

**INTERIM REPORT 1 JANUARY – 31 MARCH 2018**

**CORPORATE SECURITY REVENUE  
INCREASED BY 16%**



## HIGHLIGHTS OF JANUARY–MARCH (Q1)

- Revenue increased by 6% year-on-year to EUR 43.1 million (40.9m)
- Revenue from corporate security increased by 16% to EUR 19.4 million (16.6m)
- Revenue from consumer security decreased by 2% to EUR 23.8 million (24.2m)
- Deferred revenue increased by 10% to EUR 67.2 million (61.2m) at the end of the quarter
- EBIT was EUR 2.3 million, representing 5% of revenue (1.6m, 4%)
- Earnings per share (EPS) was EUR 0.00 (EUR 0.01)
- Cash flow from operations was EUR –0.3 million (5.5m), including a cash settlement related to the company's long-term incentive plan (–2.3m)

## RESTATEMENT OF COMPARATIVE FINANCIALS

As of 1 January 2018 F-Secure has adopted the new guidance on revenue recognition, IFRS 15, and therefore restated 2017 financials. Together with analyzing the IFRS 15 impact F-Secure has also revised the allocation of costs between Cost of Revenue (CoR) and Operating Expenses (OPEX).

All comparative figures in this Interim Report have been adjusted according to the restatement. A stock exchange release on the restatement has been published on 3 May 2018, and more information is available in the Table section of this Interim Report.

Additionally, the terminology used in financial statements has been revised to describe the items more accurately. Net sales is called Revenue, and Materials & Services is called Cost of Revenue. Changes in the content of the item Cost of Revenue has been described in the Table section. The content of Revenue remains the same.

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 Figures in this Interim Report are unaudited. Figures in brackets refer to the corresponding period in the previous year, unless otherwise stated.

## OUTLOOK FOR 2018

F-Secure continues to invest in the growth of the corporate business, both the development of cyber security products and services as well as sales and marketing of these solutions.

The company's outlook for 2018 is unchanged:

- Revenue from corporate security is expected to grow by over 15% compared to 2017
- Revenue from consumer security is expected to stay at the same level as in 2017
- EBIT is expected to be in the range of 8–12M€

## OUTLOOK FOR STRATEGY PERIOD 2018–2021

The demand for cyber security products and services is expected to continue in strong growth and F-Secure aims to grow faster than the market. Revenue from corporate security is expected to grow above 15% annually during our strategy period 2018–2021.

Driven by the anticipated revenue growth and scalable business model, profitability is expected to improve significantly in the long-term. The management continuously seeks to balance the growth investments and profitability to optimize long-term growth and value creation for the shareholders.

## KEY FIGURES

EUR m	1-3/2018	1-3/2017 <sup>3)</sup>	Muutos	1-12/2017 <sup>3)</sup>
Revenue	43.1	40.9	6%	169.8
of which corporate security	19.4	16.6	16%	72.2
of which consumer security	23.8	24.2	-2%	97.5
EBIT	2.3	1.6	45%	11.5
% of revenue	5.2%	3.8%		6.7%
Earnings per share, (EUR) <sup>1) 2)</sup>	0.00	0.01		0.07
Deferred revenue	67.2	61.2	10%	65.7
Cash and financial assets at fair value through P&L	88.5	96.4	-8%	90.2
ROI, %	19.9 %	8.4 %		20.0 %
Equity ratio, %	70.4 %	69.1 %		61.9 %
Gearing, %	-123,1 %	-123,3 %		-127.8 %
Personnel, end of period	1,145	1,055	9%	1,104

<sup>1)</sup> Based on the weighted average number of outstanding shares during the period 156,793,800 (1-3/2018)

<sup>2)</sup> Earnings per share (EPS) excluding returned withholding taxes was EUR 0.05 for 1-12/2017.

<sup>3)</sup> As of 1 January 2018 F-Secure has adopted the new guidance on revenue recognition, IFRS 15, and therefore restated 2017 financials

## CEO SAMU KONTTINEN

2018 started according to our expectations. Corporate security revenue grew by 16%, driven by strong growth in cyber security services and new corporate security products. I was pleased with the good progress we made with Rapid Detection Service (RDS). We won new customers in demanding verticals, and our sales funnel expanded steadily. With F-Secure RADAR we had sales in 20 countries during the quarter, creating a good foundation to build further growth. In endpoint security, new customer acquisition was below our expectations, but renewal rates were strong, reflecting high product quality and customer satisfaction. That said, variances in regional performance persisted.

In consumer security, we continued to see an impact from the loss of one operator partner in Latin America which occurred in the second half of last year. This caused revenue from consumer security to decline by 2%. In other regions our operator business experienced slight growth, and direct sales continued to clearly outperform the market. This further strengthens our confidence in the overall stability of F-Secure's consumer security business. Our portfolio is comprehensive and includes security and privacy solutions for PC's and mobile devices, as well as Internet of Things devices.

