

**INTERIM REPORT 1 JANUARY – 30 SEPTEMBER 2016**

**STRONG ORDER INTAKE IN  
CORPORATE SECURITY**

## HIGHLIGHTS IN JULY–SEPTEMBER (Q3)

- Revenue from continuing operations increased by 4% year-on-year to EUR 38.8 million (37.2m)
- Revenue from corporate security increased by 10% totaling EUR 15.1 million (13.7m), representing 39% (37%) of all revenue
- Revenue from consumer security increased by 1% and amounted to EUR 23.7 million (23.6m)
- EBIT for continuing operations was EUR 4.5 million, representing 12% of revenue (6.0m, 16%), reflecting high investment in corporate security
- Earnings per share (EPS) for continuing operations was EUR 0.02 (0.03) and EUR 0.02 (0.02) for the Group including discontinued operations
- Deferred revenue increased by 16% and amounted to EUR 50.4 million (43.5m) at the end of the quarter, reflecting strong order intake in corporate security
- Cash flow from operations was EUR 6.8 million (5.7m)
- Samu Konttinen was appointed F-Secure's President and CEO as of 1 August 2016

## HIGHLIGHTS IN JANUARY–SEPTEMBER

- Revenue from continuing operations increased by 7% year-on-year, totaling EUR 115.9 million (108.7m)
- Revenue from corporate security increased by 21% totaling EUR 45.1 million (37.4m)
- Revenue from consumer security decreased by 1% and amounted to EUR 70.8 million (71.3m), reflecting temporary challenges in the operator business during the first quarter
- EBIT for continuing operations was EUR 12.3 million, representing 11% of revenue (15.0m, 14%), reflecting high investment in corporate security
- Earnings per share (EPS) for continuing operations was EUR 0.06 (0.08) and EUR 0.06 (0.14) for the Group including discontinued operations
- Cash flow from operations was EUR 12.3 million (14.6m)

## OUTLOOK FOR 2016

The Company's outlook for 2016 remains unchanged.

- F-Secure anticipates its revenue to grow in 2016 compared to the year before (2015: EUR 148 million)
- EBIT for continuing operations is estimated to be EUR 17–21 million (2015: EUR 20 million)

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 The reporting currency is Euro. This interim report is unaudited. All figures refer to continuing operations, and figures in brackets refer to the corresponding period in the previous year, unless otherwise stated.

F-Secure acquired nSense in June 2015 and has consolidated it into the F-Secure Group accounts since Q2 2015. F-Secure's personal cloud storage business (younited) was sold to Synchronoss Technologies in February 2015 and is reported as discontinued operations.

# KEY FIGURES

Key figures are for continuing operations unless otherwise stated.

(EUR million)	2016 7–9	2015 7–9	Change	2016 1–9	2015 1–9	Change	2015 1–12
Revenue	38.8	37.2	4%	115.9	108.7	7%	147.6
Operating profit (EBIT)	4.5	6.0	–25%	12.3	15.0	–18%	20.0
% of revenue	12%	16%		11%	14%		14%
Profit before taxes	4.5	5.2	–13%	13.2	16.2	–19%	20.7
Earnings per share, (EUR) <sup>1) 2)</sup>	0.02	0.02		0.06	0.14		0.14
Earnings per share, continuing operations (EUR) <sup>1)</sup>	0.02	0.03		0.06	0.08		0.08
Depreciation and amortization	1.3	1.5	–14%	4.0	4.4	–11%	5.9
Deferred revenue				50.4	43.5	16%	48.1
Cash and available-for-sale financial assets				86.6	80.5	8%	94.3
ROI, % <sup>2)</sup>	24.6%	27.5%		24.9%	51.6%		52.1%
Equity ratio, % <sup>2)</sup>				67.9%	69.5%		64.1%
Gearing, % <sup>2) 3)</sup>				–38.4%	–36.3%		–38.8%
Personnel, end of period <sup>2)</sup>				1,016	913	11%	926

<sup>1)</sup> Based on the weighted average number of outstanding shares during the period 155,943,437 (1–9/2016) and 156,013,810 (7–9/2016)

<sup>2)</sup> Includes both continuing and discontinued operations

<sup>3)</sup> Gearing has been restated to reflect the reclassification of available-for-sale investments away from liquid assets

## CEO SAMU KONTTINEN



In the third quarter, F-Secure's business developed as planned following the positive progress made in the previous quarter. Our corporate security business continued to grow strongly, and revenue from our consumer security business also saw a slight increase.

F-Secure's total revenue increased by 4% during the quarter compared to the previous year, amounting to EUR 38.8 million. Revenue from corporate security increased by 10% while order intake grew clearly faster than that. As a result, our deferred revenue grew by 16% year-on-year, which is the strongest quarterly growth we have seen this year. Both endpoint protection and cyber security services performed as expected and continued to outpace their respective markets in growth. Revenue from consumer security increased by 1%, with direct sales in continued growth and revenue from the operator channel remaining largely flat.

Overall, revenue growth was on the same track as in the first half of the year. nSense has now been part of F-Secure for over a year, hence for the first time since its acquisition all the growth reported for the quarter is organic, not acquired.

**“REVENUE GROWTH WAS ON THE SAME TRACK AS IN THE FIRST HALF OF THE YEAR. WE CONTINUED OUR HEAVY INVESTMENT IN CORPORATE SECURITY TO ACCELERATE GROWTH.”**

We continued our heavy investment in corporate security, recruiting cyber security consultants and sales personnel and developing our new cyber security offerings to accelerate growth. Despite this, our operating profit remained healthy at 12% of revenue, amounting to EUR 4.5 million

In corporate security, we continued to reinforce our presence in key European markets and Japan. Compared to the previous year, the number of active resellers for corporate solutions increased by 14% to nearly 4,000. We are now also building a partner network for our vulnerability management (F-Secure Radar) and detection and response (Rapid Detection Service, RDS) solutions. We believe RDS' 24/7 service capabilities give us a unique managed security service offering for corporate customers. We have recently seen a clear increase in demand for cyber security services and products, especially from breached companies.

