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## F-SECURE CORPORATION - INTERIM REPORT JANUARY 1 – SEPTEMBER 30, 2011

### REVENUE GROWTH ACCELERATED DRIVEN BY STRONG OPERATOR BUSINESS, HEALTHY PROFITABILITY

(This report is unaudited. Unless otherwise stated the comparisons refer to the corresponding period a year ago. The currency is euro. Storage and Digital Content business unit is included in the operator channel figures.)

#### Highlights in Q3

- Total revenues grew by 14% to a record level of 36.6 million (Q32010: 32.0m)
- Revenues from the operator channel continued to be strong and growth accelerated to 28%, reaching revenues of 21.5 million (16.7m); revenue growth was driven by good security and cloud storage sales
- EBIT was 6.9 million representing 19% of revenues (5.9m,18%)
- Earnings per share was EUR 0.03 (EUR 0.03)
- Cash flow from operations was 5.8 million positive (3.5m)
- Pirkka Palomäki was nominated as acting CEO as of November 1, as announced on October 6, 2011

Outlook for 2011 – management estimation for the year is in line with previous guidance

- Annual revenue is expected to be over 143m (growth of 10-12%) and EBIT is expected to be 16-18% of revenues
- Previous guidance: Annual revenue growth is expected to accelerate to around 10% and annual profitability to improve from 2010 level at a comparable pace to revenue growth (compared to 2010 EBIT of 21.8m excl. re-structuring)

Key figures	2011	2010	2011	2010
(Eur Million)	7-9	7-9	1-9	12m
Revenues	36.6	32.0	106.1	130.1
Operating profit	6.9	5.9	17.1	19.8
% of revenues	19%	18 %	16 %	15 %
Profit before taxes	7.0	5.5	16.9	19.9
Earnings per share (Eur)	0.03	0.03	0.08	0.10
At the end of period:				
Deferred revenues	35.0	35.1	35.0	37.2
Equity ratio, %	70%	71%	70%	69%
Debt-to-equity ratio, %	-48%	58%	-48%	-63%
Personnel	907	855	907	812

**President and CEO Kimmo Alkio:**

“We are pleased to see strong performance in our business resulting in strong revenues and healthy profitability. Our Operator business continued to perform very well and the cost level reflected typical seasonality. The Operator revenue growth accelerated to 28% YoY demonstrating robust demand for both security and cloud storage services.

Our entry into storage-related businesses has progressed well. In Q3, we successfully delivered our storage service platform to AT&T. The overall interest and pipeline for storage cloud related services within our operator partners has continued to develop favourably. Our cloud storage services help operators to augment their core voice and data service offering to take advantage of the growth of internet services. Our investments in cloud storage business will continue and are expected to drive future revenue growth together with solid security sales.

Based on our current performance we are confident that the Company will continue profitable growth with Operators globally. With these premises, I leave the CEO role to my successor with a feeling of trust and confidence.”

**F-Secure business during January - September 2011**

Total revenues for the first nine months were 106.1 million (95.7m), representing growth of 11%. Revenue growth through the operator channel continued strong and was 24% from the previous year and revenues totaled 60.5 million (48.7m). Revenues through other channels were, as anticipated, down by 3%, totaling 45.6 million (47m). EBIT was 17.1 million (16.3m), representing 16% of revenues (17%). Earnings per share were EUR 0.08 (EUR 0.08). Cash flow from operations was 13.7 million positive (16m positive). Deferred revenues were 35.0 million at the end of September (35.1m) in line with normal seasonal market fluctuations. Renewal sales in the other channels were at a good level.

Total fixed costs for first nine months were 84.3 million (74.1m), 14% higher than in the previous year. F-Secure capitalized some of its R&D expenses according to accounting rules, totaling 4.7 million (1.8m) and booked one-time write-offs of 0.5m related to prior R&D investments. Cost increases were targeted toward the geographic expansion in Latin America, storage related project deliveries (e.g. AT&T) and R&D to increase the competitiveness of the PC and mobile device (e.g. iOS, Android, RIM) solutions and cloud storage development.

During the first nine months of 2011 the geographical breakdown of revenues was as follows: Finland and Scandinavia 33% (33%), Rest of Europe 45% (46%), North America 10% (9%) and Rest of the World 12% (12%).

