

**October 25, 2012 at 9.00**

## **F-SECURE CORPORATION - INTERIM REPORT JANUARY 1- SEPTEMBER 30, 2012**

**STEADY GROWTH CONTINUED, HEALTHY PROFITABILITY**

### **Highlights in Q3**

- Total revenues grew by 7%, reaching 39.1 million (Q3 2011: 36.6m).
- Revenue in the operator channel grew by 10%, reaching 23.7 million (21.5 m). Revenue growth was driven by healthy PC and mobile Internet Security sales and supported by Content Cloud license sales.
- EBIT was 8.6 million, representing 22% of revenue (6.9m, 19 % of revenue).
- Earnings per share was EUR 0.04 (0.03).
- Cash flow from operations was 3.5 million positive (5.8m).
  
- The company has developed a next-generation Content Cloud product, which will replace the previous offering. This is likely to lead to redundancies of close to 50 people at F-Secure SDC (France), where the older version was developed.
  
- In Q3, AT&T has launched a digital content and cloud storage platform, powered by new F-Secure product, for AT&T's mobile device users.

Outlook for 2012 - the management has revised the estimation for the year:

The P&L estimation, excluding one-off costs due to redundancies in F-Secure SDC (France), is unchanged. Annual revenue growth is expected to be between 5% and 10%, and EBIT is expected to be around 15% of revenue. In Q4, one-off costs based on redundancies and other related costs in F-Secure SDC (France) are estimated not to exceed 2 million Euros. In this connection, the Company will analyze and evaluate the remaining value of F-Secure SDC related assets; mainly customer relationships and certain technologies. The value of these assets as of now is approximately 5 million Euros.

(This report is unaudited. Unless otherwise stated the comparisons refer to the corresponding period a year ago. The currency is euro. The ContentCloudbusiness is included in the Operator channel figures.)

Key figures	2012	2011	Change	2012	2011	Change	2011
(Eur Million)	7-9	7-9	%	1-9	1-9	%	12m
Revenue	39.1	36.6	7	117.0	106.1	10	146.0
Operating profit	8.6	6.9	25	19.8	17.1	16	23.6
% of revenue	22%	19%		17%	16%		16 %
Profit before taxes	8.5	7.0	21	19.4	16.9	15	23.5
Earnings per share (Eur)	0.04	0.03		0.09	0.08		0.11
At the end of period:	36.3	35.0		36.3	35.0		38.3
Deferred revenue							
Equity ratio, %	76 %	70%		76%	70%		68%
Debt-to-equity ratio, %	-41%	-48%		-41%	-48%		-47%
Personnel	972	907		972	907		942

#### President and CEO Christian Fredrikson:

“Our financial performance in Q3 was solid. The company’s growth was driven by good performance in PC and mobile Internet Security sales. Overall interest in Content Cloud services among operators has remained at a high level, and this business supported our revenue growth. In August, we were pleased to see AT&T launch a digital content and cloud storage platform, powered by new F-Secure product, for their mobile device users. This launch brings our service to one of the world’s largest operator’s customer base.

We are excited about our new next-generation, productized Content Cloud offering. This highly scalable product is ready for the mass market and provides a shorter time to market. We believe that this new product strengthens our competitive position in the emerging content cloud business. The development of the previous version of the Content Cloud product will be stopped. Consequently, this leads to reductions in development resources in France.

Our main goal is to seek revenue growth and gradually improve our profitability. However, due to the global financial uncertainty, we are facing some slowness in decision making, especially in the Content Cloud business. This leads to longer sales cycles, and revenue growth in the coming quarters is expected to remain at a modest level. However, it is our view that the market opportunities for Internet Security, especially in mobile security where we have strong offering, and our Content Cloud services remain attractive. This will provide us a healthy opportunity for long-term growth both in operator and traditional channels.”

#### F-Secure business during January-September 2012

Total revenues for January-September 2012 were 117 million, representing a growth of 10 % (106.1m, 11 %). Revenue growth through the operator channel remained solid, with a growth of 17 % from the

previous year and reaching revenues of 70.7 million (60.5m). Revenues through the other channels grew by 2 %, totaling 46.3 million (45.6m). EBIT was 19.8 million (17.1m), representing 17 % of revenues (16 %). Earnings per share were EUR 0.09 (EUR 0.08). Cash flow from operations was 17.8 million positive (13.7m positive). Deferred revenues were 36.3 million at the end of September (35.0m) due to good license sales.

