



## **F-Secure Group January 1 - March 31, 2008 Financial Results**

**Solid overall growth, ISP channel strong as expected, good profitability**

---

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

### **Highlights**

- Total revenue growth was 15% and resulted in an all-time high quarterly revenue of 26.6m
- ISP business growth was 8% quarter over quarter, and 41% year over year, reaching revenues of 10.9m
- EBIT was 5.3m, 20% of revenues (4.1m)
- Cash flow positive 6.1m

### **Business at the Group level**

For the first quarter of 2008 total revenues were 26.6m (23.1m), representing 15% growth. EBIT was 5.3m (4.1m) and 20% of revenues, representing 31% growth. Cash flow was 6.1m positive (1Q07 cash flow 8m positive before dividend). Deferred revenues were 33.7m at the end of the quarter (31.9m at the end of 4Q2007).

The total costs were 19.5m (17.4m), representing 12% growth. The Group capitalizes some of its development expenses according to the accounting rules. This had no material impact on the cost level.

The results were in line with the given guidance (revenues 26m-28m, costs not exceeding 20m).

The geographical breakdown of the business was as follows: Nordic Countries 40% (39%), Rest of Europe 43% (44%), North America 8% (8%) and Rest of the World 9% (9%). Anti-virus and intrusion prevention represented close to 100% of the total revenues.

### **ISP channel**

Strong development in the Service Provider business continued and a total of 6 new ISP partnerships were signed in Q1. Two partner operators merged into existing partners without loss of business for the Group. The total number of ISP partners was 169 operating in 38 countries at the end of the quarter.

New service provider partnerships signed in Q1 include Cabovisao (Portugal), Comstar-Direct (Russia), and Ziggo (The Netherlands).

In the first quarter of 2008, revenues through the Internet Service Provider (ISP) partners were 10.9m (7.8m), representing 41% of the total revenues (34%) and a growth of 41% from the previous year. The quarter-over-quarter revenue growth was 8% (7% in 4Q2007).

The total number of the Group's ISP partners is significantly larger than with any other security service vendor. At the end of 2007 the Group's ISP partners held approximately 37% (34%) market share of total high-speed

consumer connections in Europe, approximately 10% (10%) in North America and approximately 9% (n/a%) in APAC (Source: Datisis and F-Secure).

### **Other channels**

The traditional sales channels, including Value Added Resellers, IT Service Providers, Managed Security Service Providers, e-Store and Retail channels grew by 2% from the previous year. . Revenues were 15.7m (15.4m) and represented 59% of the total revenues (66%).

F-Secure Protection Service for Businesses, which was launched during 4Q 2007, has continued to gain significant interest among Value Added Reseller partners and the business customers.

### **Mobile security**

Mobile security revenues were at the level of approximately 3% of the Group's total revenues in Q1. These revenues are included in the above-mentioned channel revenues and the percentage figure is shown as an indicator only.

In the first quarter F-Secure signed a partnership with Toshiba Information Systems (UK) Mobile Communications Division to provide F-Secure Mobile Anti-Virus for Toshiba's Windows Mobile smart devices throughout Europe. The Group also launched a partnership with CSL, Hong Kong's largest mobile operator, to provide an integrated mobile security service.

Close co-operation with Nokia and Sony Ericsson together with 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. Co-operation initiatives with other major mobile operators and handset manufacturers are also progressing well.

### **Products & Services**

Key product announcements in Q1 include F-Secure Health Check for Service Providers, Protection Service for Business, and a new version of F-Secure Anti-Virus for Windows Servers.

After the reporting period the Group announced F-Secure Mobile Security for Windows Mobile, combining real time anti-virus and anti-spyware with a firewall for this mobile platform.

### **Competitive situation**

There were no significant changes in the competitive landscape during the quarter. However, compared to the situation one year ago, competition in the traditional corporate channel has become tougher resulting in negative price development in some countries. The Group's competitive position in the ISP channel has remained strong.

### **Customer satisfaction**

F-Secure updated its annual customer satisfaction survey at the end of 2007. The overall satisfaction was healthy at a level of 4.1 on a scale from 1 to 5.

### **Personnel and Organization**

The Group's personnel numbered 602 at the end of the Q1 (514).

The Group has been successful in pursuing its strategy to reinforce above all its global sales and marketing organization.

The current Executive Team consists of the following persons: Mr. Ari Alakiuttu (Vice President, Human Resources), Mr. Kimmo Alkio (President and CEO), Mr. Trond Neergaard (Vice President, ISP Business), Mr. Pirkka Palomäki, (Chief Technology Officer), 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 March 31, 2008, was 71% (79%). The equity ratio would have been 81% if the dividends had been paid in March. Financial income for the first quarter was 0.3m (0.2m).

During the first quarter cash flow was 6.1m positive (8m positive before dividend paid in March 2007).

The market value of the liquid assets of the Group on March 31, 2008 was 90.3m (72.4m).

