

F-SECURE GROUP'S FINANCIAL RESULTS JANUARY 1-JUNE 30, 2003

Moderate growth in anti-virus, continuing steady growth in service subscriptions through ISPs, weak encryption sales

Highlights in Q2 2003 (comparisons made to the same period one year ago):

- EBIT 0.4m negative (1.4m negative), 0.6m negative 1H03 (2.1m negative 1H02)
- Profit before extraordinary items 0.2m negative (1.1m negative), 0.2m negative 1H03 (1.7m negative 1H02)
- Cash flow 0.3m positive
- Revenues 9.1m (9.1m), 18.1m 1H03 (19.0m 1H02)
- Anti-virus business increased by 6% compared to 2Q02 and 7% compared to 1H02
- Encryption business declined by 14% compared to 2Q02 and 23% compared to 1H02
- 9th consecutive quarter with approximately 20% growth in the Security as a Service business

Business In Brief

Security software spending remained cautious during the quarter. New anti-virus license sales were moderately good in the consumer and small business segments. Especially encryption sales continued to be affected by the investment freeze in both the corporate and governmental sector. Maintenance and support sales remained at a moderate level.

For the second quarter of 2003, F-Secure reported revenues of 9.1 million euros. This represents the same level as for the previous quarter and for the second quarter of 2002. The Group's deferred revenue was 12.8m at the end of the quarter (12.4m at the end of 2Q02 and 13.0m at the end of 1Q03).

The operating result was EUR 0.4 million negative for the second quarter (1.4 m negative in 2Q02 and 0.2m negative in 1Q03).

The anti-virus revenues continued to increase at a steady rate, by 6% in the second quarter and by 7% in the first six months of 2003. The number of anti-virus service subscriptions continued to grow strongly and related revenues grew by 131% in the first six months compared to the previous year. The encryption business declined by 14% in the second quarter and by 23% in the first six months. All comparisons are made to the same period a year ago.

The handheld and wireless content security space continued to suffer from the overall low uptake of handheld solutions for corporate applications.

The Group continued to successfully balance its activities to reflect the current business climate without compromising future growth. The total fixed expenses were 8.6m in the last quarter (compared to 9.3m in 2Q02). Regardless of the cost reductions the Group continues to invest strongly into research and development.

Customer satisfaction has remained high based on the preliminary results from our bi-annual customer satisfaction survey currently under way.

The geographical breakdown of revenues was as follows (compared to the first 6 months in 2002): North America 26% (29%), Nordic Countries 35% (35%), Rest of Europe 28% (27%), and Rest of the World 11% (9%). Anti-virus business represented 67% (60%) of the revenues, while encryption represented 31% (38%), and other products 2% (2%).

Security as a Service

The Security as a Service business (service subscriptions through ISPs) grew steadily. The second quarter of 2003 was the 9th consecutive quarter with approximately 20% quarterly growth in this business area. In the first six months service subscriptions accounted for 11% of anti-virus revenues and annual growth was 131 %.

New Security as a Service partners during the second quarter were Glocalnet (Sweden) and Eesti Telefon (Estonia). The Group launched the Security as a Service concept in the North American market in May.

New Customers and Partners

During the second quarter, the Group announced new customer wins with Saudi Aramco, the world's largest oil company, Microsoft MSN, Alma Media, and the Finnish Parliament.

The Group launched its first ever campaign to consumers in cooperation with WSKA (a republisher headquartered in France) in Germany, France and the UK. Still the Group's main focus remains the small and medium sized businesses (SMB) sector. Similar partnerships will be developed in other territories.

Product Leadership

The Company's virus scanning and protection system F-Secure Anti-Virus was given the VB100 award for the third time in a row by Virus Bulletin magazine. The French Décision Micro & Réseaux gave the product highest points for performance. In addition, The Virus Test Center of the University of Hamburg ranked F-Secure's detection rates to be excellent in all categories together with only one other vendor.