Total fixed costs were 93 million (84.3m), 10 % higher than in the previous year. The cost increases were allocated to geographic expansion in Latin America and in R&D to increase the competitiveness of our products. The cost level was impacted by increased depreciations from past capitalized expenses (R&D activations, software, and hardware); 1-9/12 5.8m (1-9/11 4.8m). F-Secure also capitalized the development costs, totaling 4.2m (4.7m). During Q2, a write-off of 0.8m related to an obsolete sales tool was made. The Company has changed its vacation accrual accounting for operational reasons, which balances costs between Q2 and Q3 by decreasing Q2 costs and increasing Q3 costs by approximately 400k. The Q3 costs were seasonally lower than the run rate level.

At the end of September, the geographical breakdown of revenues was as follows: Finland and Scandinavia 31 % (33 %), Rest of Europe 45 % (45 %), North America 10 % (10 %) and Rest of the World 14 % (12 %).

### **Operator channel and its performance in Q3**

The Operator channel, which includes Internet service providers, mobile operators and cable operators, is the main channel through which F-Secure services are delivered. F-Secure has more than 200 partners in over 40 countries, with an addressable market of over 250 million fixed and mobile broadband customers. The total number of F-Secure's operator partners is significantly larger than that of any other security service vendor.

F-Secure provides, through Operators, Internet security and Content Cloud products that are easy and intuitive to use for mainstream consumers. This channel utilizes the Operators' presence in the local market and brand to reach millions of consumers in a cost-efficient and scalable manner. F-Secure provides its Operator partners with products that enable them to compete with other Internet players. By selling and offering security and Content Cloud services, the Operator can improve its ARPU (average revenue per user) and margins, and reduce churn.

F-Secure currently generates the majority of its revenues from the Security as a Service business, where Operators sell security service subscriptions to protect their customers against Internet threats. Revenue growth in this area has been driven by increasing security subscriber numbers within the existing and new operator partner customer base. This has been supported by a natural demand for security services and the growth of fixed and mobile broadband connections. Internet security services for smartphones and tablet devices currently generate a small portion of F-Secure and market-wide

volumes. The mobile security landscape continues to change due to growing sales of smartphones, tablets and other mobile devices.

Content Cloud services, for example cloud-based storage, sharing and synchronization, are expected to become a major business opportunity for the software industry. The use of social media is increasing and people seek services for sharing, storing and organizing their personal data. In the future, nearly every device that creates or stores data, including desktop and laptop computers, tablets, smartphones and digital cameras, will be backed up over the Internet. A global F-Secure survey of 6,400 broadband subscribers from 14 countries (France, the UK, Germany, Sweden, Finland, Italy, Spain, the Netherlands, Belgium, USA, Canada, Brazil, India and Japan) has identified security, privacy and issues relating to the storing and sharing of digital content as key concerns. The overall interest in Content Cloud products among Operators is prominent as they have realized the business opportunity. To compete with other Internet players, Operators are looking for services that match the demand. Operators have an advantage in their ability to manage the continuously diverging, multi-device, multi-OS environment. They are also able to bring services to the masses and provide support for these services.

F-Secure's entry into the Content Cloud business has strengthened the Company's position as a strategic partner for Operators. F-Secure has tens of Operators that offer Content Cloud services, mostly standard on-line backup. However, with regard to more advanced cloud services like file synchronization and sharing, this business model is evolving. Usually, the Operator offers end users limited capacity for free and charges for premium services. F-Secure charges the Operator a per-user fee for subscribers to the services. In addition to subscriber-based revenues, additional revenue streams originate from optional features and functionalities, capacity usage, project deliveries and related customizations. F-Secure's revenues from Content Cloud subscriber services is currently at a relatively low level, but the management expects revenues to gradually increase as a growing number of operators offer Content Cloud services to their customers together with increasing take-up rates.

F-Secure has increased its investments, mostly in the Content Cloud business but also in security services. In addition to new mainstream operating systems, such as Android, iOS and Windows, the Company is investing in platform development. These investments ensure the scalability and competitiveness of these services and allow Operators to offer F-Secure products, both PC and mobile, to a wide subscriber base.

The Content Cloud business opportunity is attractive in the longer term. The overall interest in these services among operators has remained at a high level, and there are several prospects in the pre-sales phase. However, global financial uncertainty and some slowness in contract negotiations have delayed revenues.

The Company's co-operation with AT&T is working well. F-Secure has delivered the digital content and cloud storage platform for AT&T's mobile device users. Now available in the U.S., AT&T Locker lets their mobile customer base store, sync and share data in one safe, convenient location. Powered

by F-Secure's cloud storage platform, AT&T subscribers can now get more out of their digital content while safely accessing and sharing it from virtually anywhere, including popular social networks.

The Content Cloud delivery with one of Europe's major operators, signed in the first quarter, progresses as planned. The service is expected to reach the pre-launch stage by the end of the year, and to be publicly launched in Q1 2013. Q3 financials include some revenue recognition from this project. The Content Cloud revenues, like the initial commitment from AT&T, backup services and project revenues, support operator business.

