

Pointsec – the security standard for mobile devices and PCs



## Continued strong growth

– Pointsec sales increased by 56% in the first quarter

### FIRST QUARTER 2006

- Net sales increased by 41% to SEK 90.1 M (63.7)
- Sales of Pointsec solutions increased by 56% to SEK 77.5 M
- Profit after financial items amounted to SEK 17.3 M (13.5)
- Profit after tax amounted to SEK 11.2 M (8.8)
- Earnings per share increased by 24% to SEK 0.99 (0.80)

### CEO Thomas Bill's comments:

“Our significant investments in sales and marketing functions continued to show favorable results. We want to leverage the exceptionally strong market trend. The sales increase for our proprietary Pointsec software was 56 percent during the first quarter of 2006, and our assessment is that Pointsec will continue to take market shares. Although profit increased, it was

restrained somewhat by continued sales and marketing investments.

The US and Asia, particularly Japan, continued to show strong growth. The partnership announced with HitachiSoft will further strengthen our position in the Japanese market. Sales were also strong in the Nordic countries and the UK during the quarter. On the other

hand, development of the German market was unsatisfactory, causing us to strengthen our efforts in that area.

Overall, Protect Data is in a strong position to take advantage of the positive market trend that we foresee continuing through the rest of the year, meaning that both sales and profit are expected to increase, compared with 2005.”

## SIGNIFICANT EVENTS DURING THE FIRST QUARTER

- In February 2006, an order was received from a global accounting firm regarding a Pointsec encryption solution for internal use. The order value amounted to SEK 14.1 M, of which SEK 11.8 M was booked during the first quarter.
- The Swedish Defense Materiel Administration chose Pointsec's encryption solution. The first phase of the procurement includes licenses for 5,000 users with an option for an additional 5,000 at a later date. Delivery and invoicing are expected to take place during the second quarter of 2006.
- A strategically important partnership in the Japanese market was initiated with HitachiSoft, which will market Pointsec's encryption solution for PCs on an OEM basis in its product family Hibun, which is Japan's best-selling solution for information protection, with an installed base of 2.5 million licenses at the end of 2005.

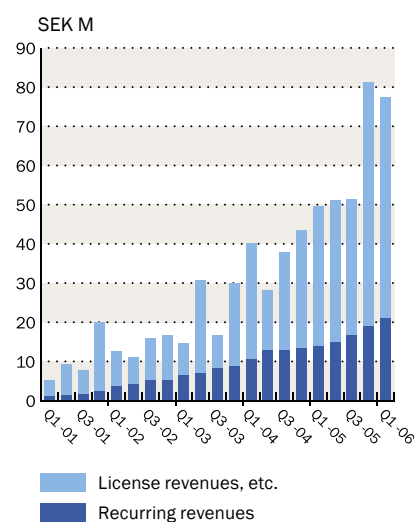
## MARKET

Pointsec operations continued to show strong growth with good profitability. Apart from generally favorable economic conditions, there is an additional factor driving Pointsec sales: new laws and industry regulations for corporate governance. The regulations were first established in the US (Sarbanes-Oxley, etc.) but are spreading rapidly. They currently affect a large portion of global business and are being followed by national regulations in many parts of the world, including India and Japan.

Another success factor for Pointsec are satisfied and loyal customers, which is reflected in a high level of recurring revenues (see chart) and limited customer losses. During the quarter, the distribution between large and small orders was well-balanced.

To meet increased demand, the Pointsec marketing organization was strengthened during the quarter, in part through the opening of new sales offices in Singapore and Saudia Arabia.

**Pointsec revenues distributed by new sales and recurring revenues**



Delivery of Pointsec's new product generation began during the first quarter. The Group's competitive position in the market was thus strengthened, not least with respect to attracting customers that want to use Pointsec's encryption solution together with strong user authentication. The Swedish Armed Forces, for example, chose Pointsec's encryption solution in a purchase that was completed during the quarter.

## NET SALES

### First quarter 2006

Net sales during the first quarter amounted to SEK 90.1 M (63.7), corresponding to growth of 41 percent (10). Organic growth amounted to about 36 percent, while currency effects contributed to about 5 percent of growth.