**Operator channel and its performance in Q3**

F-Secure provides a broad range of security and cloud storage related services that are easy and intuitive to use for the mainstream consumers, through the operators (including ISP's, mobile

operators and cable operators). F-Secure is expanding its investments to extend the products and services to new mainstream smartphone and tablet operating systems, such as Android, iOS and RIM. This allows operators to offer F-Secure services, both PC and mobile, to a wide subscriber base.

The Operator channel has been the main growth driver for F-Secure over several years. The Company currently has more than 200 partners in over 40 countries with an addressable market of over 250 million fixed and mobile broadband consumer customers. The total number of F-Secure's operator partners is significantly larger than that of any other security service vendor. This addressable subscriber base is expanding due to the continuous growth of broadband connections within existing operators and due to new Operator partnerships. The Operator channel gives a remarkable opportunity for F-Secure to address millions of consumers worldwide with its service offering. Operators are locally well known and they are trusted partners for consumers.

Currently, a notable part of revenues in this channel is generated by the Security as a Service business where Operators sell security service subscriptions to protect their customers against Internet threats. During the past quarters revenue growth has been driven by an increase in the take-up rates of security sales within the existing operator partners' customer base. This business opportunity is supported by the growth of fixed and mobile broadband connections as well as the natural demand for security services and the relatively low level of take-up rates in general. Take-up rates vary by operator depending on its size, activity level promoting value added services and time since service launch. Sales of security services improve operators' ARPU (average revenue per user), which can have a significant impact on operators' profit margin and reduces churn of broadband connections. Internet security services for smartphones and tablet devices currently generate a small proportion of F-Secure's and of the market wide volumes. This mobile security landscape has recently started to change due to smartphone and tablet volume growth.

The Company's entry to the cloud storage related market has strengthened F-Secure's attractiveness as a long term strategic partner, as already experienced with several major operators globally. The use of social media is increasing and people are looking for services to share, store and control 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. Online backup and sharing is gaining increasing acceptance as the best way to store copies of valuable data off-premise, where they are safe from equipment failure, theft, loss, viruses, and accidental deletion. Operators are interested in storage related services as they see its business potential and an opportunity to deepen their relationship with their customers. As operators are competing with Internet players and device manufacturers for consumers' share of mind, the need for operators' cloud storage services is even more appropriate. Operators' advantage is their ability to manage the continuously diverging multi-device, multi-OS environment. Also, they are able to bring services to masses.

Currently, revenues from storage related subscriber services are at a relatively low level, but management expects revenues gradually to increase as more operators start to offer this service to

their customers. In addition to subscriber revenues, there is a revenue stream from project deliveries and customizations for major operators. These project revenues are recognized based on percentage of completion of the project.

The co-operation with AT&T for storage services has continued very well. During Q3 the Company successfully delivered the storage service platform. The public launch date for the service has not yet been communicated. Q3 financials include revenue recognition from the AT&T delivery project and initial commitment of subscriber revenues. The user based subscriber revenues is expected to grow after the public launch of the services.

As informed in the previous interim release, F-Secure has entered into partnerships with Telefonica and several other operators in Latin America, which is one of the fastest growing markets of internet users. These long term regional partnerships enable F-Secure to reach major wireless and mobile broadband markets with its internet protection and storage related services. These partnerships are expected to contribute gradually to revenue growth towards the year end. The first launch with operators took place already in Q2 2011.

During the quarter, the Company has continued to extend its collaboration with Telefonica in Latin America. Additional service launches in several Latin America countries are expected to take place during the upcoming quarters.

During the quarter Company's co-operation with mobile operators offering services for smartphones and other mobile devices has continued as anticipated. Currently, there are mobile operator partnerships with more than 20 operators worldwide; such as Telefonica, Vodafone Group, TeliaSonera Group, T-Mobile International, Swisscom and Elisa. The Company's co-operation with major mobile device manufactures, like Nokia and SonyEricsson, has continued well, too.

In the third quarter of 2011, revenues through the operator business partners continued to perform very well and totaled 21.5 million (16.7m), representing 59% of F-Secure's total revenues (52%). Revenue growth was 28% compared to the corresponding quarter in 2010 and 6% to the previous quarter. The growth was driven by good security sales, increase in take up rates in current partners' subscriber base and was supported by project delivery revenues and growing storage related subscription sales including AT&T initial commitment.