In October, F-Secure presented a new first-in-the-market concept for cloud security in cooperation with Salesforce. The solution will offer an additional layer of security for Salesforce customers by automatically analyzing any files or links uploaded by users. As companies are increasingly adopting cloud services, we are looking to expand our security portfolio to cover cloud environments. We believe this to be a growing market that offers good business potential in the coming years.

# FINANCIALS

F-Secure reports its revenue divided into consumer security revenue (including operator and direct-to-consumer businesses) and corporate security revenue (including corporate reseller and cyber security services business). In the comparison period of January–September 2015, revenue from the acquired cyber security services (nSense) was included as of June. Consequently, the acquisition no

longer impacts the comparison between the third quarters of 2016 and 2015, and all revenue growth reported in the third quarter of 2016 is thus organic and therefore smaller than that reported during the first half of the year. Figures concern continuing operations unless otherwise stated.

## Consumer security and corporate security:

Revenue (EUR million)	2016 7–9	2015 7–9	Change	2016 1–9	2015 1–9	Change	2015 1–12
Corporate security	15.1	13.7	10%	45.1	37.4	21%	52.1
Consumer security	23.7	23.6	1%	70.8	71.3	-1%	95.5
<b>Total</b>	<b>38.8</b>	<b>37.2</b>	<b>4%</b>	<b>115.9</b>	<b>108.7</b>	<b>7%</b>	<b>147.6</b>

## July–September (Q3)

In the third quarter, F-Secure’s revenue grew by 4% year-on-year, totaling EUR 38.8 million (37.2m).

Revenue from corporate security increased by 10% totaling EUR 15.1 million (13.7 m) and representing 39% (37%) of F-Secure’s total revenue. Revenue from product sales through the reseller channel and from cyber security services both continued to grow strongly.

Revenue from consumer security increased by 1% year-on-year and amounted to EUR 23.7 million (23.6m), representing 61% (63%) of F-Secure’s total revenue. Direct sales to consumers continued to grow faster than the underlying market in July–September, with positive contribution from the steadily increasing sales of F-Secure Freedom. Revenue from the operator channel remained largely flat compared to the previous year.

The geographical breakdown of revenue from continuing operations was as follows: Nordic countries EUR 13.7 million (12.9m), rest of Europe EUR 16.1 million (16.2m), North America EUR 3.5 million (3.3m), and rest of the world EUR 5.4 million (4.9m).

Deferred revenue increased by 16% and amounted to EUR 50.4 million (43.5m) at the end of the quarter, driven primarily by growth in the sale of corporate security products and services with contracts extending to one year or beyond.

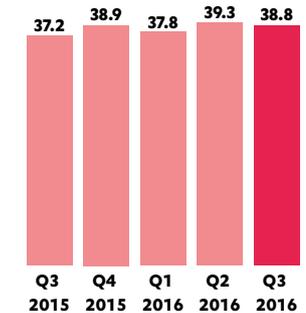
Total fixed costs were EUR 33.7 million (30.6m), an increase of 10% from the previous year. The increase was largely driven by costs incurred as a result of recruitments in corporate security, as well as long-term incentive plan accruals reflecting the increase in F-Secure’s share price during July–September. Depreciation and amortization (capitalized R&D, software, hardware) amounted to EUR 1.3 million (1.5m). The capitalized development expenses were EUR 0.7 million (0.5m).

EBIT was EUR 4.5 million, representing 12% of revenue (6.0m, 16%). EBIT includes the nSense acquisition-related costs (earn-out and deferred payment) for the period amounting to EUR 1.0 million.

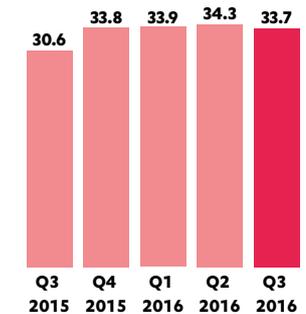
Earnings per share (EPS) for continuing operations was EUR 0.02 (0.03) and EUR 0.02 (0.02) for the Group including discontinued operations.

Cash flow from operations was EUR 6.8 million (5.7m).

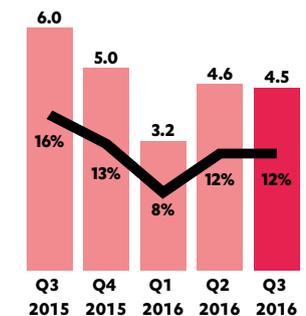
Revenue, MEUR



Fixed costs, MEUR



EBIT, MEUR



## January–September

In January–September, F-Secure’s revenue grew by 7% year-on-year, totaling EUR 115.9 million (108.7m). Organic revenue grew by 5% year-on-year.

Revenue from corporate security increased by 21% totaling EUR 45.1 million (37.4m) and representing 39% (34%) of F-Secure’s total revenue. The growth stemmed both from product sales through the reseller channel and from cyber security services. In the comparison period, revenue relating to cyber security services was only included as of June, following the acquisition of nSense.

Revenue from consumer security decreased by 1% and amounted to EUR 70.8 million (71.3m), representing 61% (66%) of F-Secure’s total revenue. The decrease in revenue year-on-year was caused by temporary challenges in the operator business during the first quarter. Direct-to-consumer sales continued to grow faster than the underlying market, with positive contribution from the steadily increasing sales of F-Secure Freedom.

The geographical breakdown of revenue in January–September was as follows: Nordic countries EUR 41.7 million (36.0m), rest of Europe EUR 47.9 million (48.0m), North America EUR 10.8 million (9.6m), and rest of the world EUR 15.6 million (15.1m).

Deferred revenue increased by 16% and amounted to EUR 50.4 million (43.5m) at the end of the quarter, driven primarily by growth in the sale of corporate security products and services with contracts extending to one year or beyond.