Net sales during the first quarter were distributed such that 73 percent (73) was attributable to new sales of licenses and products, while 25 percent (25) related to recurring revenues in the form of maintenance and rental fees as shown in the following table.

**Net sales, SEK M**

	Jan-Mar		Apr-Mar
	2006	2005	2005/06
Licenses	55.1	34.7	184.1
Products	10.2	11.9	42.8
Recurring revenues	22.7	15.7	79.0
Other	2.1	1.4	9.4
<b>Total</b>	<b>90.1</b>	<b>63.7</b>	<b>315.3</b>

The proprietary security software Pointsec accounted for SEK 77.5 M (49.7) of total sales during the quarter, corresponding to 86 percent (78). Recurring Pointsec revenues were 27 percent (28) of sales during the quarter. Of Pointsec sales, 29 percent (36) took place via partners, which is the most common sales channel in such markets as Japan, India and the Middle East.

The Group's sales of digital identities amounted to SEK 12.6 M (14.0) or 14 percent (22).

All geographic regions showed increased sales. The US and Japanese markets retained their respective shares of revenues, while sales in Europe developed strongly during the first of quarter.

### Period from April 2005 to March 2006 (rolling 12-month figures)

Rolling sales figures for the 12-month period from April 1, 2005 to March 31, 2006 amounted to SEK 315.3 M, an increase of 9 percent, compared with the full-year 2005 when net sales amounted to SEK 288.9 M. Of total net sales for the 12-month period, Pointsec sales accounted for SEK 261.2 M or 83 percent.

## PROFIT

### First quarter 2006

Gross profit for the first quarter amounted to SEK 83.1 M (55.1), corresponding to a margin of 92 percent (87). The margin improvement was attributable to the increased share for proprietary Pointsec solutions, which only carry insignificant direct purchasing costs.

Operating profit amounted to SEK 16.6 M (12.8), which was an increase of 30 percent. Overhead costs increased in pace with investments in marketing and sales activities, through strengthening of the Group's own sales organization and establishment in new markets. Variable sales commissions increase in pace with sales growth. The development of the Pointsec solutions was continued and strengthened, as was reflected in the cost structure. The number of employees increased by 13 percent during the quarter from 126 to 143 people. The increase was mainly among

sales and development personnel.

During the quarter, development costs of SEK 5.8 M (3.8) were capitalized in the balance sheet, while depreciation for the quarter amounted to SEK 2.8 M (3.1).

Realized and unrealized exchange-rate losses of SEK 2.4 M were charged against earnings, while exchange-rate gains of SEK 1.4 M were noted in the first quarter of 2005.

The net of financial items amounted to income of SEK 0.7 M (0.7). Unrealized surplus values in financial investments were booked directly against equity in accordance with IAS 39 and thus did not affect financial items. On the closing date, unrealized surpluses amounted to SEK 2.4 M (2.1). Profit after financial items increased to SEK 17.3 M (13.5) during the first quarter.

## LIQUIDITY AND FINANCIAL POSITION

The Group's financial position remains very strong, and positive cash flow of SEK 3.2 M further strengthened liquidity (cash and cash equivalents plus financial assets available for sale). Liquidity, together with unutilized credit facilities of SEK 50 M (50), amounted to SEK 238 M (203) on the closing date.

Shareholders' equity amounted to SEK 241.8 M (188.2) on the closing date, corresponding to an equity/assets ratio of 65 percent (68) and equity per share of SEK 21.25 (17.15).

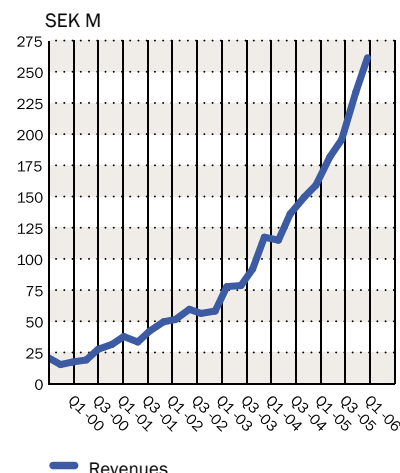
## INVESTMENTS

The Group's investments in equipment amounted to SEK 1.5 M (0.6) for the quarter, while investments in capitalized expenses for software development amounted to SEK 5.8 M (3.8).

