

Pointsec – the de facto security standard for mobile devices and PCs



Pointsec sales increase for fifth consecutive quarter

THIRD QUARTER

- Sales for the quarter increased to SEK 61.3 M (53.1). Excluding divested operations, sales increased 21% from SEK 50.6 M.
- Sales of Pointsec products increased for the fifth consecutive quarter and amounted to SEK 51.4 M, which was an increase of 37%, compared with the corresponding quarter in the preceding year.
- Operating profit amounted to SEK 9.7 M (4.8).

REPORT PERIOD FROM JANUARY TO SEPTEMBER

- Sales during the period increased by 24% to SEK 192.7 M (155.6).
- Operating profit amounted to SEK 31.9 M (17.6).
- Profit after net financial items amounted to SEK 34.5 M (20.4).
- Profit after tax amounted to SEK 22.1 M (13.6).
- Profit per share amounted to SEK 2.00 (1.29).
- Changed outlook – sharp increase in profit.

CEO Thomas Bill's comments:

“The third quarter was the best-ever, although by a small margin, with respect to sales of Pointsec's security solution. This was despite a third quarter that is normally a seasonally weak quarter. Sales of Pointsec products amounted to SEK 51.4 M during the quarter, an increase of 37%, compared with the corresponding quarter last year.

The composition of sales also showed strength. The increase in sales consisted of a large number of orders. In addition, the spread was favorable from a geographic perspective. We also noted that our efforts in the US market continued to produce returns. This important market accounted

for slightly more than 40% of Pointsec sales. Business in Japan also continued to show strong growth. The newly started operations in the Middle East and India are developing surprisingly favorably. In addition, the first orders for Pointsec were received from Brazil and Taiwan via local partners.

The European market, on the other hand, showed a somewhat weaker trend than anticipated. However, two important contracts were signed with major European banks during the quarter.

Other important contracts signed during the quarter included a couple of orders

from US authorities that we regard as important endorsements of quality. Sales continued to develop favorably in the financial sector, where important orders were received in the US and Europe.

Against the background of our performance thus far this year, we are adjusting the wording of the outlook for the full year to read that the company will report a ‘sharp’ increase in profits. This may be compared with the previous earnings forecast, which was that ‘the Group's earnings are expected to improve over the preceding year’.”

SALES AND PROFIT

Consolidated sales increased by 21%, excluding divested operations, and amounted to SEK 61.3 M (50.6) for the period.

A sales record was noted for Pointsec during the third quarter. This meant that Pointsec sales for the first nine months of the year amounted to SEK 152.1 M, thus exceeding last year's sales, which totaled SEK 149.5 M.

Pointsec accounted for SEK 51.4 M (37.7) of total sales during the third quarter, while the remainder (SEK 9.9 M) consisted of third-party products.

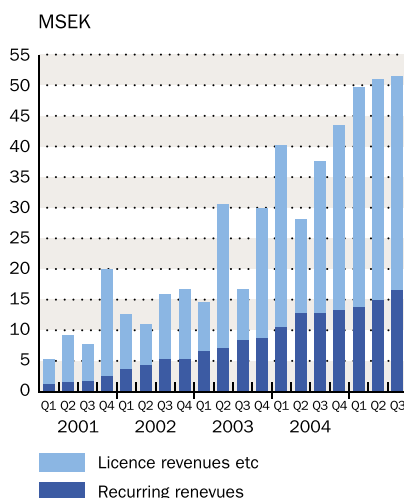
Third-party products are only sold in the Nordic region, and the relatively weak sales trend during the quarter was primarily attributable to seasonal variations.

New sales of the Company's proprietary security solution corresponded to 68% of total Pointsec sales, while the remaining 32% consisted of recurring revenues.

With respect to the geographic distribution of sales, which is shown in the table below, the US market accounted for an increasing share.

Gross profit for the quarter amounted to SEK 55.7 M (42.2), corresponding to a gross margin of 91% (80). The increase was due to a greater proportion of Pointsec sales.

Pointsec revenues divided into new sales and recurring revenues



Operating profit increased sharply during the third quarter and amounted to SEK 9.7 M, which was 102% higher than in the year-earlier quarter.