Total fixed costs were EUR 101.9 million (92.2m), an increase of 11% from the previous year. The increase largely reflects costs incurred as a result of recruitments in corporate security as well as expenses relating to product development. In the comparison period, revenue relating to cyber security services was only included as of June, following the acquisition of nSense.

Depreciation and amortization (capitalized R&D, software, hardware) decreased to EUR 4.0 million (4.4m). The capitalized development expenses for January–September were EUR 2.1 million (1.5m).

EBIT was EUR 12.3 million, representing 11% of revenue (15.0m, 14%). EBIT includes the nSense acquisition-related costs (earn-out and deferred payment) for the period amounting to EUR 2.4 million.

Earnings per share (EPS) for continuing operations was EUR 0.06 (0.08) and EUR 0.06 (0.14) for the Group including discontinued operations.

Cash flow from operations amounted to EUR 12.3 million (14.6m). Substantial factors impacting the cash flow negatively included a residual tax payment of EUR 6.1 million resulting from the divestment of F-Secure’s personal cloud storage business to Synchronoss in 2015 and the repayment of foreign tax credits on withholding taxes from 2009–2011 based on debit decisions by the Finnish tax authority. F-Secure has appealed the debit decisions with the tax administration’s Board of Adjustment. Cash flow was positively impacted by the release of the EUR 4.5 million escrow account relating to the above mentioned divestment.

## Financing and Capital Structure

On 30 September the combined market value of cash and cash equivalents and short term investments in interest rate funds classified as available-for-sale assets was EUR 86.6 million (31 December 2015: 94.3m).

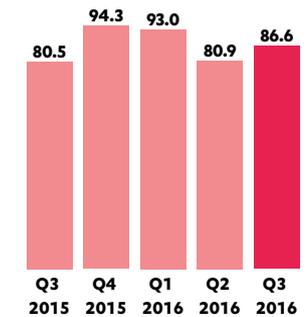
In January–September the Company’s capital expenditure amounted to EUR 4.4 million (13.4m). The capitalized development expenses were EUR 2.1 million (1.5m).

F-Secure’s financial position remained solid. The Company’s equity ratio on 30 September was 68% (69%) and its restated gearing ratio was 38% negative (36% negative). Gearing has been restated to reflect the reclassification of available-for-sale investments away from liquid assets.

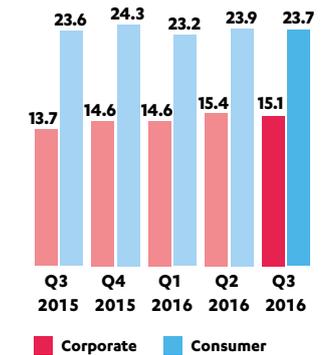
## Shares, Shareholders’ Equity, Own Shares

The total number of Company shares is currently 158,798,739. The Company’s registered shareholders’ equity is EUR 1,551,311.18. The Company currently holds 2,540,539 of its own shares.

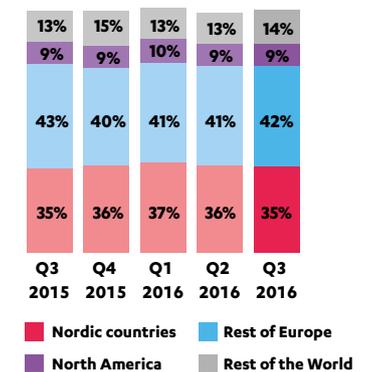
Cash and available-for-sale assets, MEUR



Revenue per business, MEUR



Regional revenue split, %



## Acquisitions and disposals

F-Secure acquired nSense, a privately held Danish company providing security consultation and vulnerability assessment services and products primarily to large enterprises, in June 2015. nSense has been consolidated into F-Secure Group accounts as of the second quarter of 2015. For more information, see Note 3 in the table section.

F-Secure sold its personal cloud storage business to Synchronoss Technologies in February 2015. As of the beginning of 2015, the personal cloud storage business is reported as discontinued operations. For more information, see Note 2 in the table section.

## Market overview

The growing number and variety of connected devices as well as digital services continues to create security challenges for both businesses and individuals. Combined with the increasing complexity of IT systems, these trends are driving demand for security services. While advanced cyber attacks are becoming more common and persistent, criminals are targeting companies of all sizes along with consumers by taking advantage of vulnerabilities in popular software, traditional and new connected devices as well as online services. Apart from pure criminal activity, governments and hackers are abusing vulnerabilities and malware e.g. for espionage and surveillance.

Attacks against corporations often go undetected for months, which fuels demand for incident detection and response products and services, supplementing the endpoint security market. Furthermore, as organizations are increasingly adopting cloud services, they seek managed security services and cloud-based delivery to help them maintain control of their security. In the long run, this trend is expected to shift investment away from on-premise security products, while new opportunities arise in securing the cloud platforms. Larger organizations also remain interested in securing their mobile device fleets.

The consumer security software market continues to be impacted by the changing device landscape, as well as the increasing significance of app stores and online sales overall. While the sales of traditional PC's have declined slightly, the number of connected smart home devices is growing rapidly. This creates opportunities for innovative new security products. There are also opportunities to capture market share from the competition with traditional security products.

The information security market overall was estimated to be worth USD 77.9 billion in 2015, and the market is expected to grow by 8.0% annually in 2015–2020<sup>1)</sup>. The endpoint security platforms (enterprise) market was worth USD 3.2 billion in 2015, and is expected to grow by 2.8% annually in 2015–2020<sup>1)</sup>. The consumer security software market was worth USD 4.6 billion in 2015, and is expected to grow by 1.7% annually in 2015–2020<sup>1)</sup>. The IT outsourcing market, including managed security services, was worth USD 14.1 billion in 2015, and is estimated to grow by 12.1% annually in 2015–2020<sup>1)</sup>.

Sources: <sup>1)</sup> Gartner, Forecast Information Security, Worldwide, 2014–2020, 2Q16, Ruggero Contu, Christian Canales, Sid Deshpande, Lawrence Pingree, 25 August 2016. Market size quoted in current dollars, growth rates in constant dollars.