In total, F-Secure's revenue increased by 6% to EUR 43.1 million. Our EBIT was EUR 2.3 million, also very much as we expected and in line with our guidance for the year.

Overall, our first quarter's performance reflected how F-Secure clearly continues to benefit from key trends in the industry. The growing lack of cyber security expertise keeps creating a significant tailwind for our service business, and targeted cyber attacks continue to drive customer demand for better detection and response capabilities. These are key drivers behind our growth.

Going forward, we will proceed with our strategic growth initiatives, with a particular focus on addressing the cyber security needs of the corporate midmarket and local enterprises. We will use the full power of our portfolio, including both prevention and detection capabilities, as well as vulnerability management and our vast range of cyber security services. To ensure efficient execution of this strategy, we made changes in our organizational structure last February. By elevating key functional areas within corporate security to the Leadership Team we can ensure improved management visibility into this focus area.

In the beginning of February, more than 900 fellows gathered in Helsinki to celebrate our 30 years in the cyber security industry – and to plan for the future. I am immensely proud of the vast amount of knowledge and expertise we have accumulated in our company over the years. F-Secure employs many of the world's leading cyber security experts, who spend thousands of hours on threat intelligence, responding to breaches, and witnessing firsthand how hackers are evading companies' defenses. I believe with this committed team, F-Secure is uniquely positioned to support our customers as they improve their cyber resilience.



CEO Samu Konttinen



**“I AM PROUD OF THE VAST AMOUNT OF EXPERTISE WE HAVE ACCUMULATED IN THIS COMPANY OVER THE YEARS.”**

## F-Secure products and services

**Corporate security products:** F-Secure provides a broad range of cyber security products and related managed services through a large network of resellers and service partners. Products include both cloud-based (Protection Service for Business) and on premise (Business Suite) endpoint protection solutions, as well as solutions for detecting and responding to advanced attacks (Rapid Detection Service, or RDS), vulnerability management (F-Secure RADAR) and cloud protection (F-Secure Cloud Protection for Salesforce). The majority of corporate security revenue comes from the sale of endpoint protection solutions through the reseller channel.

**Cyber security services:** F-Secure provides cyber security services to enterprises and businesses with critical IT infrastructure. These services include incident response and forensic expertise, comprehensive vulnerability assessment, red teaming, penetration testing, threat intelligence and security management consultancy.

**Consumer security:** The majority of F-Secure's consumer security revenue comes from the sale of endpoint protection products (mainly F-Secure SAFE) through the operator channel. Other consumer products are F-Secure FREEDOME (VPN, privacy and security), F-Secure Key (password manager) and F-Secure SENSE (an innovative security solution for protecting connected home devices). Apart from operator sales, F-Secure sells consumer products through various online and retail partners, as well as through the company's own web shop. F-Secure is increasingly offering consumer products as combined bundles, such as F-Secure TOTAL (F-Secure SAFE & F-Secure FREEDOME).

F-Secure has won several international tests for endpoint protection by independent testing institutes. In January 2018, F-Secure was positioned as a Visionary in Gartner's 2018 Magic Quadrant for Endpoint Protection Platforms.

## New launches expected in 2018

- In November 2017, F-Secure announced that the company plans to launch a new fully automated endpoint detection and response (EDR) solution in 2018. The new solution will build on capabilities already utilized in RDS – a managed service – while enabling more scalable sales for small and mid-market corporate customers. EDR will be designed to be integrated with endpoint protection solutions – F-Secure or third-party solutions – to allow customers to add an additional layer of security to their existing infrastructure.

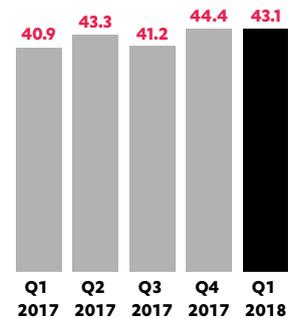
# FINANCIAL HIGHLIGHTS

EUR m	1–3/2018	1–3/2017 <sup>2)</sup>	Change	1–12/2017 <sup>2)</sup>
Revenue	43.1	40.9	6%	169.8
of which corporate security	19.4	16.6	16%	72.2
of which consumer security	23.8	24.2	–2%	97.5
Cost of Revenue <sup>1)</sup>	–7.3	–5.6	31%	–25.0
Gross Margin	35.8	35.4	1%	144.8
Operating expenses <sup>1)</sup>	–34.4	–34.4	0%	–135.1
of which Sales & Marketing	–21.0	–22.0	–5%	–86.7
of which Research & Development	–9.6	–8.6	12%	–34.1
of which Administration	–3.8	–3.8	1%	–14.3
EBIT	2.3	1.6	45%	11.5
Deferred revenue	67.2	61.2	10%	65.7
Depreciation & amortization	–1.6	–1.4	16%	–6.3
Cash flow from operations	–0.3	5.5	–105%	26.0

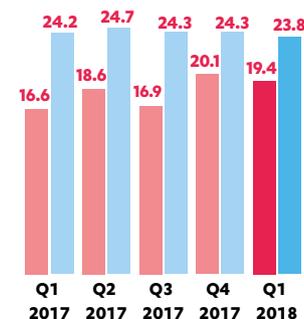
<sup>1)</sup> F-Secure has revised the allocation of costs between Cost of Revenue (CoR) and Operating Expenses (OPEX). For more information, see Table section, Changes in Accounting Principles – Revision of Cost of Revenue and a separate restatement of 2017 financials (3 May 2018).