## PARENT COMPANY

The Parent Company's sales amounted to SEK 2.1 M (4.3) for the quarter, of which SEK 2.1 M (4.2) consisted of sales to Group companies. The Parent Company's cash flow was negative in an amount of SEK 28.1 M (20.6) as a result of cash and cash equivalents being placed in short-term investments that are reported as financial assets available for sale.

## Continued strong growth for Pointsec sales



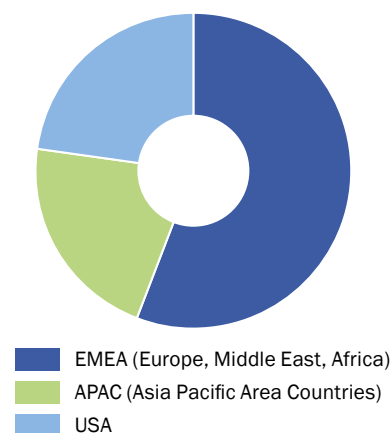
The Group's total revenues from Pointsec operations summed on a rolling basis over the past four quarters.

The Parent Company's investments in equipment amounted to SEK 0.2 M (0.1) during the first quarter.

## SIGNIFICANT EVENTS AFTER THE CLOSING DATE

- At the beginning of April, a new business area, Pointsec Wireless Solutions, was established with the objective of developing and marketing encryption solutions targeted to mobile operators and phone manufacturers. Although the basic need to protect stored data through encryption is the same for all mobile devices, special prerequisites apply with respect to operational support and administration for smart phones and other devices that use wireless networks for data communication.
- Pointsec's flagship product Pointsec for PC was awarded a quality stamp by British authorities in the form of the CSIA Claims Tested (CCT) Mark. This certification for products and services in IT security was established at the initiative of British authorities through their cooperative body the Cabinet Office, which is the equivalent of the Swedish Agency for Administrative Development. Pointsec is the first supplier in the area of mobile security with a product that meets the requirements for this certification.

## Net sales distributed by geographic market



Total Group revenues, Jan-Mar 2006

## OUTLOOK

The market for Pointsec products continues to grow, and the company will further strengthen its market position. Sales and profit are expected to increase during 2006, compared with 2005.

## ACCOUNTING PRINCIPLES

This interim report was prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU, IAS 34 Interim Financial Reporting, and the Swedish Financial Accounting Standards Council's recommendation RR 31 Consolidated interim reports and RR 32 Reporting of legal entities. The accounting principles applied in this interim report are those described in the annual report for 2005. As noted there, International Financial Reporting Standards (IFRS) are applied as of the 2005 fiscal year.

## ANNUAL GENERAL MEETING

The Annual General Meeting was held on Thursday, April 6, 2006. The meeting approved a dividend of SEK 2.50 per share totaling SEK 28.0 M. April 11 was set as the record date, and payment was made on April 18.

The Annual General Meeting also approved two warrant programs for Group employees both in and outside Sweden. The decision comprised 450,000 subscrip-

tion warrants carrying rights to subscribe for an equal number of shares. The total dilution effect on full subscription of all outstanding and proposed warrants programs is estimated to amount to 6.9 per cent.

The Annual General Meeting also approved a 2:1 split of the company's shares,

meaning that every old share will be divided into two new shares. The number of new shares will thus amount to 22,763,940. The record date is April 28. All information in this interim report was prepared without taking this split into consideration.

Martin Bjäringer, Henrik Ekelund,

Jonas Fredriksson, Ulrika Hagdahl and Carl Rosvall were re-elected and Hans Otterling was newly elected to the Board of Directors.