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## Business in July–September

### Corporate security

🕒 In corporate security, F-Secure provides a broad offering of cyber security products and managed services through a large network of resellers and service partners. Whilst the partner network already provides a scalable business model, F-Secure invests in expanding this network to enable efficient and geographically broad distribution of its endpoint protection solutions (Protection Service for Business and Business Suite), as well as solutions targeted at detecting and responding to advanced attacks (Rapid Detection Service) and vulnerability management (F-Secure Radar). The majority of corporate security revenue comes from the sale of endpoint protection solutions through the reseller channel.

During the third quarter, revenue from endpoint protection continued to show above market growth. Both new customer acquisition and renewals with existing customers continued to develop favorably.

Most of the absolute sales growth came from key markets in Japan, Finland and Germany. Japan increased sales the most aided by currency fluctuations. It became the single largest contributor to corporate reseller sales. In the Asia-Pacific region, increasing sales in India and Malaysia also contributed significantly to growth.

F-Secure continued to invest in strengthening its regional sales teams. New corporate security sales teams were set up in Austria and Turkey. The Company has now added approximately 40 new corporate sales people, thus increasing headcount in sales by nearly a third since the beginning of 2016. The increased salesforce serves the reseller channel and focuses on growing the number of active resellers. Compared to the previous year, the total number of active resellers has increased 14% to nearly 4,000.

Cyber security consultancy sales showed strong double digit growth, with existing resources fully booked for months ahead. To meet the demand, F-Secure continues to recruit new talented cyber security consultants, while also focusing on onboarding new recruits. Consultancy sales increased to both existing and new customers, with the majority of consulting revenue coming from Finland and Denmark. Overall, the demand in the cyber security services market remains very



strong across multiple industry verticals. The global aviation sector has become a significant new contributor to this growth.

F-Secure is increasingly selling its corporate security solutions as managed security services, supported by the consultancy business. These solutions include F-Secure Radar and Rapid Detection Service. Sales cycles for managed security services are typically longer than with the Company's traditional offerings, but they also generate significantly higher annual revenue per customer.

During the quarter, F-Secure continued to seek new resellers in several new European countries to distribute new managed security service solutions. Currently the Company has F-Secure Radar and Rapid Detection Service resellers in the Nordics and Germany. Sales and technical training continued with new reseller partners. F-Secure continues to see strong demand for RDS and negotiations are proceeding with an increasing number of customers.

## Events after period-end

In October, F-Secure presented a new first-in-the-market concept for cloud security in cooperation with Salesforce. The solution is expected to be commercially available during H1 2017. It offers an additional layer of security for Salesforce customers by automatically analyzing any files or links uploaded by users and then blocking malicious content. As companies are increasingly adopting cloud services, F-Secure is looking to expand its security portfolio further to cover cloud environments. F-Secure considers this to be a growing market offering good business potential in the coming years.

### 🕒 TERMINOLOGY

In the business section the term sales is used interchangeably with order intake. Sales are recognized as revenue according to the accounting principles outlined in the notes to the financial statements in the annual report 2015.

## Consumer security

🕒 In consumer security, the majority of revenue comes from the sales of end-point protection products (mainly F-Secure SAFE) through the operator channel, with F-Secure Freedome (VPN, privacy and security) and F-Secure Key (password manager) increasingly being part of the offering. The Company also sells consumer products through various online and retail partners, as well as F-Secure's own webshop.

During the third quarter, revenue from the operator channel remained largely flat compared to the previous year. Overall, the outlook for the channel also remains stable, and F-Secure will continue to focus on operational excellence with partners. New tools were introduced during the quarter to offer both F-Secure and partners increased visibility from the initial customer engagement to the final activation stages, thus making improving the customer journey and increasing take up rates significantly easier.

Direct consumer sales continued to show strong growth, significantly outpacing the market. Online sales of Freedome continued to drive growth in direct sales with steadily increasing revenue, but sales of F-Secure SAFE also increased during the quarter. Freedome sales were supported by increasing renewals from existing customers. Retail sales of Freedome also increased, especially in the Nordics and Germany.

In September, F-Secure started to globally sell F-Secure SAFE and Freedome also as a commercial bundle offering customers total security and privacy. More information is available in the product highlights. F-Secure continues to improve cross and upselling in the whole consumer portfolio.

The Company continued to prepare for the commercial launch of F-Secure Sense, an innovative security solution for connected home devices. The first deliveries are now expected by the end of the first half of 2017, following a decision to delay the launch after a careful review of the production plan. F-Secure continues to prioritize high quality over time-to-market. The delay does not have an impact on the financial outlook for 2016.



## Product and services highlights

During the quarter, F-Secure continued to invest in security excellence, go-to-market activities and product development for both consumer and corporate security products and services.

In September, F-Secure started to globally sell F-Secure SAFE and Freedom also as a commercial bundle offering customers **total security and privacy**. The new bundled product is initially available directly online, and retail distribution is expected to start by the end of the year. The aim is to increase customer value as well as customer revenue by offering a way to purchase both of F-Secure's key security products with one simple subscription. Initial customer feedback has been very positive. More information is available at:

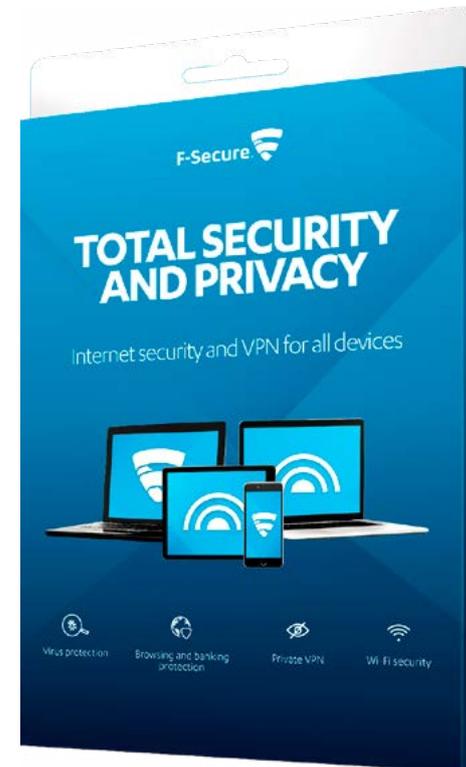
[https://www.f-secure.com/en/web/home\\_global/total](https://www.f-secure.com/en/web/home_global/total)