To strengthen F-Secure's position in the content cloud business, the company has developed a next-generation Content Cloud offering and streamlined its project delivery to provide a shorter time to market. This productized and highly scalable content cloud offering is now ready for the mass market. As the Company starts the migration of its current customers to this new solution, the development of the legacy product will be stopped. Therefore, F-Secure has started negotiations to reduce close to 50 people in F-Secure SDC (France), where the legacy product has been developed.

During the quarter, PC and mobile Internet security sales performed very well overall and especially in Latin America, showing double-digit subscriber and revenue growth. In Q3, F-Secure signed several new operator partnerships. In addition, some partners expanded their offering to support both PC and mobile Internet security. This demonstrates the competitiveness of our comprehensive Internet Security offering. These operators include MTS (India), KPN net (Netherlands), Vectra (Poland) and Play (Poland).

In the third quarter of 2012, sales through operator business partners was 23.7 million (21.5m), currently representing 60 % of F-Secure's total revenues (59 %). Revenue growth was 10 % compared to the corresponding quarter in 2011 and 3 % negative to the previous quarter mainly due to decreased Content Cloud revenue growth.

### **Other channels in Q3**

Other channels consist mainly of traditional license sales to consumers through eStore and retail, i.e. new licenses and renewals of Internet security and online backup for PCs and mobile devices. The other channels' business also includes a wide range of Internet security services to corporate customers through the global reseller network. Sales in traditional channels continued slightly better than anticipated. Customer satisfaction in security services remained high, which was visible in healthy license renewal sales. In Q3, the company launched the new version of its consumer flagship product, Internet Security 2013.

During the third quarter, revenues from other channels continued to grow, reaching 15.4 million (15.2m). These other channels represented 40 % of F-Secure's total revenues (41 %). Revenue growth was 2 % compared to the corresponding quarter in 2011.

## Products, services and technologies

F-Secure develops and sells Internet Security and Content Cloud products that support personal computers, servers and an increasing set of major smartphone, tablet and other mobile device operating systems. Services include a wide range of Internet Security products like anti-virus, anti-theft, browsing protection and parental control as well as Content Cloud services like online backup, synchronization and sharing.

For the past few years, cloud computing has been at the center of the company's technology strategy and choices. F-Secure uses the cloud for two purposes: for Real-time Protection Network and for Content Cloud. Real-time Protection Network moves certain processing and memory-intensive functions from the end-user's device to the cloud, making the client software lighter and one of the fastest in the industry. Furthermore, by harnessing the collective intelligence of client systems, Real-time Protection Network is able to detect and react to new emerging threats significantly faster and to provide protection to different device categories, such as smartphones. This technology provides reputation data for files, sites and URLs, and is widely utilized in F-Secure solutions.

F-Secure has made significant investments in its Content Cloud technology. The new productized Content Cloud offering is now being finalized and provides state-of-the-art usability for the mass market. It comes as a highly scalable solution with a very short time to market and thus, can be easily deployed by Operators.

In the future, the combination of Internet security and Content Cloud-based technologies will allow F-Secure to create new and innovative solutions for personal computers, smartphones and other devices, such as smart TVs.

F-Secure emphasizes user experience design when developing services. User experience designers, marketers and developers utilize consumer research, focus groups and usability tests to explore the needs of consumers and to validate new product and service prototypes with consumers, thereby ensuring that they are appealing and usable when introduced to the public. User experience, combined with technical performance, is crucial for the commercial success of solutions and services.

During January-September 2012 the key product announcements were as follows:

In September, F-Secure launched the newest version of its flagship PC product, F-Secure Internet Security 2013, which gives consumers the best protection for their computers and online identity when browsing the web. Among key improvements, F-Secure Internet Security 2013 now supports all popular browsers, including Google Chrome. A redesigned firewall comes with additional filters and works seamlessly in home and public networks. F-Secure Internet Security users will also receive automatic updates for new beneficial features throughout the year. As an example, the upcoming new banking functionality will secure online banking sessions and further improve protection against unknown banking trojans. F-Secure Internet Security 2013 will also support the upcoming Windows 8

operating system.

Also in September, F-Secure released a new version of F-Secure Mobile Security, which features universal support for all Android devices including TVs and set-top boxes. The new version also comes with a completely revamped user experience and a renewed commitment to family protection measures. The release arrives as Android threats intensify. F-Secure Mobile Security is available through F-Secure's global mobile operators, channel partners and is also distributed via Google Play.

In May, F-Secure released an updated version of its security-as-a-service solution, F-Secure Protection Service for Business, which now includes protection for smartphones and tablets. Businesses can now have all of their devices, including smartphones and tablets, protected with a single service solution. The release is a solution for today's workplace, where mobile devices are increasingly used to access e-mail and other business-sensitive information. F-Secure's Protection Service for Business provides protection against malware specifically designed for smartphones, for example billing scams or spy-tools that steal contacts for spam lists. F-Secure protection tracks lost devices, giving businesses the power to remotely lock the device or delete all confidential information.