Key events after the end of the reporting period

The F-Secure Anti-Virus Client Security product was introduced to first SMB customers in early Q3. It contains anti-virus, e-mail scanning, firewall, intrusion detection and application control in one single package. The F-Secure Internet Gatekeeper antivirus gateway product for web and e-mail traffic was also introduced. These two comprise the most important product introductions for the year 2003.

The first shipments of the F-Secure Mobile Filter were made in Q3.

Personnel and Organization

The Group's personnel numbered 303 at the end of the quarter (303 at the end of Q103).

Financing

The Group's financial position remained strong throughout the quarter. The Group's equity ratio on June 30, 2003, was 73 % (73% on June 30, 2002). Financial income was 0.2m for 2Q03 (0.3m in 2Q02).

Cash flow was 0.3m positive for the quarter. The liquid assets of the Group were 35.3m on June 30, 2003 (35.0m on March 31, 2003).

The change in the USD-EUR exchange rate had a slight negative impact on the revenues and results.

Investments

In 1H03, the Group's investments were 0.3m euros (0.8m in 1H02). The investments consisted mainly of IT hardware and software.

Shares, Shareholders' Equity, and Option Programs

During the reporting period a total of 17,989 F-Secure shares were subscribed for with the B warrants and 61,601 F-Secure shares with the C warrants attached to the F-Secure 1998 Warrant Plan.

In aggregate, the number of shares was increased by 79,590. The corresponding increase in the share capital, in total EUR 795,90 was registered in the Finnish Trade Register on June 11, 2003. As a result of the increase, the share capital of F-Secure currently is EUR 1,453,128.72 and the total number of shares is 145,312,872. F-Secure received as additional shareholders' equity a total of EUR 9,050.77.

The corresponding number of shares fully diluted would be 163,230,484, including all stock option programs.

Future Outlook

In 2003 the Group's key goal is to grow the antivirus business faster than the industry in the European small and medium sized businesses and consumer market. This will be accomplished through leveraging the existing service provider partnerships and increasing the number of reselling partners in selected countries.

In 2003 the encryption business is expected to decline compared to 2002 levels. In the encryption business success will rely heavily on overall corporate and governmental software spending.

After the expiration of the three-year exclusivity at the end of September 2003 between the Group and SSH Communications Limited, SSH Communications will cease to pay royalties to the Group. The impact on gross margins has been an approximate 0.6 m euros on a quarterly basis. F-Secure will seek to gain corresponding overall cost savings to cover the loss of gross margin.

F-Secure will continue its F-Secure SSH business normally on a non-exclusive basis and will continue to benefit from the leading market position achieved over the last five years.

In the handheld security space significant revenues are not expected to materialize in the short term. The Group continues to invest to maintain leadership in the handheld security business area. First pilot installations of operator-managed antivirus service solutions for wireless devices are expected to happen during the quarter.

3Q03 revenues are estimated to be 9 million euros, with an error margin of +- 10%, as the third quarter has traditionally been weak due to European summer holidays. The estimates are based on the sales pipeline at the time of publishing, existing subscriptions and support contracts, and previous experience on the annual sales pattern.

Fixed costs are estimated to be approximately at the level of 8.5 million euros in 3Q03.

The management expects an improvement in EBIT for the full year 2003 compared to 2002.

Key figures (unaudited):