<sup>2)</sup> As of 1 January 2018 F-Secure has adopted the new guidance on revenue recognition, IFRS 15, and therefore restated 2017 financials.

Revenue, MEUR

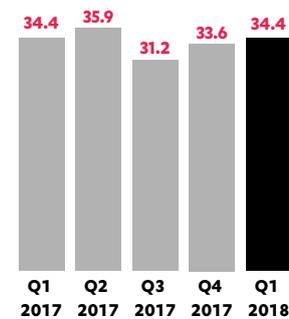


Revenue per business, MEUR

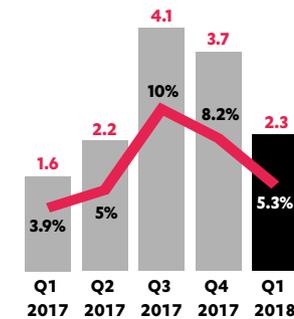


■ Corporate ■ Consumer

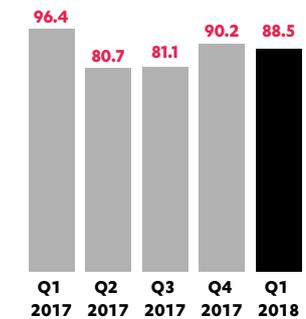
Operating expenses, MEUR



EBIT, MEUR and % of revenue



Cash and financial assets, MEUR



## First quarter

In January–March, total revenue increased by 6% year-on-year to EUR 43.1 million (40.9 m), driven by corporate security. Corporate security represented 45% (41%) of all revenue, and consumer security 55% (59%) of all revenue.

### Corporate security

Revenue from corporate security increased by 16% year-on-year to EUR 19.4 million (16.6m) in the first quarter.

The majority of product revenue came from endpoint protection (Protection Service for Business, Business Suite). Order intake<sup>1)</sup> from endpoint protection was at previous year's level, reflecting continued mixed country-level performance. New customer acquisition was at previous year's level and renewal rates remained high.

Order intake from managed detection and response (Rapid Detection Service, or RDS) experienced strong growth, and order intake from vulnerability management (F-Secure RADAR) also showed good growth. During the quarter F-Secure won new RDS customers in demanding verticals, and the sales funnel continued to expand. With F-Secure RADAR there were sales in 20 countries already, however, in most countries sales have just recently started. Overall, the geographical expansion of the sales of new corporate security products continued together with current and new partners. To further develop F-Secure's corporate security offering, the company continued to prepare for the launch of the new Endpoint Detection and Response (EDR) solution.

Regionally, product sales growth (in terms of order intake) was driven by Europe, where order intake from Finland and France grew the most. India also showed strong growth.

F-Secure's cyber security consultancy had a strong quarter. Overall, F-Secure continued to see high demand in the market, and the company successfully recruited more consultants and sales personnel to meet the rising demand. The majority of cyber security services order intake came from Denmark, Finland and the United Kingdom. The share of order intake coming from other regions within Europe continued to increase.

<sup>1)</sup> Order intake is recognized as revenue according to the accounting principles outlined in the Notes to the Financial Statements, Revenue recognition, as published in the Annual Report for 2017.

### Consumer security

Revenue from consumer security decreased by 2% year-on-year to EUR 23.8 million (24.2 m) in the first quarter, due to the previously communicated loss of a single operator customer in Latin America. The company also expects the loss to be visible in operator revenue in the second quarter.

In other regions operator revenue grew slightly, and F-Secure continued to work closely with its broad global network of partners to increase product activation rates.

In direct sales to consumers, F-Secure outpaced the market in revenue growth, with solid order intake growth in both online and retail channels. Growth was driven by increased renewal rates and cross selling within the broad consumer portfolio. Consumers increasingly chose to buy both endpoint protection and privacy solutions by upgrading their F-Secure SAFE or F-Secure FREEDOME subscriptions to F-Secure TOTAL – a commercial bundle of the two products. Additionally, order intake for F-Secure FREEDOME as a standalone product showed strong growth during the quarter.

The impact of F-Secure SENSE (an innovative security solution for connected home devices) on quarterly revenue was, as expected, limited. While the connected home market is at a very early stage, the company continued to see growing interest in the product among customers, operator partners, device manufacturers and retailers, including the possibility of embedding SENSE as software to customers' on premise equipment such as routers or other digital home hub solutions.