Other updates for corporate security products:

- **Protection Service for Business** (PSB, cloud-based endpoint security suite) was updated with significant new capabilities allowing the solution to be fully integrated to third party management, auditing or reporting tools. These capabilities enable F-Secure to attract new resellers providing managed security services, as it allows partners to integrate their existing management tools with Protection Service for Business for the benefit of the end-customer. Tools also enable the creation of additional automation as well as customized workflows and reports.

Updates for consumer security products:

- **F-Secure SAFE** (multi-device security solution) was updated to make activating and installing the solution simpler for customers. This benefits F-Secure's operator partners as consumers who have activated their security solution are less likely to churn. It also helps improve an operator's own customer satisfaction scores. New capabilities were also added to enable cross-selling the entire F-Secure product portfolio to SAFE customers.



In September, F-Secure started to globally sell F-Secure SAFE and Freedom also as a commercial bundle offering customers total security and privacy.

## Organization and leadership

At the beginning of the year, F-Secure stated a target of recruiting over a hundred new employees in 2016 to support the Company growth. At the end of September, F-Secure had 1016 employees (982 on 30 June 2016; 950 on 31 March 2016; 926 on 31 December 2015), which shows a net increase of 90 (10%) since the beginning of the year. F-Secure continues to actively recruit security professionals, cyber security consultants and sales personnel especially in corporate security.

On 3 October, Jyrki Rosenberg was appointed Executive Vice President, Corporate Security. Before joining F-Secure, Mr. Rosenberg was the CEO and a member of the Board of Directors of MixRadio Ltd, a global streaming music and personal radio service. Previously, he has worked for Microsoft Devices Group and Nokia Corporation in a number of senior roles in marketing, sales, product development and general management.

At the time of publication of this interim report the composition of the Leadership Team is the following:

Samu Konttinen (CEO), Mari Heusala (HR & Office Services), Kristian Järnefelt (Consumer Security), Salla Miettinen-Lähde (CFO), Jyrki Rosenberg (Corporate Security), Jari Still (Information & Business Services), Mika Ståhlberg (Security Research & Technologies), Jens Thonke (Cyber Security Services) and Jyrki Tulokas (Strategy & Corporate Development).

## Corporate Governance

F-Secure's corporate governance practices comply with Finnish laws and regulations, F-Secure's Articles of Association, the rules of NASDAQ Helsinki Oy and the Finnish Corporate Governance Code 2015 issued by the Securities Market Association of Finland. The code is publicly available at <http://cgfinland.fi/en/>. F-Secure's Corporate Governance Statement for 2015 as well as up-to-date information about the Company's governance are available on the Company website.

## Risks and uncertainties

The most significant risks for F-Secure are related to the following factors:

- Volatility of the economic environment and its potential impact on business volumes
- Security market transformation and changes in customer demand
- Changes in the competitive environment
- Potential loss of key customers and partnerships
- Failure to attract and retain required human capital
- Competitiveness of F-Secure's product portfolio in the rapidly changing market
- Intellectual property (IPR) claims against F-Secure
- Risk exposure from contractual liability requirements
- Failure to successfully complete acquisitions or divestments
- Failure of new product launches
- Potential security threats related to F-Secure's products and services
- Credit risk due to regional political or financial climate and regulation
- Tax risk relating to changing laws and regulations and interpretations of said regulations by the relevant authorities

## Strategy 2016–18

F-Secure aims to capitalize on the next phase of the internet and connected world. The Company's strategy reflects the fast growing number of internet-connected devices, the changes in the ways business is done amid increasing digitalization, and the concurrent increase in cybercrime. Execution of the strategy will further speed up F-Secure's transformation from an end-point antivirus company to a broader provider of cyber security products and services.

The key driver behind the strategy is F-Secure's aspiration for growth. F-Secure is continuing to increase its investments in the fastest growing markets within corporate security. These include managed endpoint security services sold through the reseller channel as well as the cyber security services business. Investments in consumer security are continued at a level that targets profitable growth.

F-Secure also aims to maximize the commercial impact of its technical expertise and multiple sales channels for further growth in its chosen key market segments. These include cyber security offerings to large enterprises in Northern Europe and in selected verticals comprising financial industry, gaming and gambling companies, aviation, defence, law enforcement, and certain global brands. In corporate security the focus is on the reseller channel in Europe and Japan. In consumer security, F-Secure continues with its existing sales channels through operators, e-commerce and retail partners.

To enable execution of the growth strategy, F-Secure is actively recruiting highly skilled security professionals, rising cyber security talents and capable sales personnel. The Company also aims at growing through M&A.

The overall key strategic target for F-Secure is to become the leading European cyber security company.

The Company has communicated its strategy in the Q4 2015 interim stock exchange release (5 February 2016). Further details of the strategy can be found on the Company's web pages at:

[http://www.f-secure.com/en/web/corporation\\_global/company/vision-and-strategy](http://www.f-secure.com/en/web/corporation_global/company/vision-and-strategy)

## Outlook for 2016

The Company's outlook for 2016 remains unchanged.

- F-Secure anticipates its revenue to grow in 2016 compared to the year before (2015: EUR 148 million)
- EBIT for continuing operations is estimated to be EUR 17–21 million (2015: EUR 20 million)

In 2015 F-Secure gave its profitability guidance as EBIT (non-IFRS), in which the cost impact of the deferred payment and earn-out elements of the nSense acquisition were excluded. In 2016, the EBIT guidance includes an estimated EUR 3 million cost impact from these elements, hence the guided figure is not directly comparable to that given in 2015.