Increasingly strong sales resulting in rising commissions was a contributing factor in the 29% increase in overhead costs, which totaled SEK 47.3 M (36.6). The increase in costs was also attributable to an increase in personnel.

A credit loss in the Netherlands of SEK 0.6 M was charged against earnings.

As a result of the summer vacation

months, capitalization of development costs during the third quarter declined in relation to the second quarter, thus impacting earnings.

Realized and unrealized translation differences reduced operating income by SEK 0.2 M (0.8).

During the quarter, a settlement was reached with a group of former employees resulting in a positive effect of SEK 1.5 M on earnings.

Costs for warrants allocated free of charge amounting to SEK 0.6 M were charged against earnings in accordance with IFRS 2. During previous quarters, this cost was erroneously reported under net financial items. This error has now been corrected.

The net of financial items for the quarter amounted to income of SEK 0.3 M (0.2).

Unrealized surplus values in financial investments were booked directly against shareholders' equity in accordance with IAS 39 and thus did not affect net financial items. Unrealized surplus values amounted to SEK 4.7 M (0.2) on the opening date. During the quarter, the growth in value was SEK 1.5 M.

Profit after net financial items increased by 100% to SEK 10.0 M (5.0) during the third quarter, compared with the same period in 2004.

Summary per segment January–September, SEK M

	EMEA ¹⁾		APAC ²⁾		USA		Parent companies and group items ³⁾		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
External sales	101.0	93.3	38.5	18.3	54.3	43.9	-1.1	0.1	192.7	155.6
Internal sales	1.2	-	-	-	-	-	-1.2	-	-	-
Gross profit	55.0	39.8	27.0	18.3	38.3	24.8	47.7	43.3	168.1	126.2
Operating costs	40.4	46.9	6.8	-	28.3	21.8	60.6	39.9	136.2	108.6
Operating result	14.6	-7.1	20.2	18.3	10.0	3.0	-12.9	3.4	31.9	17.6
Assets	79.2	83.3	16.1	0.7	35.9	18.6	159.0	108.6	290.2	211.2
Liabilities	59.0	94.0	4.9	0.8	26.5	15.3	1.0	-45.1	91.4	65.0
Investments	0.2	0.8	0.1	-	0.2	0.3	11.7	9.7	12.2	10.8
Depreciations	0.7	1.1	0.1	-	0.1	1.0	13.1	8.5	14.0	10.6

¹⁾ Europe, Middle East, Africa

²⁾ Asia, Pacific area countries

³⁾ Refers to elimination of intra-group sales and amortization of consolidated goodwill

LIQUIDITY AND FINANCIAL POSITION

The Group's financial position remains very strong.

On the closing date, liquidity (liquid funds and current investments), including unutilized credit facilities of SEK 50 M (50) and unrealized surplus values in fund investments of SEK 4.7 M (0.2), amounted to SEK 211 M (166). Expressed as current assets as a percentage of current liabilities, liquidity amounted to 322% (326%).

Equity amounted to SEK 199 M (147) on the closing date, corresponding to an equity/assets ratio of 69% (69%) and equity per share of SEK 17.81 (13.84).

Goodwill amounted to SEK 5.9 M (7.0) on the closing date. Capitalized expenses for software development plus acquired intangible assets totaled SEK 25.0 M (26.8).

INVESTMENTS

The Group's investments in equipment during the nine-month period amounted to SEK 1.6 M (2.4), of which the Parent Company's investments accounted for SEK 0.3 M (0.4).

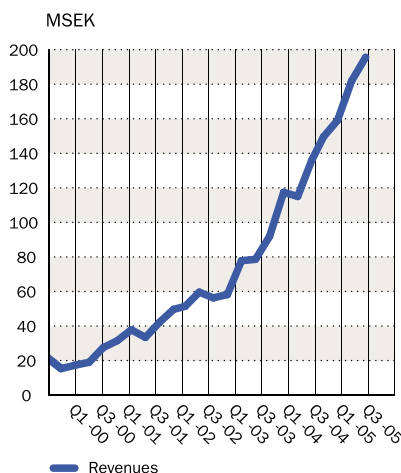
Investments in capitalized expenses for development of commercial software during the period amounted to SEK 10.6 M (8.3).