### **Other channels in Q3**

Other channels consist mainly of traditional license sales, i.e., new licenses and renewals of internet security and online backup for PCs and mobile devices, to consumers through eStore and retail. These channels include a wide range of internet security services for corporate customers through the global reseller network.

During the third quarter, revenues through other channels were 15.2 million (15.3m), showing a decline of 1% from the corresponding quarter in 2010. These other channels represented 41% of F-Secure's total revenues (48%). The impact of earthquake in Japan in March is expected to continue to impact negatively on sales for the whole year. Japan is a major market for F-Secure in these channels.

In other countries, sales in traditional channels continued as anticipated. Customer satisfaction in security services continued at a high level as evidenced by healthy license renewal sales.

### **Products, Services and Technologies**

F-Secure develops and sells security and storage related services that support personal computers, servers and an increasing set of major smartphone and tablet operating systems. Services include broad security suites (anti-virus, browsing protection and parental control) and storage-related services like on-line back-up. Nearly 10 years ago F-Secure innovated and launched to the market a new business model by offering security as a service (SaaS). F-Secure's main solutions are world leaders for SaaS via operators.

F-Secure is increasing the investment to extend the products and services to new mainstream smartphone and tablet operating systems, such as Android, iOS and RIM. This allows operators to offer F-Secure services, both PC and mobile, to a wide subscriber base.

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

F-Secure continues to invest in cloud storage services. The Company has preannounced investments into a standardized synchronization service to be available in 2012. This service offering enables sync and sharing of internet connected devices (smartphones, tablets, PC's). Additionally, the carrier-grade cloud storage platform enables F-Secure to offer scalable and customizable services for the largest operators in the world.

The combination of security and storage cloud-based technologies will in the future allow F-Secure to create new and innovative solutions for personal computers, smartphones and other devices.

F-Secure has continued to invest in user experience design when developing solutions and service offerings. User experience designers, marketers, and developers engage in consumer research, focus

groups, and usability tests, to explore consumer needs and validate new product and service prototypes with consumers to ensure that they are appealing and usable when introduced to the public. User experience in addition to technical performance is crucial for commercial success of solutions and services.

During the first nine months of 2011 the key product announcements were as follows:

In October, after the reporting period, F-Secure announced a new version of its flagship internet security service, F-Secure Internet Security™ 2012. F-Secure Internet Security™ 2012 provides complete protection for computers and online life, delivered with a smooth user experience. The solution combines industry-leading technologies for a sophisticated and multilayered defense against the whole range of modern malware threats.

In June, F-Secure introduced a new version of its mobile security product, F-Secure Mobile Security 7. F-Secure Mobile Security 7 is a complete security solution for smartphones and tablet computers. It provides safe web browsing with parental control, protects confidential content, and makes it possible to locate your device if it is lost or stolen. Mobile Security identifies which websites are safe to enter and which you should avoid.

In May, F-Secure launched F-Secure Anti-Virus for Mac for home users and businesses. The product has been designed with performance in mind, making it easy and fast to use. It gives real-time protection against all Mac-based threats, automatically detecting and removing any malware. F-Secure's automatic updates ensure protection for Macs in today's rapidly changing threat landscape.

In May, F-Secure launched F-Secure Protection Service for Email, which is an effective and hassle-free email security service for small and medium enterprises. F-Secure Protection Service for Email is a cloud-based offering powerful real-time protection for email against unwanted content, viruses and spyware, as well as spam control. F-Secure Protection Service for Email has a 99% spam detection accuracy.

In March, F-Secure introduced a new Partner Portal for its resellers. The portal provides advanced online tools for resellers that help them to react quickly and efficiently to end-customers' needs, boosting sales and customer service. The new Partner Portal makes life easier for resellers by bringing all their end customer information to a single location where they can conveniently manage accounts, calculate offers and find the full range of sales support materials from F-Secure.