Revenue growth is expected to continue especially in the Company's cyber security services, corporate security products (in particular Protection Service for Business) sold through the reseller channel, and direct-to-consumer sales of F-Secure's multi-device security offering SAFE and the privacy product Freedome. Sales of consumer security through the operator channel are expected to remain largely flat. The revenue outlook is based on the sales pipeline at the time of this outlook, existing subscriptions and contracts, as well as current exchange rates.

F-Secure is actively investing in the development and commercialization of several new products. The cost of development as well as expenses relating to commercial launches are likely to have an impact on the Company's overall profitability in the short to medium term while the revenue from new products, including Sense for the protection of smart homes and Rapid Detection Service for enterprises, is difficult to estimate and may remain low. This cost impact has been taken into account in the Company's profitability guidance and is in line with the Company's principle to prioritize growth over short-term profitability.

## ADDITIONAL INFORMATION

### News conference and webcast

A news conference for analysts and media will be held (in Finnish) at the Company's headquarters (address: Tammasaarencatu 7, 00180 Helsinki) on Thursday 3 November 2016 at 11.00–12.00 a.m. (EET).

A webcast for international investors and analysts will be held (in English) on the same day at 13.00 p.m. (EET).

To participate in the online meeting via web, please click on the link:  
<https://meet.f-secure.com/tapio.pesola/QDVYFVNR>

To join via phone, please dial in to +358975110100. The conference ID is 6955794. The presentation material including live video is only available via the online webcast.

The material will be available at the company's website before the call begins: [www.f-secure.com/investors](http://www.f-secure.com/investors).

### Financial calendar

F-Secure Corporation will publish its financial calendar for 2017 later this year.

### Contact information



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This interim report is unaudited and prepared in accordance with IAS 34 standard Interim Financial Reporting and with accounting principles stated in the annual report 2015.

As of the first quarter of 2015 the personal cloud business is reported as discontinued operations. Consequently, comparison figures related to the statement of comprehensive income have been restated. All figures in the following tables are EUR million unless otherwise stated.

## INCOME STATEMENT

<b>Continuing operations</b>	<b>7-9/2016</b>	<b>7-9/2015</b>	<b>Change %</b>	<b>1-9/2016</b>	<b>1-9/2015</b>	<b>Change %</b>	<b>1-12/2015</b>
Revenue	38.8	37.2	4	115.9	108.7	7	147.6
Cost of revenue	-1.3	-1.1	19	-4.4	-4.2	4	-5.6
<b>Gross margin</b>	<b>37.5</b>	<b>36.2</b>	<b>4</b>	<b>111.5</b>	<b>104.5</b>	<b>7</b>	<b>142.0</b>
Other operating income	0.8	0.4	79	2.8	2.7	1	4.0
Sales and marketing	-23.8	-20.9	14	-71.7	-63.7	13	-86.3
Research and development	-6.6	-6.5	2	-20.6	-20.1	3	-26.9
Administration	-3.4	-3.2	5	-9.6	-8.5	13	-12.7
<b>Operating result (EBIT)</b>	<b>4.5</b>	<b>6.0</b>	<b>-25</b>	<b>12.3</b>	<b>15.0</b>	<b>-18</b>	<b>20.0</b>
Financial net	0.0	-0.8	-97	0.8	1.2	-34	0.7
<b>Result before taxes</b>	<b>4.5</b>	<b>5.2</b>	<b>-13</b>	<b>13.2</b>	<b>16.2</b>	<b>-19</b>	<b>20.7</b>
Income taxes	-1.6	-1.2	32	-3.5	-3.6	-3	-8.6
<b>Result for the period continuing</b>	<b>2.9</b>	<b>4.0</b>	<b>-27</b>	<b>9.7</b>	<b>12.7</b>	<b>-24</b>	<b>12.1</b>
Discontinued operations	-0.4	-0.8	-51	-0.4	9.8		10.0
<b>Result for the period total</b>	<b>2.5</b>	<b>3.2</b>	<b>-21</b>	<b>9.3</b>	<b>22.4</b>	<b>-59</b>	<b>22.1</b>
<b>Other comprehensive income</b>							
Exchange differences on translating foreign operations	-0.2	0.1		-0.3	0.5		0.3
Available-for-sale financial assets	0.5	-0.5		1.2	-0.6		-0.2
Income tax relating to components of other comprehensive income	-0.1	0.1		-0.2	0.1		0.0
<b>Total comprehensive income (parent company owners)</b>	<b>2.8</b>	<b>2.9</b>		<b>9.9</b>	<b>22.5</b>		<b>22.2</b>
<b>Earnings per share</b>							
	<b>7-9/2016</b>	<b>7-9/2015</b>		<b>1-9/2016</b>	<b>1-9/2015</b>		<b>1-12/2015</b>
Earnings per share, basic and diluted, EUR	0.02	0.02		0.06	0.14		0.14
Earnings per share, continuing operations, basic and diluted, EUR	0.02	0.03		0.06	0.08		0.08