In April, F-Secure introduced the Email and Server Security solution for businesses. The e-mail and server protection solution now includes F-Secure DeepGuard, which is based on advanced behavioral analysis and cloud-based white lists and black lists. The solution also includes F-Secure's other award-winning protection technologies, for example Browsing Protection with website reputation rating and Exploit Shield. F-Secure's Email and Server Security solution offers the same protection for both physical and virtual servers. The solution is compatible with Citrix terminal solutions, including the latest XenApp 6.5.

In March, F-Secure introduced Safe Infinity, which is offered through operator partners. F-Secure Safe Infinity safeguards irreplaceable content while enabling a secure online life. Safe Infinity covers all the functionalities available from F-Secure's Internet security service such as anti-virus, firewall, spam protection and parental control as well as backup and restore functionality via the cloud.

In March, F-Secure launched Safe Anywhere, a unique offering which allows consumers to obtain full protection for their computers, smartphones and tablets in a single service through their local operators. Safe Anywhere includes F-Secure's protection from viruses, spam, phishing and other kinds of malware and cyber attacks. F-Secure Safe Anywhere combines F-Secure Protection Service for Consumers and F-Secure Mobile Security. Safe Anywhere supports PCs, Macs and mobile devices running on Android, Blackberry, iOS and Symbian operating systems.

In February, F-Secure introduced its entry into the Content Cloud space: F-Secure Content Anywhere. F-Secure Content Anywhere synchronizes a user's content in the cloud, making it accessible on any device, including PCs, smartphones, tablets and connected digital TVs, anywhere and anytime. Consumers' ease of use is paramount when accessing their content from more than one device and

therefore the user interface will be uniform across all connected devices. Operators will be able to offer a safe personal cloud to their customers to save, synchronize and share their digital content.

## Awards

F-Secure's products and services succeeded well in tests run by various test reviewers. In September and in April, F-Secure Internet Security 2012 received the "AV-TEST Certified" seal for home user products and F-Secure Client Security received the "AV-TEST Approved Corporate Endpoint Protection" award for business products. In July, AV-Comparatives published its half-year Real-World Protection Test in which F-Secure achieved very high protection results and got an Advanced+ award. F-Secure also received the AV-Comparatives' "Approved Mobile Product" seal for F-Secure Mobile Security in September 2012 and got excellent results in AV-TEST's Malware Protection for Android test, run in March 2012. F-Secure Client Security received the AV-TEST Best Protection 2011 award in the corporate product category in January 2012. F-Secure Internet Security 2012 received the AV-Comparatives Top Rated award in January 2012.

## Market situation

During the quarter, there were no significant changes in the competitive landscape or pricing levels for Internet Security. The usual signs of price competition are evident in some countries. Commercial interest in the Content Cloud business is picking up with the introduction of new cloud services to the market. Many of F-Secure's traditional competitors are also entering the Content Cloud business.

F-Secure's competitive position in the Operator channel has remained strong. The growth of fixed and mobile broadband access, as well as the expansion of new mobile devices, drives the demand for Internet Security and Content Cloud services provided by Operators.

## Personnel and organization

F-Secure's personnel totaled 972 at the end of Q3 (907). In the third quarter, the number of personnel has decreased, especially in the development function.

F-Secure has revised its organizational structure as of July 1, 2012. With this organizational change, F-Secure aims to improve its operational efficiency as well as time-to-market and market-centricity. The main sales channels remain the same; operator channel with Internet security and Content Cloud services, and other channels with traditional license sales to businesses and consumers.

Currently, the Leadership Team consists of the following persons: **Christian Fredrikson** (President and CEO), **Ari Alakiuttu** (Human Resources & Facilities), **Samu Konttinen** (Customer and Market Operations), **Timo Laaksonen** (Content Cloud Business; started on October 1), **Maria Nordgren** (Consumer Security Business), **Pirkka Palomäki** (Chief Strategy Office), **Jari Still** (R&D Operations), **Pekka Usva** (Corporate Security Business) and **Taneli Virtanen** (Chief Financial Officer).

## **Financing and capital structure**

F-Secure's financial position remained solid. F-Secure's equity ratio at the end of September was 76 % (70 %) and the gearing ratio was 41 % negative (48 % negative).

Cash flow from operations for January-September was 17.8 million positive (13.7m positive). For the first nine months of 2012, the net financial income was slightly negative at 0.4m, impacted by low interest income and exchange rates losses (negative 0.2m). Dividends of 9.3m were paid in April.