Euro million						
Income statement	2003	2002	2003	2002	Chge	2002
	4-6	4-6	1-6	1-6	%	1-12
Revenues	9.1	9.1	18.1	19.0	-5	38.5
Cost of revenues	1.1	1.2	2.0	2.3	-11	4.6
Gross margin	8.0	7.9	16.1	16.7	-4	33.9
Sales and marketing	5.6	6.0	11.0	12.2	-10	23.4
Research and development	2.3	2.5	4.6	5.1	-10	9.8
Administration	0.7	0.8	1.4	1.7	-20	2.9
Other operating income	0.2	0.1	0.3	0.1		0.4
Operating result	-0.4	-1.4	-0.6	-2.1		-1.7
Financial income and expenses	0.2	0.3	0.4	0.4		0.8
Profit (loss) before extraordinary items	-0.2	-1.1	-0.2	-1.7		-0.9
Extraordinary items +/-	-	-	-	-		-
Result before taxes	-0.2	-1.1	-0.2	-1.7		-0.9
Income taxes	-0.0	-0.0	-0.1	-0.1		-0.1
Result for the period	-0.2	-1.2	-0.2	-1.8		-1.0

The stock option related social security expenses have had no effect on the Income Statement.

BALANCE SHEET

ASSETS	30/6/2003	30/6/2002	31/12/2002
Intangible assets	1.1	1.9	1.2
Tangible assets	1.3	2.0	1.6
Investments	0.2	0.2	0.2
Short-term receivables	11.5	11.0	12.5
Cash and bank accounts	35.3	33.1	34.4
Total	49.3	48.1	49.8

LIABILITIES AND

SHAREHOLDERS' EQUITY	30/6/2003	30/6/2002	31/12/2002
Total shareholders' equity	26.7	25.9	26.8
Mandatory provisions	1.9	1.9	1.9
Non-current liabilities	-	-	-
Advance payments	12.8	12.4	13.2
Other current liabilities	8.0	7.8	7.8
Total	49.3	48.1	49.8

Cash flow statement	30/6/2003	30/6/2002	31/12/2002
Cash flow from operations	1.2	2.5	3.9
Cash flow from investments	-0.3	-0.7	-1.0
Cash flow from financing activities	0.1	0.4	0.6
Change in cash	1.0	2.2	3.6
Cash and bank at 1 Jan	34.2	30.9	30.8
Cash and bank at 3 Jun	35.3	33.1	34.4

Key ratios	2003	2002	2002
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	6 m	6 m	12 m
Operating result, % of revenues	-3.3	-11.1	-4.5
ROI, %	1.3	-11.6	-1.3
ROE, %	-1.8	-13.3	-3.6
Equity ratio, %	73.1	72.7	73.4
Debt-to-equity ratio, %	-132.1	-127.5	-128.1
Earnings per share (EUR)	-0.00	-0.01	-0.01
Earnings per share diluted	x)	x)	x)
Shareholders' equity per share, e	0.18	0.18	0.19
Investments (Meuro)	0.3	0.8	1.2
Contingent liabilities (Me)*	16.7	18.9	17.9
Personnel, average	304	317	315

x) Not given, as the effect of dilution would improve the figure

* Includes the lease responsibility for the facilities at Helsinki High Tech Center

Quarterly development

	1/02	2/02	3/02	4/02	1/03	2/03
Revenues	10.0	9.1	9.6	9.9	9.1	9.1
Cost of revenues	1.1	1.2	1.3	0.9	1.0	1.1
Gross margin	8.8	7.9	8.3	8.9	8.1	8.0
Sales and marketing	6.1	6.0	5.6	5.6	5.5	5.6
Research and development	2.6	2.5	2.4	2.3	2.3	2.3
Administration	0.9	0.8	0.6	0.6	0.7	0.7
Other operating income	0.1	0.1	0.1	0.2	0.1	0.2
Operating result	-0.7	-1.4	-0.3	0.7	-0.2	-0.4
Financial income and expenses	0.1	0.3	0.2	0.3	0.2	0.2
Profit (Loss) before extraordinary items	-0.6	-1.1	-0.1	0.9	0.0	-0.2

Financial Reporting

A press and analyst conference will be arranged today, August 6th, 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 15.30 Finnish time (14.30 CET, 1.30 pm UK time). Instructions at: <http://www.europe.f-secure.com/investor-relations/>

The quarterly report for the third quarter of 2003 will be published on October 30th. 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

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