A dividend of EUR 0.07 per share was paid after the reporting period, on April 8, 2008, representing a total of 10.9m for all outstanding shares.

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

## **Capital Expenditures**

The Group's capital expenditures during the first quarter were 1.0m (0.6m). These consisted mainly of IT hardware, software and capitalization of development expenses.

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

Trading with the A-warrants of F-Secure Corporation 2005 Stock Option Plan commenced on March 3, 2008.

During Q1, a total of 68,880 F-Secure shares were subscribed for with the A1/A2 warrants and a total of 5,900 F-Secure shares were subscribed for with the B1/B2/B3 warrants attached to the F-Secure 2002 Warrant Plan.

In aggregate the number of shares was increased by 74,780. The corresponding increase in the share capital, in total EUR 747.80 was registered in the Finnish Trade Register on January 7, 2008. As a result of the increase, the share capital of F-Secure currently is EUR 1,551,311.18 and the total number of shares is 155,131,118. F-Secure received as additional shareholders' equity a total of EUR 46,638. The corresponding number of shares fully diluted would be 161,464,443 including all stock option programs.

## **Annual General Meeting**

The Annual General Meeting of F-Secure Corporation was held on March 26, 2008. The Meeting confirmed the financial statements for the fiscal year 2007. The members of the Board and the President & CEO were granted a discharge from liability. In addition, the Annual General Meeting made the following decisions:

It was decided to distribute a dividend of EUR 0.07 per share to be paid to registered shareholders on the record date of March 31, 2008. The dividend was paid on April 8, 2008.

It was decided that the annual compensation for the chairman is EUR 55,000, for the chairmen of Executive and Audit Committee EUR 40,000 and for members EUR 30,000. Approximately 40% of the annual remuneration will be paid as company shares.

It was decided that the number of Board members would be six. The following members were re-elected: Mr. Marko Ahtisaari, Ms. Sari Baldauf, Mr. Pertti Ervi, Mr. Risto Siilasmaa, and Mr. Alex Sozonoff. Mr. Juho Malmberg was elected as a new member.

In the first meeting of the Board Mr. Risto Siilasmaa was elected Chairman. The Board nominated Ms. Sari Baldauf as the chairman of the Executive Committee and Mr. Pertti Ervi as the chairman of the Audit Committee.

It was decided that auditor's fee would be paid against an approved invoice. Ernst & Young Oy was elected the Group's auditors. APA, Mr. Erkka Talvinko is acting as responsible partner.

The Board was authorized to decide on directed share issues and their terms. The authorization is valid for the period of one year. The maximum cumulative number of issued new shares is 40,000,000. The unused portion of the authorization given by the Shareholders' meeting on the March 20, 2007, will be cancelled simultaneously with the registration of the new authorization.

It was decided that the total amount of the subscription prices paid for new shares issued after the date of the Annual General Meeting, based on stock options under the F-Secure Stock Option Plans 2002 and 2005, be recorded in company's distributable equity.

It was decided that the Board may pass a resolution to purchase a maximum of 15,513,111 shares of the Company. The amount represents approximately 10% of all the shares issued by the Company. The authorization is valid for one year.

It was decided that the Board may decide on a transfer of a maximum of 15,513,111 own shares of the Company either against consideration or without payment. The authorization is valid for one year. The Board of Directors is authorized to transfer the shares in deviation from the shareholders' pre-emptive rights (directed transfer) subject to the provisions of the applicable law.

## **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.

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, database update process quality, and the overall development of value added security solutions in the Service Provider and mobile operator market.

## **Disputes**

Helsinki Court of Appeal announced its decision on the dispute between F-Secure Corporation and SRV Viitokset Oy. F-Secure was sentenced to pay EUR 793 230,53 and the costs of the trial plus interest to SRV Viitokset Oy. F-Secure considers applying for leave to appeal for Supreme Court. F-Secure has already accrued payments based on the verdict by Helsinki District Court. The financial impact pursuant to this claim is periodized for the duration of the rental period starting from September 2005 until the end of 2010.

Based on an agreement by and between the parties, Diagnostic Systems Corporation dismissed their patent infringement claim of December, 2006.

## **Future Outlook**

The Group's first priority is to drive strong growth. The core growth element 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 annual growth rate in the ISP business is expected to be approximately 40% in 2008.

In the mobile security business revenues are expected to grow steadily. However, it is expected to remain a small part of the Group's revenues during 2008.

Management expects full year 2008 revenues to be between 110 and 120 million and full year EBIT between 19 and 23% of revenues.

In the 2-4-year horizon the Group aims to continue to exceed the average market growth rates in revenues and seeks an EBIT level around 25%.

The second quarter 2008 revenues are estimated to be between 26.5m and 28.5m. Fixed costs are estimated to be below 21m in Q2.

The revenue estimates are based on the sales pipeline at the time of publishing, existing subscriptions and support contracts and a EUR/USD exchange rate of 1.55.