The Company's cash position has developed according to the longer term efficient capital management objectives. The market value of F-Secure's liquid assets on September 30, 2012 was 27.0 million (25.9m). Changes in exchange rates had a slight positive impact on profitability.

## **Capital expenditure**

F-Secure's capital expenditure for January-September was 7.8 million (12.7m), consisting mainly of IT hardware and software as well as capitalization of development expenses amounting to 4.2m (4.7m).

## **Capital management and own shares**

The objective of F-Secure's capital management is to achieve an efficient capital structure that ensures the functioning of business operations and promotes the increase of shareholder value.

Currently, the total number of own shares held at the end of September 2012 was 3,732,390 shares, corresponding to approximately 2,4 % of the Company's shares and voting rights. The own shares will be purchased to be used as part of the incentive compensation plan, to improve the Company's financial structure, to be used for the purpose for making acquisitions or implementing other arrangements related to the Company's business, or otherwise assigning or cancelling the shares.

In January 2012, the company assigned a total of 274,923 shares to the 21 participants of the F-Secure share-based incentive program as a reward payment.

## **Shares, shareholders' equity and option programs**

During the third quarter, there were no shares subscribed with options.

The total number of Company shares is currently 158,798,739. The corresponding number of shares diluted is 160,940,348 including all stock option programs. The Company's registered shareholders' equity is EUR 1,551,311.18. More information on the stock option programs and share-based incentive program is available on the Company's Investors web pages.

## Corporate Governance

F-Secure complies with the Corporate Governance recommendations for public listed companies published by the Securities Market Association, a body established by the Confederation of Finnish Industries EK, the Central Chamber of Commerce and NASDAQ OMX Helsinki Ltd., as explained on F-Secure's web pages. F-Secure published its corporate governance statement for 2011 in the annual report and on the Company website in March 2012.

## Risks and uncertainties

F-Secure has not seen material changes in risks and uncertainties during the reporting period. Uncertainty in the economic environment may impact on the growth of broadband connections and on Operators' willingness to invest in new services and may also create pricing pressure. These may have negative impact on F-Secure's security and Content Cloud sales. The Company continues to monitor closely the development in the economic and financial markets.

F-Secure's risks and uncertainties are related to, among other things, the competitiveness of F-Secure's product portfolio, competitive dynamics in the industry, pricing models (e.g. free services, cost of Content Cloud services), impact of changes in technology, timely and successful commercialization of complex technologies and new products and solutions, the ability to protect own intellectual property (IPR) in F-Secure'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, compromising stored personal data, service quality related penalties, risk exposure from increasing contractual liability requirements and forming of the new business areas.

Due to the longevity and complexity of project deliveries in the Content Cloud business, project completion timelines and related revenues are more unpredictable by nature than in the traditional security services business. This may cause risks for delivery delay penalties and may cause more variability in revenue forecasts.

## Events after period-end

In October, the Company has started negotiations with employees in F-Secure SDC (France), as the development of the old Content Cloud product will be stopped. This is expected to lead to the reduction of close to 50 people.

No other material changes regarding the Company's business or financial position have materialized after the end of September 2012.

## Market view

The long term market opportunities are attractive for F-Secure. The growth of Internet users and Internet connected devices will drive demand for security and Content Cloud services.

The number of Internet users is growing and has passed 2 billion. The global Internet penetration has kept growing and is now over 30%; in Asia 24%, in Europe close to 60%, and in North America close to 80% (source: Internet World Stats, U.S. Census Bureau, estimated in Mar. and Dec.2011). In 2013, 1 billion activations on Android products including tablets and smartphones will be reached (source: Google, IHS).The growth of smartphones and other Internet connected devices is expected to accelerate to tens of billions during next 10 years (source: Gigaom/ Ericson).

The security software revenues in 2011 were \$17.7 billion worldwide, and the market grew 7.5% in 2011 (Gartner, April 2012). The forecasted growth for the overall global security software market remains solid at around 10% (CAGR), although significant differences can be seen between regions due to continuing uncertainty regarding the overall economic situation (Gartner, July 2011). The growth of the security market is mostly organic but new delivery models and emerging technologies are also driving industry consolidation (Gartner, April 2012).

The use of social media is increasing. eMarketer predicts that there will be a massive 1.43 billion social network users in 2012, which represents a fifth of the world's total population and a 19.2% increase over 2011's figure. The volume of user generated digital content is expected to continue to increase rapidly during coming years, driven by digital photos, videos and music, and people look for services to share, store and control their personal data. Parks Associates forecasts that operators providing security, storage and sharing value-added services have a revenue opportunity of \$1.03b in 2012, increasing to \$4.82b during 2015.