In March, F-Secure Policy Manager 10 was introduced to the corporate segment. F-Secure Policy Manager 10 delivers a new level of effectiveness by automating daily security operations. IT security management now requires less manual work. F-Secure Policy Manager 10 automates daily operations like protecting new computers and the removal of disconnected hosts. With the Policy Manager centralized security management solution, security administrators can remotely install, configure and

monitor workstations, servers or even remote offices from one location. The new version of Policy Manager also introduces several features to boost productivity and performance.

In February, a new version of F-Secure's Protection Service for Mobile (PSM 7) was introduced at the Mobile World Congress in Barcelona, Spain. Protection Service for Mobile enables operators to offer comprehensive protection and parental control for their customers' mobile devices. PSM enables operators to offer an end user service that makes Internet browsing, social networking and mobile financial transactions safer by automatically identifying harmful web sites, as well as keeping children safe from inappropriate and dangerous web content. PSM also helps operators' customers to lock, locate and erase missing devices and gives protection against harmful applications and viruses. PSM supports multiple mobile platforms, and includes several customizable alternatives for operators to offer mobile security as a service to their customers.

In January 2011, F-Secure received the "Product of the Year" award issued by AV-Comparatives, one of the major independent testing organizations in the industry. The testing organization described Internet Security 2011 as a well-designed product with a clear and easy-to-use interface.

## Market situation

There were no significant changes in the competitive landscape or in the pricing levels in the security space during the quarter. Consolidation in the storage and digital content market continued, with many of F-Secure's traditional competitors entering the space. Usual signs of price competition are evident in some countries in the security market. In general, the storage and digital content space is beginning to become more sustainable business with market driven pricing as new cloud services were introduced in the storage and synchronization related services market. F-Secure's competitive position in the operator channel has remained strong. At the same time the broadband market is experiencing a shift from fixed to mobile broadband access. The combined broadband business is anticipated to continue as a healthy growth driver for Security as a Service in the operator channel.

## Personnel and organization

F-Secure's personnel totaled 907 at the end of Q3 (855). The number of personnel has continued to increase especially in the storage related business and in R&D.

As of September the current Executive Team consists of the following persons: **Kimmo Alkio** (President and CEO), **Ari Alakiuttu** (Vice President, Human Resources), **Tuomas Hyyryläinen** (Vice President, Strategy and M&A), **Samu Konttinen** (Vice President, Sales and Marketing), **Maria Nordgren** (Vice President, Channels), **Pirkka Palomäki** (Chief Technology Officer), **Kari Penttilä** (Vice President, R&D), **Patrik Sallner** (Vice President, Professional Services ), **Antti Reijonen** (Vice President, Solution and Portfolio Management) and **Taneli Virtanen** (Chief Financial Officer).

As informed in Stock Exchange release on October 6, 2011 Pirkka Palomäki has been nominated as acting CEO as of November 1, 2011. Kimmo Alkio leads F-Secure until 31 October, 2011. The search for the new CEO has been initiated and is planned to be completed during the second half of 2011.

### **Financing and capital structure**

F-Secure's financial position continued to be strong. F-Secure's equity ratio at the end of Q3 was 70% (71%) and gearing ratio was 48% negative (58% negative).

Cash flow from operations for the first nine months was 13,7 million positive (16m positive); lower than in previous year mainly due to increased capex and activations. The net financial income was slightly negative of 0.2m impacted by low interest income and changes of exchange rates losses (0.2m negative).

The Company's cash position has developed according to the longer term efficient capital management objectives. The market value of the liquid assets of F-Secure on September 30, 2011 was 25,9 million (28.8m).

Changes in exchange rates did not have material impact on sales and costs.

### **Capital expenditure**

F-Secure's capital expenditure for the first nine months was 12.7 million (9m), consisting mainly of capitalization of development expenses for Operator platforms and applications for both security and storage services.

### **Capital management and repurchase of 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. During the third quarter, the Company continued its share buy back program, announced to start on May 31, 2011. The repurchase of own shares commenced on June 8 and by the end of September F-Secure has bought in total 547.045 shares.

The share buy-back program is based on the authorization of the Annual General Meeting of March 30, 2011. The maximum number of shares to be repurchased is 2.000.000 shares, representing maximum of approximately 1.3% of all shares issued by the Company. The shares are purchased through public trading on the NASDAQ OMX Helsinki Ltd. in accordance with its rules and at market price. These own shares will be purchased in order to improve the Company's financial structure, to be used as part of the incentive compensation plan, or 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.