### Deferred revenue

Deferred revenue increased by 10% (year-on-year) to EUR 67.2 million (61.2m), driven by the increased order intake of corporate security products and services with multi-year contracts.

### Gross margin

Gross margin increased by EUR 0.4 million. Relative gross margin decreased slightly, as revenue from cyber security services grew strongly and revenue from consumer security was slightly lower than during the comparison period.

### Operating expenses

Operating expenses remained at the same level (year-on-year) to 34.4 million (34.4m).

### Profitability

EBIT was EUR 2.3 million and 5% of revenue (1.6m, 4%). F-Secure's profitability has slightly improved driven by revenue growth in corporate security.

### Cash flow

Cash flow from operations was EUR –0.3 million (5.5m). The key driver behind the decrease was long term incentive plan related cash-settlement (–2.3m) during the first quarter.

## Financing and Capital structure

EUR m	1–3/2018	1–3/2017 <sup>1)</sup>	Change	1–3/2017 <sup>1)</sup>
Cash and financial assets at fair value through P&L	88.5	96.4	–8%	90.2
Capital expenditure, EUR m	1.0	2.6	–62%	9.3
Capitalized development expenses, EUR m	0.5	0.7	–34%	3.9
ROI, %	19.9%	8.4%		20.0%
Equity ratio, %	70.4%	69.1%		61.9%
Gearing, %	–123.1%	–123.3%		–127.8%

<sup>1)</sup> As of 1 January 2018 F-Secure has adopted the new guidance on revenue recognition, IFRS 15, and therefore restated 2017 financials

F-Secure's financial position remained solid.

## 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 1,768,954 of its own shares.

The company holds its own shares to be used in the incentive compensation plans, for making acquisitions or implementing other arrangements related to the company's business, to improve the company's financial structure, or to be otherwise assigned or cancelled.

The company currently has share-based incentive programs for key employees: performance-based long-term share-based programs and a restricted program (Stock exchange release, 16 February 2017). Additionally, F-Secure has established a matching share plan available for all employees (Stock exchange release about the creation of the plan was published on 15 December 2017, and a release about the implementation on 16 March 2018).

## Organization and leadership

### Personnel

At the end of the quarter, F-Secure had 1,145 employees (1,104 on 31 December 2017), which shows a net increase of 4% since the beginning of the year, and an increase of 9% compared with end of March in 2017 (1,055). F-Secure continues to actively recruit security professionals, cyber security consultants and sales personnel especially in corporate security.

### Leadership team

At the end of the quarter, the composition of the Leadership Team was the following:

Samu Konttinen (CEO, and acting Strategy & Corporate Development), Mari Heusala (HR & Office Services), Kristian Järnefelt (Consumer Cyber Security), Juha Kivikoski (Enterprise & Channel Sales, as of 1 March 2018), Jyrki Rosenberg (Marketing & Communications), Jari Still (Information & Business Services), Mika Ståhlberg (Security Research & Technologies), Eriikka Söderström (CFO) and Jyrki Tulokas (Cyber Security Products & Services).

## Risks and uncertainties

The objective of F-Secure's risk management is to ensure a current, correct and holistic understanding and prioritized management of key uncertainties related to strategy implementation and business operations. The process and risk management methods in use are constantly developed to respond to the changing needs of the company.

F-Secure uses three categories to group the risks: strategic, business and operational risks. The most significant risks for F-Secure are related to the following factors:

- Endpoint protection market disruption
- Market consolidation and failure to successfully complete acquisitions or divestments
- Failure to innovate and develop new technologies
- Failure to attract and retain talent

Other risks that affect the F-Secure business include but are not limited to:

- Intellectual property (IPR) claims against F-Secure
- Risk exposure from contractual liability requirements
- 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

# 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 hacktivists use vulnerabilities and malware e.g. for espionage and surveillance.

Attacks against corporations often go undetected for months, which fuels demand for products and services for incident detection and response, supplementing the endpoint protection 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 are emerging 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 very 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 89.1 billion in 2017, and the market is expected to grow by 8.1% annually in 2016–2021<sup>1)</sup>. The endpoint protection platforms (enterprise) market was worth USD 3.6 billion in 2017, and is expected to grow by 2.7% annually in 2016–2021<sup>1)</sup>. The consumer security software market was worth USD 4.7 billion in 2017, and is expected to grow by 1.7% annually in 2016–2021. The IT outsourcing market, including managed security services, was worth USD 16.7 billion in 2017, and is estimated to grow by 11.4% annually in 2016–2021<sup>1)</sup>.

*Source: <sup>1)</sup> Gartner, Forecast: Information Security, Worldwide, 2015–2021, 4Q17 Update, Ruggero Contu, Christian Canales, Sid Deshpande, Lawrence Pingree, 8 February 2018. Market size and growth rates in current dollars.*

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# STRATEGY 2018–2021

The world is becoming digitalized and connected. Due to this, cyber-attacks and cyber-crime continue to be among the most critical challenges the world is facing. While the complexity and magnitude of problems increases, expertise is concentrating into a limited number of specialized security companies.