Based on several industry analyst estimates, the Software as a Service (SaaS) business model is expected to continue to grow strongly and to gain more market share over traditional license sales. For Operators the Software as a Service model is a natural expansion to their other service offerings. The SaaS business offers Operators the opportunity to replace revenues lost from the provision of commoditized services and to increase loyalty in the face of competitive threats from over-the-top providers and third parties.

## Long-term objectives and strategy summary for 2012 -14

F-Secure's first priority is to drive growth and market expansion. F-Secure is a pioneer in Security as a Service (SaaS) business with Operators. This channel has been driving the Company's revenue growth for over 10 years. Based on the company's strong technology assets in security products, cloud computing and content cloud services, F-Secure continues to create new innovative offerings to augment traditional security services, especially in the content cloud space.

F-Secure works together with Operators by providing security and content cloud services with which Operators can compete with Internet players. The Company's large operator network covers over 200 operator partners in over 40 countries, with an addressable market of over 250 million fixed and mobile broadband customers. In addition, F-Secure's close co-operation with major mobile phone vendors and mobile phone operators provides good opportunities to benefit from the growth of the mobile Internet.

F-Secure focuses on increasing the penetration within the current operator base and continues to selectively seek partner expansion globally, especially in emerging markets. The penetration rates vary by operator; overall penetration levels are relatively low, leaving substantial opportunity for growth.

The Company revised its strategy for the next three years, announced in February 1, 2012. The strategy forms a solid foundation for continuous growth and improving profitability.

Operators, including Internet service providers, mobile operators and cable operators, are the main channel for F-Secure services. F-Secure provides, through Operators, security and Content Cloud services that are easy and intuitive to use for mainstream consumers. This channel utilizes the presence and brand of Operators to reach millions of consumers in a cost-efficient and scalable way.

Operators are competing with other Internet players and device manufacturers for consumers' attention. Operators have an advantage in their ability to manage the continuously diverging, multi-device, multi-OS environment. They are also able to bring services to masses and are able to support them.

The sources of F-Secure's competitive advantage include the existing operator and service provider network and relationships built over the years. Key assets include security research, experience in service provisioning in the Operator network environment and the growing user base of Operators. F-Secure stands out in its ability to combine security with storage and its understanding of the Operator channel as a whole. By helping operators to establish local, secure and trustworthy Internet services, the Company enhances its position as a long-term partner for Operators.

During the strategy period, the Company is aiming for double-digit revenue growth (CAGR), driven by the Operator channel. The growth is expected to come from the western hemisphere and some emerging markets like Latin America.

The Company will continue its investments in the Content Cloud business and also in security services. In addition to mainstream operating systems, such as Android, iOS and Windows, the Company is investing in platform development. These investments ensure the scalability and competitiveness of the services and allow Operators to offer F-Secure services, both PC and mobile, to a wide subscriber base. Profitability is targeted to develop towards the 25% level at the end of the

strategy period due to improving scalability in Content Cloud business. F-Secure's longer-term profitability level continues to be driven by revenue growth and scalable operations.

### **Outlook for 2012**

The Operator channel is expected to continue its revenue growth, driven by Internet security sales and supported by subscriber-based Content Cloud revenues. The project-based Content Cloud revenues in H2 will be substantially lower than in 2011. The traditional license business is expected to remain flat or to show some growth compared to 2011.

As overall uncertainty in the global economy and financial markets is expected to continue, this may have an impact on Operators' decision-making regarding investments in new services, especially in new Content Cloud projects. F-Secure has several prospects for its Content Cloud offering in the pre-sales phase. However, some tardiness in contract negotiations and in ramping up subscriber volumes is likely to delay the revenue growth. The Company has developed a new productized, highly-scalable Content Cloud offering and streamlined its project delivery to provide a shorter time to market. The Company is now shifting all further development resources to this next-generation product, and the development of the legacy Content Cloud product will be stopped. This will lead to redundancies in F-Secure SDC (France), where the previous product has been developed. Thus, the Company has started negotiations in F-Secure SDC (France), which are expected to result in the reduction of close to 50 people. In Q4, one-off costs based on redundancies and other related costs in F-Secure SDC (France) are estimated not to exceed 2 million Euros. In this connection, the Company will analyze and evaluate the remaining value of F-Secure SDC related assets; mainly customer relationships and certain technologies. The value of these assets as of now is approximately 5 million Euros.

The long-term business opportunity with Internet Security and Content Cloud products for multiple devices and platforms is attractive. The Company is looking for ways to increase revenue growth and improve its profit margin. However, the short-term revenue growth remains at modest level. To meet the evolving threat level and to open new business opportunities for Internet Security services, F-Secure will continuously launch new security features with a shorter time to market over the upcoming quarters. Q4 2012 revenue growth is expected to be modest; mainly due to exceptionally high project revenue recognition from the AT&T project in the corresponding quarter of the previous year. The Company will provide its 2013 guidance after the Q4 financial results in February 2013.