Including all shares bought, the total number of own shares held at the end of September 2011 was 3.854.358 shares, corresponding to approximately 2.4% of the Company's shares and voting rights.

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

In September, a total of 510,522 F-Secure shares were subscribed for with the C warrants attached to the F-Secure 2005 Warrant Plan. The issue of the 2005 Warrant Plan was approved by the Annual General Meeting on March 23, 2005. In aggregate the number of shares was increased by 510,522, which was registered in the Finnish Trade Register on Sep 6, 2011. F-Secure received as subscription price a total amount of EUR 755,572.56, which was recorded in the fund for Company's distributable equity. As a result of the registering the total number of shares is 158,380,658. Trading in the new shares commenced on Sep 7, 2011.

In May, a total of 45,000 F-Secure shares were subscribed for with the C warrants attached to the F-Secure 2005 Warrant Plan. The issue of the 2005 Warrant Plan was approved by the Annual General Meeting on March 23, 2005. In aggregate the number of shares was increased by 45,000, which was registered in the Finnish Trade Register on May 24, 2011. F-Secure received as subscription price a total amount of EUR 66,600.00, which was recorded in the fund for Company's distributable equity. As a result of this registration the total number of shares is 157,870,136. Trading in the new shares commenced on May 25, 2011.

In April, a total of 285,893 F-Secure shares were subscribed for with the C warrants attached to the F-Secure 2005 Warrant Plan. The issue of the 2005 Warrant Plan was approved by the Annual General Meeting on March 23, 2005. In aggregate the number of shares was increased by 285,893, which was registered in the Finnish Trade Register on Apr 12, 2011. F-Secure received as subscription price a total amount of EUR 423,121.64, which was recorded in the fund for Company's distributable equity. As a result of the registering the total number of shares is 157,825,136. The trading in the new shares commenced on Apr 13, 2011. The subscription period for the 2005 C warrants began on March 1, 2010.

2005 D-warrants of F-Secure Corporation were listed on the Nasdaq OMX Helsinki Ltd. and trading commenced on March 1, 2011. In connection with the 2005 Option Plan, the maximum of 4.5 million warrants will be issued which are divided into categories A, B, C and D. Each 2005 D-warrant entitles holders to subscribe for one F-Secure share at a price of EUR 2,09. The subscription price of the stock options shall, as per the dividend record date, be reduced by the amount of dividend per share. The subscription time for 2005 D-warrants began on March 1, 2011 and will end on November 30, 2012. In aggregate the 2005 D-warrants entitle holders to subscribe for 410,000 shares. The terms and conditions of stock options were published as a stock exchange release on February 17, 2011.

The total number of Company's shares is currently 158,380,658. The corresponding number of shares diluted is 160,990,852 including all stock option programs. The Company's registered shareholders' equity is EUR 1.551.311,18. More information on the stock option programs is available on the Company's Investors website.

### **Corporate Governance**

F-Secure complies with the Corporate Governance recommendations for public listed companies published in January 2010 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 a corporate governance statement for 2009 in the annual report and on the Company website in March.

### **Risks and uncertainties**

F-Secure has not seen material changes in the risks and uncertainties during the reporting period. The slower growth in sales of fixed broadband connections by operators may also have an impact on security service sales. As uncertainty in the economic environment continues, this may have an impact on operators' willingness to invest in new services. F-Secure 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), impact of changes in technology, timely and successful commercialization of complex technologies as 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 and risk exposure from increasing contractual liability requirements.

Due to the longevity and complexity of project deliveries in the storage and digital content business, the 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.

F-Secure Corporation is a party to a dispute in Brazil regarding a distributor relationship and will defend itself accordingly, including through an arbitration process in Finland. The Company does not expect a material impact on its financials from this dispute.

## Market view and long-term objectives

The long term market opportunities are attractive for F-Secure. Demand for Value Added Services, like Internet security and cloud storage services, is driven by the expansion of Internet users and Internet connected devices.

The global Internet penetration is globally still at a low level around 30%; in Asia below 25%, in Europe close to 60%, and in North America close to 80% (Source: Internet World Stats, U.S. Census Bureau, estimated in March 2011). The accelerating growth of smartphones and other Internet connected devices is expected to lead to tens of billions during next 10 years (source; gigaom/ Ericson). The number of Internet users is still growing rapidly in coming years.