For three decades, F-Secure has driven innovations in cyber security, defending tens of thousands of companies and millions of people. We are transforming from an endpoint protection company to a cyber security leader with a broader set of products and services.

F-Secure's competitiveness is based on extensive experience in cyber security, and a unique combination of man and machine. Our extensive experience, knowledge and insight in cyber security, combined with our global intelligence network, smart software and cutting edge artificial intelligence makes us the perfect trusted cyber security partner for companies of all sizes as well as individuals. We are the proud security advisor to many of the world's largest and most demanding organizations e.g. in the banking, automotive and airline industries as well as the military and law enforcement sector. Our expertise is continuously developed, as we take on the toughest of assignments.

As F-Secure seeks to accelerate growth, we continue to focus growth investments in corporate security. We provide best-in-class services and solutions to the mid-market, especially for customers seeking to buy prevention, detection and response as a service. We foresee the market moving towards managed endpoint security, and see especially strong growth in detection and response services. As we expand our product and service offering, we are also making it more integrated in order to offer efficient and comprehensive turn-key solutions to our customers and partners.

F-Secure's corporate security products and services are sold through the channel. Our growing network of thousands of partners are key to our strategic expansion. F-Secure's products are designed to be delivered from the cloud, and to support partners as they develop managed service provider business models. Ease of use both for end-customers as well as partners is critical aspect of all product design.

F-Secure also provides a comprehensive set of digital SAFETy solutions to consumers, protecting their information, identities, devices, smart homes and families. F-Secure is the world's leading provider of consumer security solutions through telecommunications operators. Together, we protect tens of millions of consumers and their digital lives. In consumer security, F-Secure continues with its existing sales channels aiming at profitable growth.

## Events after period-end

### Annual General Meeting

The Annual General Meeting (AGM) of F-Secure Corporation was held on 4 April 2018. The Meeting confirmed the financial statements for the financial year 2017. The members of the Board and the President and CEO were discharged from liability.

The following current members were re-elected: Pertti Ervi, Matti Heikkonen, Bruce Oreck, Päivi Rekonen and Risto Siilasmaa. Christine Bejerasco was elected as a new member of the Board. The Board elected in its organizational meeting Siilasmaa as the Chairman of the Board.

- Personnel Committee: Risto Siilasmaa (Chairman), Bruce Oreck and Päivi Rekonen
- Audit Committee: Pertti Ervi (Chairman), Päivi Rekonen, Matti Heikkonen and Christine Bejerasco.

The AGM decided to distribute a dividend of EUR 0.04 per share, which will be paid to those shareholders that on the record date of 6 April 2018 are registered in the Register of Shareholders held by Euroclear Finland Ltd. The dividend was paid on 18 April 2018.

The AGM approved all proposals made by the Board of Directors as described in the amended Notice to the AGM published on 12 February 2018. The resolutions of the AGM can be found in the Company's stock exchange release of 4 April 2018 and on the Company website.

# ADDITIONAL INFORMATION

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## Financial calendar

F-Secure Corporation will publish its interim reports during 2018 as follows:

- Q2/2018: 8 August 2018
- Q3/2018: 2 November 2018

# CHANGES IN THE ACCOUNTING PRINCIPLES

The Group has adopted following new and amended standards and interpretations as of 1 January 2018:

## IFRS 15 Revenue from Customer Contracts

F-Secure has applied full retrospective method in transition to IFRS 15 which means that the cumulative effect of all the modifications that occurred before 1 January 2017 have been recognized in opening balance of retained earnings as of 1 January 2017.

The new standard has an impact on how revenue from customer contracts is recognized. Mainly customer contracts with upfront revenue recognition were impacted. The impact is considered immaterial due to the fact that for majority of the customer contracts revenue recognition has already been deferred over time prior to application of IFRS 15, and due to the offsetting effect of the historical recognized revenue and deferral of the new sales.

Together with recognized revenue also deferred revenue and growth rate of deferred revenue were impacted by the adoption of IFRS 15. The recognition of incremental costs of obtaining contracts with customers (sales commissions) has also been deferred. The impact on sales commissions is immaterial due to the offsetting effect of historical costs and deferral of the new costs.

Impact of the new standard to retained earnings in opening balance as at 1 January 2017 is EUR 0.8 million. Deferring revenue and sales commissions in 2017 financials increased net result by EUR 0.3 million divided between increase in result before taxes of EUR 0.4 million and increase in income taxes of EUR 0.1 million. Impact to retained earnings in opening balance as at 1 January 2018 is EUR 1.1 million. Impact on deferred income in opening balance as at 1 January 2017 is EUR 4.7 million and in opening balance as at 1 January 2018 EUR 4.6 million.

Impacts of IFRS 15 adoption to 2017 financials have been presented in detail in a separate document "*Restated Information on 2017 Financials as a Result of Adoption of New IFRS 15 Accounting Standard and Revision of Cost of Revenue*" published on 3 May 2018. All comparative information in this interim report has been adjusted according to the restatement.