### **Financial Reporting**

A press and analyst conference will be arranged today, April 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 on the investor pages of the Group's web site.

The next quarterly reports for 2008 will be published on 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

INCOME STATEMENT	2008	2007	Chge	2007
	1-3	1-3	%	1-12
Revenues	26.6	23.1	15	96.8
Cost of revenues	2.1	1.9	11	7.5
Gross margin	24.5	21.3	15	89.2
Other operating income	0.3	0.1	115	0.8
Sales and marketing	11.5	10.6	8	43.2
Research and development	6.3	5.3	17	21.2
Administration	1.8	1.4	25	6.2
Operating result	5.3	4.1	31	19.5
Financial net	0.3	0.2		1.9
Result before taxes	5.6	4.2		21.4
Income taxes	-1.4	-1.2		-5.9
Result for the period	4.1	3.0		15.4
Earnings per share, e	0.03	0.02		0.10
EPS, diluted, e	0.03	0.02		0.10

#### BALANCE SHEET

ASSETS	31/3/2008	31/3/2007	31/12/2007
Intangible assets	3.9	4.4	3.8
Tangible assets	3.4	3.2	3.3
Other financial assets	0.9	0.8	0.9
Non-current assets total	8.3	8.4	8.0
Inventories	0.2	0.3	0.3
Other receivables	20.7	18.4	22.1
Available-for-sale financial assets	78.2	59.2	71.6
Cash and bank accounts	12.2	13.3	12.7
Current asset total	111.3	91.2	106.6
Total	119.5	99.6	114.7

#### SHAREHOLDERS' EQUITY

AND LIABILITIES	31/3/2008	31/3/2007	31/12/2007
Equity	60.9	54.6	67.5
Other non-current	0.1	0.2	0.1
Provisions	0.0	1.2	1.3
Deferred revenues	5.3	2.5	4.8
Non-current liabilities total	5.4	3.9	6.2
Other current	24.8	13.5	13.8
Deferred revenues	28.4	27.6	27.1
Current liabilities total	53.2	41.1	40.9

Total	119.5	99.6	114.7
-------	-------	------	-------

Cash flow statement	31/3/2008	31/3/2007	31/12/2007
Cash flow from operations	8.0	8.6	22.7
Cash flow from investments	-1.9	-0.6	-2.1
Cash flow from financing			
Activities*	0.0	-2.7	-3.0
Change in cash	6.1	5.3	17.6
Cash and bank at 1 Jan	84.1	66.6	66.4
Change in net fair value of			
Available-for-sale	0.1	0.4	0.1
Cash and bank at 31 Mar	90.3	72.4	84.1

\* 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							
31.12.2007	1.5	0.2	0.0	0.0	33.6	32.2	67.5
Available-for-sale							
financial asset, net				0.1			0.1
Translation diff.			-0.1				-0.1
Cost of share							
based payments						0.2	0.2
Profit						4.1	4.1
Dividend						-10.9	-10.9
Exercise of							
options	0.0	0.0					0.0
31.3.2008	1.5	0.2	-0.1	0.1	33.6	25.6	60.9

Key ratios	2008	2007	2007
	3 m	3 m	12 m
Operating result,			
% of revenues	20.0	17.5	20.1
ROI, %	37.1	32.6	36.3
ROE, %	25.6	22.2	25.4
Equity ratio, %	71.0	78.6	81.6
Debt-to-equity ratio, %	-148.2	-132.5	-124.6
Earnings per share (EUR)	0.03	0.02	0.10
Earnings per share diluted	0.03	0.02	0.10
Shareholders' equity			
per share, e	0.39	0.35	0.44
P/E ratio	23.8	25.5	24.6
Capitalized expenditures (Me)	1.0	0.6	2.2
Contingent liabilities (Me)	8.3	10.4	9.2
Personnel, average	584	496	528
Personnel, Mar 31	602	514	566

## Segment information

The Group has only one primary segment; data security.

## Quarterly development

	1/07	2/07	3/07	4/07	1/08
Revenues	23.1	23.3	24.3	26.0	26.6
Cost of revenues	1.9	1.8	2.0	2.0	2.1
Gross margin	21.3	21.6	22.3	24.0	24.5
Other operating income	0.1	0.1	0.1	0.4	0.3
Sales and marketing	10.6	11.1	10.0	11.5	11.5
Research and development	5.3	5.3	5.0	5.7	6.3
Administration	1.4	1.6	1.3	1.8	1.8
Operating result	4.1	3.7	6.2	5.5	5.3
Financial net	0.2	0.3	0.1	1.4	0.3
Result before taxes	4.2	4.0	6.3	6.9	5.6

### **Additional information:**

F-Secure Corporation

Kimmo Alkio, President and CEO

Taneli Virtanen, CFO

Jukka Kotovirta, IR

tel. +358 9 2520 0700

tel. +358 9 2520 5655

tel. +358 40 5883 933