# BALANCE SHEET

<b>Assets</b>	<b>30 Sep 2016</b>	<b>30 Sep 2015</b>	<b>31 Dec 2015</b>
Tangible assets	3.2	4.4	3.4
Intangible assets	12.5	12.1	12.2
Goodwill	7.6	7.7	7.6
Deferred tax assets	2.0	1.8	1.3
<b>Total non-current assets</b>	<b>25.3</b>	<b>26.0</b>	<b>24.5</b>
Inventories	0.5	0.2	0.1
Trade and other receivables	39.6	40.8	42.5
Income tax receivables	0.5	1.6	0.3
Available-for-sale financial assets	59.8	52.5	64.4
Cash and bank accounts	26.9	28.1	29.9
<b>Total current assets</b>	<b>127.3</b>	<b>123.2</b>	<b>137.2</b>
Discontinued operations	1.5	5.7	6.4
<b>Total</b>	<b>154.1</b>	<b>154.9</b>	<b>168.1</b>
<b>Shareholders' equity and liabilities</b>	<b>30 Sep 2016</b>	<b>30 Sep 2015</b>	<b>31 Dec 2015</b>
Equity	70.2	77.4	77.1
Deferred tax liabilities	0.6	0.8	0.9
Deferred revenue, non-current	12.5	11.1	12.1
<b>Total non-current liabilities</b>	<b>13.1</b>	<b>11.9</b>	<b>13.0</b>
Trade and other payables	27.7	23.1	28.4
Income tax liabilities	2.4	0.5	4.0
Deferred revenue, current	37.8	32.5	36.0
<b>Total current liabilities</b>	<b>67.9</b>	<b>56.0</b>	<b>68.4</b>
Discontinued operations	2.9	9.6	9.6
<b>Total</b>	<b>154.1</b>	<b>154.9</b>	<b>168.1</b>

# CASH FLOW STATEMENT

Cash flow statement	7-9/2016	7-9/2015	1-9/2016	1-9/2015	1-12/2015
Cash flow from operations	6.8	5.7	12.3	14.6	28.9
Cash flow from investments <sup>1) 2)</sup>	-1.8	-0.8	1.5	17.3	4.8
Cash flow from financing activities <sup>3)</sup>	0.3	0.0	-17.4	-24.9	-24.9
<b>Change in cash</b>	<b>5.2</b>	<b>4.9</b>	<b>-3.6</b>	<b>7.0</b>	<b>8.7</b>
Cash and bank at beginning of period	21.8	23.4	29.9	21.1	21.1
Translation difference	-0.1	-0.2	0.6	0.0	0.1
Cash and bank at end of period	26.9	28.2	26.9	28.2	29.9

<sup>1)</sup> Additional information on the impact of discontinued operations and the nSense acquisition on cash flow from investments in Notes 2 and 3

<sup>2)</sup> F-Secure has invested in available-for-sale (AFS) financial assets consisting of debt securities and shares in funds invested in similar instruments. AFS assets are held for Group's cash management purposes.

For the purposes of the Consolidated Statement of Cash Flows F-Secure has previously recognized AFS assets as part of cash equivalents. However, as not all of the AFS assets are short term investments as defined under IAS 7, this has been a misstatement. The misstatement is not considered material and it has

no effect on the Statement of Income or the Statement of Financial Position. The Company has reclassified the AFS assets in its half year report 2016 and now recognizes cash flows related to them in cash flow from investments. The reclassification is effective as of the beginning of 2016, and the comparison periods have been restated in a similar fashion to retain comparability.

<sup>3)</sup> Cash flow from financing

Dividend paid in 2015 totaled EUR 24,928,430.40.

Dividend paid in 2016 totaled EUR 18,696,322.80.

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium fund	Unrestricted equity reserve	Treasury shares	Retained earnings	Available-for-sale assets	Translation difference	Total
<b>Equity 31 Dec 2014</b>	<b>1.6</b>	<b>0.2</b>	<b>5.1</b>	<b>-7.0</b>	<b>79.3</b>	<b>0.5</b>	<b>0.3</b>	<b>79.9</b>
Total comprehensive income for the year					22.4	-0.5	0.5	22.5
Dividend					-24.9			-24.9
Cost of share based payments					-0.1			-0.1
<b>Equity 30 Sep 2015</b>	<b>1.6</b>	<b>0.2</b>	<b>5.1</b>	<b>-7.0</b>	<b>76.7</b>	<b>0.0</b>	<b>0.8</b>	<b>77.4</b>
<b>Equity 31 Dec 2015</b>	<b>1.6</b>	<b>0.2</b>	<b>5.1</b>	<b>-7.0</b>	<b>76.2</b>	<b>0.4</b>	<b>0.6</b>	<b>77.1</b>
Total comprehensive income for the year					9.3	1.0	-0.3	9.9
Dividend					-18.7			-18.7
Cost of share based payments			0.1	1.2	0.6			1.9
<b>Equity 30 Sep 2016</b>	<b>1.6</b>	<b>0.2</b>	<b>5.2</b>	<b>-5.7</b>	<b>67.4</b>	<b>1.3</b>	<b>0.3</b>	<b>70.2</b>

# 1 SEGMENT INFORMATION

The Group has only one segment (security).

Quarterly development	7-9/2016	4-6/2016	1-3/2016	10-12/2015	7-9/2015	4-6/2015
Revenue	38.8	39.3	37.8	38.9	37.2	35.5
Cost of revenue	-1.3	-1.5	-1.6	-1.4	-1.1	-1.8
<b>Gross margin</b>	<b>37.5</b>	<b>37.8</b>	<b>36.2</b>	<b>37.6</b>	<b>36.2</b>	<b>33.7</b>
Other operating income	0.8	1.1	0.9	1.2	0.4	1.2
Sales and marketing	-23.8	-24.4	-23.5	-22.6	-20.9	-22.0
Research and development	-6.6	-6.6	-7.4	-6.8	-6.5	-6.2
Administration	-3.4	-3.3	-3.0	-4.3	-3.2	-2.8
<b>Operating result (EBIT)</b>	<b>4.5</b>	<b>4.6</b>	<b>3.2</b>	<b>5.0</b>	<b>6.0</b>	<b>4.0</b>
Financial net	0.0	1.1	-0.3	-0.6	-0.8	-0.1
<b>Result before taxes</b>	<b>4.5</b>	<b>5.7</b>	<b>2.9</b>	<b>4.4</b>	<b>5.2</b>	<b>3.9</b>

## Geographical information

Revenue, continuing operations	7-9/2016	7-9/2015	1-9/2016	1-9/2015	1-12/2015
Nordic countries	13.7	12.9	41.7	36.0	49.9
Rest of Europe	16.1	16.2	47.9	48.0	63.7
North America	3.5	3.3	10.8	9.6	13.1
Rest of the world	5.4	4.9	15.6	15.1	20.9
<b>Total</b>	<b>38.8</b>	<b>37.2</b>	<b>115.9</b>	<b>108.7</b>	<b>147.6</b>

## 2 DISCONTINUED OPERATIONS

On 4 February 2015 F-Secure Corporation signed an agreement to sell its personal cloud storage business to Synchronoss Technologies Inc (NASDAQ: SNCR). The value of the transaction was USD 60 million in cash. As part of the transaction, the companies also agreed on certain intellectual property and patent rights. Closing of the transaction was completed on 24 February 2015. According to IFRS 5 standard the Group has classified the personal cloud storage business as discontinued operations. The transaction's overall impact on profit before tax of F-Secure's discontinued business in 2015 was EUR 18.6 million.