## IFRS 9 Financial Instruments and subsequent amendments

F-Secure has adopted the new standard IFRS 9 on the required effective date 1 January 2018. The cumulative effect from the transition has been recognized in opening balance as at 1 January 2018. The new standard has impact on classification and valuation of financial assets and includes a new model for estimating impairment of financial assets, which is based on expected credit losses.

F-Secure has significant investments in fixed income funds which were classified as available-for-sale under IAS 39. Under IFRS 9 these investments are classified as fair value through profit and loss increasing the volatility of the net result. Due to the nature of these investments the impact on Group's income statement is expected to remain immaterial. In opening balance 1 January 2018 fair value fund (1.0m) was reclassified to retained earnings.

F-Secure has renewed the model for recognizing impairment provisions based on expected credit losses. Transition to new standard had EUR 0.2 million impact on trade receivables and retained earnings in opening balance 1 January 2018.

The changes do not influence Group's cash flow. Impacts on profit for the period are expected to be immaterial.

### Amendment to IFRS 2 Share-based payments

The amendments to IFRS 2 are intended to eliminate diversity in the measurement and classification of cash-settled share-based payment transactions and accounting when share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments have no effect on the Group's on-going incentive plans. The new standard has been applied to the new incentive plan launched during first quarter of 2018.

### Revision of Cost of Revenue (CoR)

F-Secure has revised the allocation of costs between Cost of Revenue (CoR) and Operating Expenses (OPEX). Prior year financials have been restated according to the new accounting principle to maintain the comparability. Impacts of the revision to 2017 financials have been presented in detail together with IFRS 15 impacts in a separate document "*Restated Information on 2017 Financials as a Result of Adoption of New IFRS 15 Accounting Standard and Revision of Cost of Revenue*" published on 3 May 2018. All comparative information in this interim report has been adjusted according to the restatement.

In previous reporting, F-Secure's Cost of Revenue included mainly Royalties, Freight and Material. The revised Gross Margin captures in addition costs of providing cloud-based services to customers, customer support and cyber security services related direct expenses.

The impact for comparative 2017 financial statements is a decrease of Gross Margin from 96% to 85%. Net result was not impacted. The revision aimed at identifying costs directly linked to the delivery of F-Secure's software products and services and reporting a Gross Margin that is more comparable in content with other similar companies in the industry and worldwide.

The Interim Report has been prepared in accordance with IAS 34 standard Interim Financial Reporting. Apart from the aforementioned changes in accounting principles, the accounting principles applied in the interim report are the same as in the annual report 2017.

All figures in the following tables are EUR million unless otherwise stated. This interim report is unaudited.

## INCOME STATEMENT

	1-3/2018	Restated 1-3/2017	Change %	Restated 1-12/2017
Revenue	43.1	40.9	6	169.8
Cost of revenue	-7.3	-5.6	31	-25.0
<b>Gross margin</b>	<b>35.8</b>	<b>35.4</b>	<b>1</b>	<b>144.8</b>
Other operating income	0.8	0.6	41	1.9
Sales and marketing	-21.0	-22.0	-5	-86.7
Research and development	-9.6	-8.6	12	-34.1
Administration	-3.8	-3.8	1	-14.3
<b>EBIT</b>	<b>2.3</b>	<b>1.6</b>	<b>45</b>	<b>11.5</b>
Financial net	-1.0	-0.1		0.8
<b>Result before taxes</b>	<b>1.3</b>	<b>1.5</b>	<b>-11</b>	<b>12.3</b>
Income taxes	-0.7	-0.5	43	-1.3
<b>Result for the period total</b>	<b>0.6</b>	<b>0.9</b>	<b>-39</b>	<b>11.1</b>
<b>Other comprehensive income</b>				
Exchange differences on translating foreign operations	0.0	0.0		-0.8
Available-for-sale financial assets		0.4		-0.1
Income tax relating to components of other comprehensive income	0.0	-0.1		0.0
<b>Total comprehensive income (parent company owners)</b>	<b>0.6</b>	<b>1.2</b>	<b>-52</b>	<b>10.2</b>
<b>Earnings per share</b>	<b>1-3/2018</b>	<b>Restated 1-3/2017</b>	<b>Change %</b>	<b>Restated 1-12/2017</b>
Earnings per share, basic and diluted, EUR	0.00	0.01		0.07