## Summary of income statements, SEK M

	Jan-Mar		Apr-Mar	Full year
	2006	2005	05/06	2005
Net sales	90.1	63.7	315.3	288.9
Cost of products and services sold	-7.0	-8.6	-30.6	-32.2
<b>GROSS PROFIT</b>	<b>83.1</b>	<b>55.1</b>	<b>284.7</b>	<b>256.7</b>
Selling expenses	-39.2	-20.7	-121.8	-103.3
Administrative expenses <sup>1)</sup>	-13.7	-14.5	-59.4	-60.3
Research and development costs <sup>2)</sup>	-10.9	-8.5	-42.3	-40.0
Other operating income/expenses	-2.7	1.4	3.0	7.2
<b>OPERATING PROFIT</b>	<b>16.6</b>	<b>12.8</b>	<b>64.2</b>	<b>60.3</b>
Net of financial items <sup>3)</sup>	0.7	0.7	5.7	5.7
<b>PROFIT AFTER FINANCIAL ITEMS</b>	<b>17.3</b>	<b>13.5</b>	<b>69.9</b>	<b>66.0</b>
Tax <sup>3)</sup>	-6.1	-4.7	-23.0	-21.5
<b>PROFIT FOR THE PERIOD</b>	<b>11.2</b>	<b>8.8</b>	<b>46.9</b>	<b>44.5</b>
<i>Includes depreciation totaling</i>	4.2	4.5	18.5	18.8
<i>of which capitalized expenses for software development</i>	2.8	3.1	13.1	13.4
<i>of which other assets</i>	1.4	1.4	5.4	5.4

<sup>1)</sup> Includes all other expenses not directly attributable to sales operations and product operations. In the first quarter of 2005, certain marketing cost amounting to SEK 2.3 M were included in the administrative expenses. However, in the first quarter of 2006, all marketing costs were included in selling expenses.

<sup>2)</sup> During the quarter costs for software development amounted to SEK 5.8 M (3.8) were capitalized.

<sup>3)</sup> Tax loss carry-forwards in the Group amounted to SEK 78 M (74) at January 1, 2006. Deferred tax assets relating to these carry-forwards are reported in the consolidated income statement and balance sheet to the extent that it is deemed possible to use them.

## Share data

	Jan-Mar		Apr-Mar	Full year
	2006	2005	05/06	2005
<b>BEFORE DILUTION:</b>				
Number of shares, 000s	11 382	10 974	11 382	11 188
Average number of shares, 000s	11 285	10 958	11 178	11 070
Earnings per share, SEK <sup>1)</sup>	0.99	0.80	4.20	4.02
<b>AFTER DILUTION: <sup>2)</sup></b>				
Average number of shares, 000s	11 536	11 369	11 368	11 385
Earnings per share, SEK <sup>1)</sup>	0.97	0.77	4.13	3.91

<sup>1)</sup> Calculated as profit for the period divided by average number of shares.

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

## Summary by segment, January – March 2006, SEK M

	EMEA <sup>1)</sup>		APAC <sup>2)</sup>		USA		Parent Company and Group items <sup>3)</sup>		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
External sales	50.3	37.1	19.2	11.8	20.5	14.6	0.1	0.2	90.1	63.7
Gross profit	45.2	33.3	20.2	12.1	19.3	13.6	-1.6	-3.9	83.1	55.1
Operating costs	-39.2	-32.7	-3.1	-2.0	-18.3	-10.1	-5.9	2.5	-66.5	-42.3
Operating profit	6.0	0.6	17.1	10.1	1.0	3.5	-7.5	-1.4	16.6	12.8
Assets	235.5	173.2	3.0	2.8	65.4	36.5	68.2	65.4	372.1	277.9
Liabilities	165.8	130.3	5.4	3.5	37.3	19.9	-78.2	-64.0	130.3	89.7
Investments	6.2	3.9	0.1	0.0	0.8	0.1	0.2	0.4	7.3	4.4
Depreciation	3.7	4.1	0.0	0.0	0.1	0.0	0.4	0.4	4.2	4.5

<sup>1)</sup> Europe, Middle East, Africa

<sup>2)</sup> Asia Pacific Area Countries

<sup>3)</sup> Refers to elimination of intra-Group sales and other Group items.

