<b>2/06</b>	<b>3/06</b>	<b>4/06</b>	<b>1/07</b>	<b>2/07</b>	<b>3/07</b>
Revenues	18.8	19.8	20.0	22.1	23.1	23.3	24.3
Cost of revenues	1.7	1.6	1.7	2.2	1.9	1.8	2.0
Gross margin	17.0	18.2	18.4	19.8	21.3	21.6	22.3
Other operating income	0.2	0.2	0.1	0.2	0.1	0.1	0.1
Sales and marketing	9.6	10.3	9.0	9.8	10.6	11.1	10.0
Research and development	3.7	4.3	4.7	9.8	5.3	5.3	5.0
Administration	1.0	0.9	0.9	1.2	1.4	1.6	1.3
Operating result	2.9	2.8	3.8	-0.7	4.1	3.7	6.2
Financial net	0.2	0.1	0.1	1.0	0.2	0.3	0.1
Result before taxes	3.2	2.9	3.9	0.3	4.2	4.0	6.3