# BALANCE SHEET

<b>Assets</b>	<b>31 Mar 2018</b>	<b>Restated 31 Mar 2017</b>	<b>Restated 31 Dec 2017</b>
Tangible assets	3.3	3.2	3.2
Intangible assets	14.0	14.0	14.7
Goodwill	10.1	8.4	10.1
Deferred tax assets	3.6	3.4	4.1
Other receivables	0.7	0.1	0.7
<b>Total non-current assets</b>	<b>31.8</b>	<b>29.0</b>	<b>32.8</b>
Inventories	0.7	0.1	0.6
Trade and other receivables	48.1	43.3	50.1
Income tax receivables	0.1	0.5	1.4
Financial assets at fair value through profit and loss	53.9		
Available-for-sale financial assets		64.1	53.9
Cash and bank accounts	34.6	32.3	36.3
<b>Total current assets</b>	<b>137.4</b>	<b>140.3</b>	<b>142.3</b>
<b>Total</b>	<b>169.3</b>	<b>169.3</b>	<b>175.1</b>
<b>Shareholders' equity and liabilities</b>			
	<b>31 Mar 2018</b>	<b>Restated 31 Mar 2017</b>	<b>Restated 31 Dec 2017</b>
<b>Equity</b>	<b>71.9</b>	<b>78.2</b>	<b>70.6</b>
Deferred tax liabilities	1.5	1.2	1.4
Deferred revenue, non-current	12.4	13.9	17.4
Other non-current liabilities	1.1		2.5
Provisions	1.2	1.2	1.2
<b>Total non-current liabilities</b>	<b>16.2</b>	<b>16.2</b>	<b>22.4</b>
Trade and other payables	26.7	24.5	31.8
Income tax liabilities	-0.3	2.2	1.9
Deferred revenue, current	54.8	47.4	48.3
Provisions		0.8	
<b>Total current liabilities</b>	<b>81.2</b>	<b>74.9</b>	<b>82.1</b>
<b>Total</b>	<b>169.3</b>	<b>169.3</b>	<b>175.1</b>

# CASH FLOW STATEMENT

Restatement of 2017 financials had no impact on 2017 cash flow other than an immaterial transfer between *Result for the financial year* and *Change in net working capital*.

	1-3/2018	1-3/2017	1-12/2017
<b>CASH FLOW FROM OPERATIONS</b>			
Result for the financial year	0.6	1.0	11.1
Adjustments	4.7	3.2	8.6
Cash flow from operations before change in working capital	5.2	4.2	19.7
Change in net working capital <sup>1)</sup>	-4.1	2.3	9.6
Cash flow from operations before financial items and taxes	1.2	6.5	29.5
Net financial items and taxes	-1.5	-1.0	-3.5
<b>Cash flow from operations</b>	<b>-0.3</b>	<b>5.5</b>	<b>26.0</b>
<b>CASH FLOW FROM INVESTMENTS</b>			
Net investments in tangible and intangible assets	-1.0	-1.6	-7.1
Investments in subsidiary shares, net of cash acquired		-0.7	-2.2
Other investments, net	-0.3	0.0	10.7
<b>Cash flow from investments</b>	<b>-1.3</b>	<b>-2.3</b>	<b>1.4</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Dividends paid			-18.8
<b>Cash flow from financing activities</b>	<b>0.0</b>	<b>0.0</b>	<b>-18.8</b>
<b>Change in cash</b>	<b>-1.5</b>	<b>3.2</b>	<b>8.7</b>
Cash and bank at the beginning of the period	36.3	29.0	29.0
Effects of exchange rate changes	-0.1	0.1	-1.4
Cash and bank at period end	34.6	32.3	36.3

<sup>1)</sup> F-Secure's long term incentive plan related cash-settlement had a EUR 2.3 million negative impact on change in net working capital.

# 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 2016</b>	<b>1.6</b>	<b>0.2</b>	<b>5.2</b>	<b>-5.7</b>	<b>73.4</b>	<b>1.1</b>	<b>0.3</b>	<b>75.9</b>
Impact of IFRS 15 restatement					0.8		0.0	0.9
<b>Equity 1 Jan 2017 (restated)</b>	<b>1.6</b>	<b>0.2</b>	<b>5.2</b>	<b>-5.7</b>	<b>74.2</b>	<b>1.1</b>	<b>0.3</b>	<b>76.8</b>
Total comprehensive income for the year					1.0	0.3	0.0	1.3
Cost of share based payments					0.2			0.2
<b>Equity 31 Mar 2017</b>	<b>1.6</b>	<b>0.2</b>	<b>5.2</b>	<b>-5.7</b>	<b>75.4</b>	<b>1.4</b>	<b>0.3</b>	<b>78.2</b>
	Share capital	Share premium fund	Unrestricted equity reserve	Treasury shares	Retained earnings	Available-for-sale assets	Translation difference	Total
<b>Equity 31 Dec 2017</b>	<b>1.6</b>	<b>0.2</b>	<b>5.4</b>	<b>-4.6</b>	<b>66.5</b>	<b>1.0</b>	<b>-0.6</b>	<b>69.5</b>
Impact of IFRS 15 restatement					1.1		0.0	1.1
Impact of IFRS 9 restatement					1.1	-1.0		0.2
<b>Equity 1 Jan 2018 (restated)</b>	<b>1.6</b>	<b>0.2</b>	<b>5.4</b>	<b>-4.6</b>	<b>68.8</b>	<b>0.0</b>	<b>-0.6</b>	<b>70.8</b>
Total comprehensive income for the year					0.6		0.0	0.6
Cost of share based payments			0.4	0.8	-0.6			0.5
<b>Equity 31 Mar 2018</b>	<b>1.6</b>	<b>0.2</b>	<b>5.7</b>	<b>-3.8</b>	<b>68.7</b>	<b>0.0</b>	<b>-0.6</b>	<b>71.9</b>

# 1 SEGMENT INFORMATION

The Group has one segment (security).