The management's estimation for the year is unchanged when excluding the above mentioned one-off costs; the annual revenue growth is estimated to be between 5% and 10% compared to 2011. The annual profitability is estimated to remain around 15% of revenues.

In the Q1 interim report published on April 27, 2012, the management revised the guidance as follows; the annual revenue growth is estimated to be between 5% and 10% compared to 2011. The annual profitability is estimated to remain around 15% of revenues. The guidance given at the beginning of the year was the following: The annual revenue growth is estimated to be around 10% and the annual

profitability is expected to be around 15% of revenues and is expected to follow the usual seasonality with a better second half.

The revenue estimate is based on the sales pipeline at the time of publishing, existing subscriptions and support contracts as well as current exchange rates. The Company continues to prioritize growth over short-term profitability and plans to invest the majority of the improved earnings in growth opportunities in its core business while aiming at improving profitability.

The actual operational cost increases are fairly limited, and they are targeted at driving product portfolio competitiveness, building the scalability of the Content Cloud services and supporting geographical expansion. A notable part of the annual cost increase is due to the end of development activations for new platforms and increased depreciations.

#### **News conference today at 11 am**

A news conference for analysts and press is arranged today, on October 25, at 11 am Finnish time at F-Secure's Headquarters, address: Tammasaarekatu 7, Ruoholahti, Helsinki. In the news conference, President & CEO Christian Fredrikson will present the Q3 financial results. A conference call for international investors and analysts is arranged at 13.00 Finnish time (EEST) (12.00 CEST, 11.00 UK time). To participate in the call, please dial in and register 5-10 minutes prior to the event through the following number: +44 20 7162 0077, password: F-Secure. The Q3 financial results presentation material will be available on our Investors web pages at [www.f-secure.com](http://www.f-secure.com) under About F-Secure, Investors before the call begins.

**F-Secure Corporation**

**Additional information**

F-Secure Corporation

Christian Fredrikson, President and CEO  
tel. +358 9 2520 0700

Taneli Virtanen, CFO  
tel. +358 9 2520 5655

Katariina Kataja, IR  
tel. +358 40 6616884

This interim report is prepared in accordance with IAS 34 standard Interim Financial Reporting and with accounting principles stated in the annual report 2011.

**Key figures (unaudited):**

<b>Euro million</b>						
<b>INCOME STATEMENT</b>	2012	2011	2012	2011	Chge	2011
	7-9	7-9	1-9	1-9	%	1-12
<b>Revenues</b>	39.1	36.6	117.0	106.1	10	146.0
<b>Cost of revenues</b>	1.7	2.0	5.6	5.7	-2	8.0
<b>Gross margin</b>	37.4	34.6	111.4	100.3	11	138.1
<b>Other operating income</b>	0.6	0.2	1.4	1.0	41	1.4
<b>Sales and marketing</b>	16.4	15.8	51.3	46.7	10	64.7
<b>Research and development</b>	10.6	9.4	33.5	28.8	16	39.3
<b>Administration</b>	2.3	2.8	8.3	8.8	-6	11.9
<b>Operating result</b>	8.6	6.9	19.8	17.1	16	23.6
<b>Financial net</b>	-0.1	0.0	-0.4	-0.2		-0.1
<b>Result before taxes</b>	8.5	7.0	19.4	16.9		23.5
<b>Income taxes</b>	-1.9	-2.0	-5.1	-5.1		-7.1
<b>Result for the period</b>	6.6	4.9	14.3	11.8		16.4

Other comprehensive income:					
<b>Exchange diff. on translating foreign operations</b>	0.0	0.0	0.1	-0.1	0.0
<b>Available-for-sale fin.assets</b>	0.1	0.0	0.2	0.0	0.1
<b>Income tax rel. to components of other comprehensive income</b>	0.0	0.0	0.0	0.0	0.0
<b>Total compr.income (owners)</b>	6.6	5.0	14.6	11.7	16.4
<b>Earnings per share, e</b>	0.04	0.03	0.09	0.08	0.11
<b>EPS diluted, e</b>	0.04	0.03	0.09	0.07	0.10

BALANCE SHEET ASSETS	30/09/2012	30/09/2011	31/12/2011
<b>Intangible assets</b>	26.4	22.1	25.3
<b>Tangible assets</b>	9.2	8.6	9.1
<b>Goodwill</b>	19.4	19.4	19.4
<b>Other financial assets</b>	5.1	5.9	5.5
<b>Non-current assets total</b>	60.1	56.0	59.2
<b>Inventories</b>	0.3	0.1	0.4
<b>Other receivables</b>	34.9	31.0	37.9
<b>Available-for-sale financial assets</b>	16.6	15.9	16.0
<b>Cash and bank accounts</b>	10.5	10.1	12.2
<b>Current asset total</b>	62.3	57.2	66.4
<b>Total</b>	122.3	113.2	125.7