OPERATIONS

Sales of Protect Data's proprietary security software Pointsec continued to develop favorably during the quarter and increased for the fifth consecutive quarter. Pointsec sales of SEK 51.4 M were thus the highest achieved to date. Of these sales, SEK 34.8 M was attributable to new sales, while SEK 16.6 M consisted of recurring revenues. The composition of sales was a strength, since there was a larger number of orders, rather than a few large orders.

Sales were also well-balanced from a geographic perspective. Increased marketing efforts and the strengthened local

Pointsec sales set new record



The Group's total revenues from Pointsec operations summed on a rolling basis over the most recent four quarters

presence in the US market produced results. Currently, sales in this region account for slightly more than 40% of total Pointsec sales. During the quarter, two important and prestigious orders were received from US authorities. Demand also remained strong in the financial sector in the US.

Sales also developed favorably in Asia and the Middle East. This included favorable sales in the Japanese financial sector. Sales in India also picked up and included order from two major Indian IT companies in the outsourcing sector.

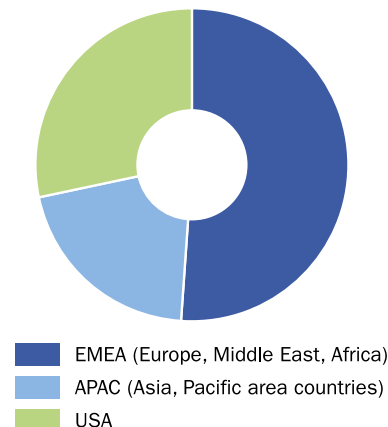
The European market, on the other hand, showed a somewhat weaker trend than anticipated. However, two important contracts were signed with major European banks during the quarter.

Partnerships were entered during the quarter with local representatives in Israel, Brazil and Taiwan.

After the closing date, a partnership agreement was signed with a local representative in Iceland.

During the quarter, deliveries began of Pointsec for Linux. Accordingly, Pointsec is available for an additional platform and new customer categories.

Group sales by geographic market



Total Group revenues, Jan-Sep 2005

The focus on a limited portfolio of third-party products in the Nordic market continued to prove strategically correct.

The sale of traditional identification systems, primarily to the banking sector, continued to develop favorably.

The company's CFO Ulla Ek resigned during the third quarter. Her successor is expected to be announced during the fourth quarter.

PARENT COMPANY

The Parent Company's sales during the nine-month period amounted to SEK 13.9 M (14.4), of which SEK 13.7 M (14.3) derived from sales to Group companies. The Parent Company's cash flow for the period amounted to SEK 3.2 M (26.5).

OUTLOOK

Given the strong results for the quarter, our opinion regarding the anticipated profit for the year has been adjusted. Sales of Pointsec are expected to continue developing positively, and the Group's profit will improve sharply over the preceding year. This is an adjustment

of the previous forecast which was that “the Group’s earnings are expected to improve over the preceding year.”

ACCOUNTING PRINCIPLES

This interim report was prepared in accordance with IAS 34, Interim Financial Reporting, which is in compliance with the Swedish Financial Accounting Standards Council’s recommendation RR 31, Consolidated interim reports. The accounting principles applied in this interim report are those described in the consolidated accounts for 2004, Note 1. As explained there, International Financial Reporting Standards (IFRS) are applied as of 2005 and comparison figures referring to 2004 were recalculated in accordance with the new principles.

For Protect Data, there have been no exceptions to the above. All changes were recalculated with respect to 2004. The effects on equity for the comparison periods of the recalculation to comply with the new principles are specified in the interim report in the table “Specification of change in equity.” The effects on profit after tax for the comparison periods are specified in the table “Condensed consolidated income statements.”

NOMINATION COMMITTEE

The Nomination Committee, which will submit proposals for members of the Board of Directors to the 2006 Annual General Meeting, consists of Magnus Bakke, Chairman, (representing Robur Funds), Carl Rosvall (representing

Monterro Holding Ltd.) and Fredrik Nilert (representing AFA Insurance). These persons represent slightly more than one third of the company’s capital and voting rights.

Shareholders who wish to submit proposals to the Nomination Committee may send e-mail to the address: valberedning@protectdata.com.

The Nomination Committee has noted that an Election Committee has been established in the company. The Election Committee will discuss issues and submit proposals in matters that involve the Nomination Committee’s mandate. The committee will therefore withdraw in favor of the Election Committee.