<b>Quarterly development</b>	<b>1-3/2018</b>	<b>1-3/2017</b>	<b>1-12/2017</b>
Revenue	43.1	40.9	169.8
Cost of revenue	-7.3	-5.6	-25.0
<b>Gross margin</b>	<b>35.8</b>	<b>35.4</b>	<b>144.8</b>
Other operating income	0.8	0.6	1.9
Sales and marketing	-21.0	-22.0	-86.7
Research and development	-9.6	-8.6	-34.1
Administration	-3.8	-3.8	-14.3
<b>EBIT</b>	<b>2.3</b>	<b>1.6</b>	<b>11.5</b>
Financial net	-1.0	-0.1	0.8
<b>Result before taxes</b>	<b>1.3</b>	<b>1.5</b>	<b>12.3</b>

## Disaggregation of revenue

<b>By sales channels</b>	<b>1-3/2018</b>	<b>1-3/2017</b>	<b>1-12/2017</b>
Consumer security	23.8	24.2	97.1
Corporate security	19.4	16.6	72.6
<b>Total revenue</b>	<b>43.1</b>	<b>40.9</b>	<b>169.8</b>

<b>By geographical area</b>	<b>1-3/2018</b>	<b>1-3/2017</b>	<b>1-12/2017</b>
Nordic countries	16.4	15.0	63.0
Rest of Europe	18.6	16.2	69.4
North America	4.0	3.9	16.4
Rest of the world	4.1	5.8	21.0
<b>Total revenue</b>	<b>43.1</b>	<b>40.9</b>	<b>169.8</b>

## 2 CLASSIFICATION OF FINANCIAL ASSETS UNDER IFRS 9

On 1 January 2018 the Group has reclassified financial assets into appropriate IFRS 9 categories. Reclassification was made according to managements' assessment about which IFRS 9 business models apply to the financial assets held by the Group.

As a result the Group reclassified its available-for-sale investments to be presented at fair value through profit and loss. The impacts of this reclassification are expected to remain immaterial due to the nature of these investments.

<b>Financial assets on 1 Jan 2018</b>	<b>Fair value through profit and loss (FVPL)</b>	<b>Fair value through OCI (Available-for- sale 2017)</b>
<b>Closing balance 31 Dec 2017 – IAS 39</b>		1.0
Reclassify investments from available-for-sale to FVPL	1.0	-1.0
<b>Opening balance 1 Jan 2018 – IFRS 9</b>	1.0	0.0

Model for measuring credit losses has also been revised according to IFRS 9. To measure the expected credit losses, trade receivables have been grouped based on characteristics that depict the credit risk of receivables (eg. geographical area and days past due). Different expected loss rates which have been determined using historical information and management judgment, have been applied to grouped trade receivables. Impacts of credit loss model change in opening balance 1 Jan 2018 are as follows:

<b>Trade receivables on 1 Jan 2018</b>	<b>Trade receivables</b>
<b>Closing balance 31 Dec 2017 – IAS 39</b>	50.1
Amounts restated through opening retained earnings	0.2
<b>Opening balance 1 Jan 2018 – IFRS 9</b>	50.2

### 3 KEY RATIOS AND OTHER KEY FIGURES

	<b>1-3/2018</b>	<b>Restated 1-3/2017</b>	<b>Restated 1-12/2017</b>
EBIT, % of revenue	5.2	3.9	6.8
ROI, %	19.9	8.4	20.0
ROE, %	3.3	4.9	15.0
Equity ratio, %	70.4	69.1	61.9
Gearing, %	-123.1	-123.3	-127.8
Earnings per share, basic and diluted	0.00	0.01	0.07
Shareholders' equity per share, EUR	0.46	0.50	0.50
P/E ratio	249.3	139.8	139.8
Capitalized expenditure, MEUR	1.0	2.6	2.6
Contingent liabilities, MEUR	13.4	16.3	13.8
Depreciation and amortization, MEUR	-1.6	-1.4	-6.3
Personnel, average	1,130	1,033	1,067
Personnel, period end	1,145	1,055	1,104

## 4 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, %	$\frac{\text{Interest bearing liabilities – cash and bank and financial assets at fair value through profit and loss}}{\text{Total equity}} \times 100$
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	$\frac{\text{Closing price of the share, end of period}}{\text{Earnings per share (annualized)}}$
Operating expenses	Sales and marketing, research and development, and administration costs

# **CYBER SECURITY LIVES HERE**

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