A French service provider has issued claims against F-Secure based on a contract relating to purchase of services. The matter is subject to an ongoing appeal process in a French court instance. A provision of EUR 1.2 million has been recognized in the discontinued operations based on the ongoing litigation. F-Secure does not anticipate the presented claims and the eventual outcome of the dispute to materially impact its financial position.

<b>Result for the period for discontinued operations</b>	<b>1-9/2016</b>	<b>1-9/2015</b>	<b>1-12/2015</b>
Revenue	2.8	6.6	8.5
Expenses	-3.3	-8.1	-9.7
<b>Result before taxes</b>	<b>-0.5</b>	<b>-1.5</b>	<b>-1.2</b>
Taxes	0.1	0.3	0.2
<b>Result for the period</b>	<b>-0.4</b>	<b>-1.2</b>	<b>-1.0</b>
Net gain on disposal		18.6	18.6
Attributable taxes		-7.6	-7.6
<b>Result after taxes</b>		<b>9.8</b>	<b>10.0</b>
<b>Earnings per share</b>	<b>1-9/2016</b>	<b>1-9/2015</b>	<b>1-12/2015</b>
Earnings per share, discontinued operations, basic and diluted, EUR	0.00	0.06	0.06
<b>Cash flow statement</b>	<b>1-9/2016</b>	<b>1-9/2015</b>	<b>1-12/2015</b>
Cash flow from operations	-2.3	-4.5	-5.3
Cash flow from investments		44.3	44.3
<b>Change in cash</b>	<b>-2.3</b>	<b>39.8</b>	<b>39.0</b>

## 3 ACQUISITION

On 2 June 2015, F-Secure acquired 100% of the shares of nSense Group ApS, a privately held Danish company providing security consultation and vulnerability assessment services and products to large enterprises. nSense is headquartered in Denmark, and it has offices in Finland, Poland and Norway.

The purchase price for nSense consisted of an EUR 11 million cash payment made at closing, a deferred payment of EUR 4 million in shares and an earn-out element worth a maximum of EUR 3 million in cash subject to the achievement of certain milestones in 2015–2016.

The deferred payment and earn-out elements amounted to EUR 1.5 million in 2015, EUR 1.0 million for July–September 2016 and EUR 2.4 million for January–September 2016. The total maximum amounts are EUR 3.3 million in 2016, EUR 1.3 million in 2017 and EUR 0.6 million in 2018. These will be recognized as administration expense.

## 4 FAIR VALUES

The carrying amounts of the Group's financial instruments are equal to their fair values.

<b>Assets measured at fair value</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Available-for-sale financial assets 30 Sep 2016	59.8	59.7		0.1
Available-for-sale financial assets 30 Sep 2015	52.5	52.4		0.1
Available-for-sale financial assets 31 Dec 2015	64.5	64.4		0.1

## 5 KEY RATIOS AND OTHER KEY FIGURES

Key ratios have been calculated from result which includes both continuing and discontinued operations. Key ratios calculated from continuing operations have been marked separately.

	7-9/2016	7-9/2015	1-9/2016	1-9/2015	1-12/2015
Operating result, % of revenue, continuing operations	11.7	16.2	10.6	13.8	13.6
ROI, %	24.6	27.5	24.9	51.6	52.1
ROE, %	14.6	16.7	16.8	30.1	28.1
Equity ratio, %			67.9	69.5	64.1
Gearing, %			-38.4	-36.3	-38.8
Earnings per share, basic and diluted, EUR	0.02	0.02	0.06	0.14	0.14
Earnings per share, continuing operations, basic and diluted, EUR	0.02	0.03	0.06	0.08	0.08
Shareholders' equity per share, EUR			0.45	0.49	0.49
P/E ratio	52.4	30.4	42.4	17.2	18.2
Capital expenditure, MEUR	1.8	0.7	4.4	13.4	14.6
Contingent liabilities, MEUR			16.9	8.9	8.5
Depreciation and amortization, continuing operations, MEUR	1.3	1.5	4.0	4.4	5.9
Personnel, average	999	904	962	886	894
Personnel, period end			1,016	913	926

## 6 CALCULATION OF KEY FIGURES

Equity ratio, %	$\frac{\text{Total equity}}{\text{Total assets – advance payments received}} \times 100$
ROI, %	$\frac{\text{Result before taxes + financial expenses (annualized)}}{\text{Total assets – non-interest bearing liabilities (average)}} \times 100$
ROE, %	$\frac{\text{Result for the period (annualized)}}{\text{Total equity (average)}} \times 100$
Gearing, %	$\frac{\text{Interest bearing liabilities – cash and bank}}{\text{Total equity}} \times 100$
Earnings per share, EUR	$\frac{\text{Profit attributable to equity holders of the company}}{\text{Weighted average number of outstanding shares}}$
Shareholders' equity per share, EUR	$\frac{\text{Equity attributable to equity holders of the company}}{\text{Number of outstanding shares at the end of period}}$
P/E ratio	$\frac{\text{Closing price of the share, end of period}}{\text{Earnings per share (annualized)}}$
Fixed costs	Sales and marketing, research and development, and administration costs

# **CYBER SECURITY LIVES HERE**

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