Summary of consolidated income statements, SEK M

	Jul-Sep		Jan-Sep		Oct-Sep	Jan-Dec
	2005	2004	2005	2004	04/05	2004
Net sales	61.3	53.1	192.7	155.6	254.6	217.4
Cost of goods sold	-5.6	-10.9	-24.6	-29.4	-34.2	-39.0
GROSS PROFIT	55.7	42.2	168.1	126.2	220.4	178.4
Selling expenses	-24.6	-16.6	-68.8	-50.2	-91.2	-74.1
Administrative expenses ¹⁾	-13.9	-13.0	-46.5	-38.2	-65.2	-54.8
Research and development costs ²⁾	-8.8	-7.0	-27.0	-20.6	-37.2	-30.9
Other operating income/expenses	1.3	-0.8	6.1	0.4	4.0	-1.6
OPERATING RESULT	9.7	4.8	31.9	17.6	30.8	17.0
Net of financial items	0.3	0.2	2.6	2.8	2.6	3.5
RESULT AFTER FINANCIAL ITEMS	10.0	5.0	34.5	20.4	33.4	20.5
Tax ³⁾	-3.0	-1.3	-12.4	-6.8	-2.1	4.1
RESULT AFTER TAX	7.0	3.7	22.1	13.6	31.3	24.6
<i>Includes depreciation totaling</i>	5.0	3.4	14.0	10.6	21.2	15.5
<i>of which amortization and write-down of goodwill</i>	-	-	-	-	0.8	1.4
<i>of which amortization of capitalized expenses for software development</i>	3.8	1.8	10.0	5.5	12.7	8.3
DIFFERENCE COMPARED TO NET RESULT ACCORDING TO REPORTED ACCOUNTS		0,0		0.7		0.3
- of which amortization of capitalized software		-		-		-0.1
- of which amortization of goodwill		0.2		0.7		1.0
- of which share-based payments		-0.4		0.0		-1.0
- of which tax effects of above items		0.2		0.0		0.4

¹⁾ Includes all other expenses not directly attributable to sales operations and product operations. Write-down of goodwill, if any, is included here.

²⁾ During the quarter SEK 2.5 M (2.6) was capitalized. During the period SEK 10.6 M (8.3) was capitalized.

³⁾ Taxable loss carry-forwards in the Group amount to SEK 74 M (75) at the beginning of the fiscal year. To the extent that they are considered possible to use, the deferred tax claims regarding these, as well as regarding losses during the present year, are included in the consolidated income statements and balance sheets.

Share data

	Jul-Sep		Jan-Sep		Oct-Sep	Jan-Dec
	2005	2004	2005	2004	04/05	2004
BEFORE DILUTION:						
Number of shares, 000s	11,165	10,603	11,165	10,603	11,165	10,950
Average number of shares, 000s	11,110	10,590	11,035	10,579	10,949	10,614
Profit per share, SEK ¹⁾	0.63	0.34	2.00	1.29	3.02	2.32
Equity per share, SEK	17.81	13.84	17.81	13.84	17.81	16.16
AFTER DILUTION: ²⁾						
Number of shares, 000s	11,534	11,064	11,489	11,043	11,325	11,329
Average number of shares, 000s	11,479	11,051	11,358	11,019	11,109	10,994
Profit per share, SEK ¹⁾	0.61	0.33	1.94	1.24	2.97	2.24
Equity per share, SEK	17.24	13.26	17.30	13.29	17.56	15.62

¹⁾ Calculated as profit after tax divided by average number of shares.

²⁾ Only warrants with a discounted exercise price that was less than the share's average market price during the period are included.