## Summary of balance sheets, SEK M

	31.03.2006	31.03.2005	31.12.2005
<b>ASSETS</b>			
Goodwill	6.9	5.9	6.9
Capitalized expenses for software development	27.8	23.1	24.8
Other intangible assets	1.0	3.0	1.5
Deferred income tax assets	14.0	15.7	15.7
Other fixed assets	9.5	9.4	8.9
Other current assets	125.0	68.3	115.4
Financial assets available for sale	71.7	55.9	46.7
Cash and cash equivalents	116.2	96.6	113.6
<b>TOTAL ASSETS</b>	<b>372.1</b>	<b>277.9</b>	<b>333.5</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	241.8	188.2	222.6
Deferred income tax liabilities	13.2	11.9	12.4
Long-term liabilities <sup>1)</sup>	0.2	0.2	0.2
Current liabilities	116.9	77.6	98.3
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>372.1</b>	<b>277.9</b>	<b>333.5</b>
<i>Pledged assets</i>	-	-	-
<i>Contingent liabilities</i>	0.6	-	0.5

<sup>1)</sup> The liabilities are interest-bearing

## Specification of changes in equity, SEK M

	Jan-Mar	Full year
	2006	2005
<b>On opening date</b>	<b>222.6</b>	<b>176.9</b>
Sales of warrants	-	0.3
New issues due to conversion of warrants	8.4	7.6
Dividend payment	-	-13.7
Market valuation of financial assets available for sale	-0.1	1.0
Share-based payments (only reported in income statement)	0.7	1.7
Currency translation differences	-1.0	3.3
Profit for the period	11.2	44.5
<b>On closing date</b>	<b>241.8</b>	<b>188.2</b>

## Summary of cash flow statements, SEK M

	Jan-Mar	Apr-Mar	Full year	
	2006	2005	05/06	2005
Cash flow from operations				
before changes in operating capital	5.7	17.1	63.0	75.1
Changes in operating capital	21.6	24.2	-13.7	-28.9
CASH FLOW FROM OPERATING ACTIVITIES	27.3	41.3	49.3	46.2
Cash flow from investment activities	-32.5	-4.2	-32.9	13.6
Cash flow from financing activities	8.4	0.5	2.1	-6.1
CASH FLOW FOR THE PERIOD	3.2	37.6	18.5	53.7
Cash and cash equivalents on the opening date	113.6	57.6	96.6	57.6
Translation differences in cash and cash equivalents	-0.6	1.4	1.1	2.3
CASH AND CASH EQUIVALENTS ON THE CLOSING DATE <sup>1)</sup>	116.2	96.6	116.2	113.6

<sup>1)</sup> Short-term investments with maturity periods exceeding 90 days are not included in cash and cash equivalents. On the closing date, the Group had such investments with a total book value of SEK 71.7 M (55.9), of which SEK 2.1 M (2.1) consisted of unrealized surplus values. Cash and cash equivalents include current investments with a maturity period of less than 90 days. Related unrealized surplus values amounted to SEK 0.3 M (-).

## Key data, Group

	Jan-Mar	Apr-Mar	Full year	
	2006	2005	05/06	2005
Sales growth	41%	10%	9%	33%
Gross margin	92%	87%	90%	89%
Profit margin after net financial items	19%	21%	22%	23%
Return on equity <sup>1)</sup>	5%	5%	22%	22%
Return on capital employed <sup>1)</sup>	7%	7%	33%	33%
Equity/assets ratio	65%	68%	65%	67%
Earnings per share,SEK	0.99	0.80	4.20	4.02
Equity per share,SEK	21.25	17.15	21.25	19.90
Number of employees, on closing date	143	111	143	126
Number of employees, average	137	107	122	116
Sales per employee, SEK 000s	658	597	2 590	2 497

<sup>1)</sup> Return ratios for the quarters are only for the three-month period and were not calculated on an annual basis.

## INFORMATION DATES 2006

**August 17** Interim report, January-June 2006

**October 26** Interim report, January-September 2006

STOCKHOLM, 27 APRIL, 2006

Protect Data AB (publ)  
The Board of Directors

This interim report has not been subject to review by the company's auditors.

Questions regarding this report will be answered by CEO Thomas Bill, tel: +46-8-459 54 95, cell phone: +46-70 542 62 71

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