SHAREHOLDERS' EQUITY AND LIABILITIES	30/09/2012	30/09/2011	31/12/2011
<b>Equity</b>	65.2	54.4	59.6
<b>Other non-current</b>	1.5	1.8	1.6
<b>Deferred revenues</b>	8.0	7.7	8.4
<b>Non-current liabilities total</b>	9.5	9.5	10.1
<b>Other current</b>	19.3	22.0	26.2
<b>Deferred revenues</b>	28.3	27.3	29.8
<b>Current liabilities total</b>	47.6	49.3	56.1
<b>Total</b>	122.3	113.2	125.7

CASH FLOW STATEMENT	30/09/2012	30/09/2011	31/12/2011
Cash flow from operations	17.8	13.7	20.8
Cash flow from investments	-9.8	-11.4	-16.7
Cash flow from financing activities 1)	-9.3	-9.4	-9.1
Change in cash	-1.3	-7.1	-5.0
Cash and bank at 1 Jan	28.1	32.9	32.9
Change in net fair value of Available-for-sale	0.2	0.1	0.1
Cash and bank at end of period	27.0	25.9	28.1

#### Statement of changes in shareholders' equity

	Share capital	Share premium fund	Un-restricted equity-reserve	Treasury shares	Retained earnings	Assets avail. f.sale	Transl. diff.	Total
Equity on: 31.12.2011	1.6	0.2	5.1	-9.0	61.8	0.1	-0.2	59.6
Total comprehensive income for the year					14.3	0.2	0.1	14.6
Dividend					-9.3			-9.3
Other change								
Exercise of options								
Treasury shares								
Cost of share based payments					0.4			0.4
Equity on 30.9.2012	1.6	0.2	5.1	-9.0	67.2	0.3	-0.1	65.2

## NOTES

### 1) Cash flow from financing

Dividend for year 2011 0.06 euro per share totaling 9.303.980.94 euro was paid on 17<sup>th</sup> April 2012. In 2011 paid dividend totaled 9.253.915,80 euro.

Key ratios	2012	2011	2011
	9 m	9 m	12 m
<b>Operating result. % of revenues</b>	16.9	16.1	16.2
<b>ROI. %</b>	44.4	44.5	44.3
<b>ROE. %</b>	30.6	29.6	29.5
<b>Equity ratio. %</b>	75.8	69.5	68.1
<b>Debt-to-equity ratio. %</b>	-41.3	-47.5	-47.1
<b>Earnings per share (EUR)</b>	0.09	0.08	0.11
<b>Earnings per share diluted</b>	0.09	0.07	0.10
<b>Shareholders' equity per share. e</b>	0.41	0.34	0.38
<b>P/E ratio</b>	13.9	19.2	19.0
<b>Capitalized expenditures (Me)</b>	7.8	12.7	18.7
<b>Contingent liabilities</b>	16.7	15.8	18.7
<b>Personnel. average</b>	974	860	878
<b>Personnel. end of period</b>	972	907	942

## Segment information

The Group has only one segment; data security.

Quarterly development	1/11	2/11	3/11	4/11	1/12	2/12	3/12
<b>Revenues</b>	34.1	35.3	36.6	40.0	38.4	39.6	39.1
<b>Cost of revenues</b>	1.8	1.9	2.0	2.2	1.9	2.1	1.7
<b>Gross margin</b>	32.3	33.4	34.6	37.8	36.5	37.5	37.4
<b>Other operating income</b>	0.4	0.4	0.2	0.4	0.3	0.5	0.6
<b>Sales and marketing</b>	14.8	16.2	15.8	18.0	16.9	17.9	16.4
<b>Research and development</b>	9.4	9.9	9.4	10.5	11.5	11.4	10.6
<b>Administration</b>	3.0	3.0	2.8	3.1	3.0	2.9	2.3
<b>Operating result</b>	5.5	4.6	6.9	6.5	5.4	5.8	8.6
<b>Financial net</b>	-0.2	0.0	0.0	0.1	-0.2	-0.1	-0.1
<b>Result before taxes</b>	5.3	4.6	7.0	6.6	5.2	5.7	8.5

## Geographical information

Revenue	7-9/2012	7-9/2011	1-9/2012	1-9/2011
<b>Nordic countries</b>	12.3	11.6	35.9	34.7
<b>Rest of Europe</b>	17.1	16.4	52.8	47.9
<b>North America</b>	3.9	4.2	11.6	11.2
<b>Rest of the world</b>	5.8	4.4	16.7	12.3
<b>Total</b>	39.1	36.6	117.0	106.1