Summary of consolidated balance sheets, SEK M

	30.09.2005	30.09.2004	31.12.2004
ASSETS			
Goodwill	5.9	7.0	5.9
Capitalized expenses for software development	23.0	22.8	22.4
Other intangible assets	2.0	4.0	3.5
Deferred tax claim	15.0	3.5	15.9
Other fixed assets	8.8	4.1	9.7
Other current assets	74.2	53.5	77.1
Short-term investments	60.0	63.0	74.4
Liquid funds	101.3	53.3	57.6
TOTAL ASSETS	290.2	211.2	266.5
EQUITY AND LIABILITIES			
Equity	198.8	146.7	176.9
Provisions for taxes	18.2	11.9	8.1
Long-term liabilities	0.2	-	0.2
Current liabilities	73.0	52.6	81.3
TOTAL EQUITY AND LIABILITIES	290.2	211.2	266.5
<i>Pledged assets</i>	-	-	-
<i>Contingent liabilities</i>	-	-	1.3

Specification of changes in equity, SEK M

	Jan-Sep	Jan-Dec
	2005	2004
On opening date	176.9	137.4
Sales of warrants	1.5	0.3
New issues due to exercise of warrants	4.9	0.8
Paid dividend	-13.7	-2.6
Valuation fund short-term investments	2.6	-1.9
Reversal of items reported only in the P&L	0.8	-0.8
Translation differences	3.7	-0.1
Profit/loss for the period	22.1	13.6
On closing date according to IFRS	198.8	146.7
Difference compared to reported accounts		
- of which market valuation of short-term investments		0.2
- of which capitalized software expenses		1.6
- of which tax effect of above items		-0.5

Consolidated statements of financial position, SEK M

	Jul-Sep		Jan-Sep		Oct-Sep	Jan-Dec
	2005	2004	2005	2004	04/05	2004
Cash flow from ongoing operations						
before changes in operating capital	14.4	9.3	45.7	30.7	51.5	36.5
Changes in operating capital	-15.1	-50.3	15.5	-16.8	3.8	-28.6
CASH FLOW FROM ONGOING OPERATIONS	-0.7	-41.0	61.2	13.9	55.3	7.9
Cash flow from investment operations	-3.0	-3.2	-12.3	-10.8	-21.2	-19.6
Cash flow from financial operations	2.4	0.4	-6.5	-1.5	11.3	16.2
CASH FLOW FOR THE PERIOD	-1.3	-43.8	42.4	1.6	45.4	4.5
Liquid funds on the opening date	106.2	97.3	57.6	54.5	53.3	54.5
Valuation changes and translation differences	-3.6	-0.2	1.3	-2.7	2.6	-1.4
LIQUID FUNDS ON THE CLOSING DATE ¹⁾	101.3	53.3	101.3	53.3	101.3	57.6

¹⁾ Short-term investments running over more than 90 days are not included in liquid funds. The Group had on the closing date such funds amounting to a book value of SEK 60.0 M (33.8), whereof SEK 4.5 M (0.2) was unrealized surplus value. Liquid funds include current investments with maturity periods of less than 90 days.

Unrealized surplus values relating to these investments amounted to SEK 0.2 M (-).

Key ratios, Group

	Jul-Sep		Jan-Sep		Oct-Sep	Jan-Dec
	2005	2004	2005	2004	04/05	2004
Sales growth rate	16%	55%	24%	28%	30%	29%
Gross margin	91%	80%	87%	81%	87%	82%
Profit margin after net financial items	16%	11%	18%	13%	14%	9%
Return on equity ¹⁾	4%	3%	12%	10%	19%	16%
Return on capital employed ¹⁾	5%	4%	18%	15%	20%	13%
Equity/assets ratio	69%	69%	69%	69%	69%	66%
Number of employees, on closing date	122	109	122	109	122	101
Number of employees, average	116	104	112	100	108	105
Sales per employee, SEK 000s	530	510	1,719	1,550	2,359	2,071

¹⁾ The return ratios for the quarter and the report period are calculated for three and nine months only, and are thus not adjusted to reflect full year level.

INFORMATION DATES 2006

February 9 **Year-end report for 2005**

April 6 **Annual General Meeting**

STOCKHOLM, OCTOBER 27, 2005

Protect Data AB (publ)
The Board of Directors

AUDITOR'S REVIEW

We have reviewed this interim report in accordance with the recommendation issued by FAR, the Institute for the Accounting Profession in Sweden. A review is considerably limited in scope, compared with an audit. Nothing has come to our attention that causes us to believe that the interim report does not comply with the requirements of the Exchange and Clearing Operations Act (börslagen) and the Annual Accounts Act.

Stockholm, October 27, 2005
Ernst&Young AB
Björn Fernström
Authorized Public Accountant

**Questions regarding this report will be answered by CEO Thomas Bill,
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