The Internet security and threat landscape continues to evolve and attacks are getting more frequent and are increasingly conducted for criminal purposes. While device security will be improved over time by more secure operating systems, there is a need for specialized security services. For example, phishing is an increasing problem as email and Internet services are often accessed with mobile devices. Privacy-related threats have become more visible with the booming social media usage. Such developments provide business opportunities for new solutions such as reputation services.

The global Security software market as a whole is attractive. The global security software revenue worldwide estimate for 2010 is \$16.5bn, reflecting a 10% annual growth rate for 2010. Consumer security software growth is expected to show CAGR of 6.5% 2007-2014 (source: Source: Gartner Jul. 2010).

The use of social media is increasing and people are looking for services to share, store and control 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. Online backup and sharing is gaining increasing acceptance as the best way to store copies of valuable data off-premise, where they are safe from equipment failure, theft, loss, viruses, and accidental deletion.

Ubiquitous connectivity combined with falling storage prices encourages further migration of more data into the cloud. This will shift even more data and applications from the desktops to servers elsewhere, making the data accessible from anywhere and enabling collaboration and sharing within networks. This will create a market opportunity for Internet companies and operators to provide cloud services to consumers to store, sync and share their digital content.

The volume of user generated digital content is expected to continue to increase rapidly during the coming years, driven primarily by digital photos and music. The use of social media is increasing and people are looking for services to share, store and control of their personal data. IDC forecasts this storage as a service -market to pass \$3bn by 2012, with a compound annual growth rate of more than 29% from 2007 to 2012.

The Security as a Service (SaaS) business has been a strong growth driver for F-Secure since 2000. Based on the Company's strong technology assets in security, cloud computing and in storage area and based on its pioneering role in offering Software as a Service, F-Secure continues to create new innovative offerings to augment its traditional security services.

Based on experience of the Software as a Service business model, F-Secure anticipates that both customer benefits (e.g. lower total cost of ownership) and attractive partner business benefits (e.g. lifetime revenue share) will accelerate the adoption of the Software as a Service business model compared to traditional software acquisition as a product.

F-Secure's first priority is to drive growth and market expansion. The Company sells its Value Added Services to consumers through its large operator network of over 200 operator partners in over 40 countries with an addressable market of over 250 million fixed and mobile broadband customers.

F-Secure focuses on increasing the penetration within the current operator base with security and storage related cloud services and continues to selectively seek partner expansion globally; especially in emerging markets. Penetration rates vary by operator; overall penetration levels are relatively low and leave substantial opportunity for growth. The combination of security and storage services attracts a larger customer base and has proven to drive penetration rates.

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. Over time, F-Secure anticipates synergies across the Value Added Services being developed and offered both for PCs and smart phones.

F-Secure's target is to be the best partner for operators in providing value added services to consumers. F-Secure pursues investments in new value added services for both PC and mobile users to augment its existing security and storage services.

F-Secure aims to exceed the average market growth rates in revenues and seeks to improve its profitability sustainably towards an EBIT level of 25% over time. F-Secure's longer term profitability level continues to be driven extensively by revenue growth and scalable operations. F-Secure targets its investments in strategic growth businesses, specifically the operator channel.

## **Outlook for 2011**

The combination of the latest operator wins together with a competitive service portfolio and successful project deliveries support the Company's previous growth projections for 2011. Revenue growth is driven by the combination of security and storage services through Operators. Traditional security license business related revenues are not expected to contribute to revenue growth.

Management estimation for the year is in line with previous guidance. The annual revenue is expected to be over 143m (growth of 10-12%YoY) and EBIT is expected to be 16-18% of revenues.

Previous guidance: Annual revenue growth is expected to accelerate to around 10% and annual profitability to improve from 2010 level at a comparable pace to revenue growth (compared to 2010 EBIT of 21.8m excl. re-structuring).

The Company is investing in geographical expansion, competitiveness of its value added service (VAS) portfolio in PC security and storage related services, in new mainstream mobile operating systems, like Android, RIM, iOS and in new innovations. In addition, the Company's investments in cloud storage business will continue to further accelerate revenue growth in the operator channel. This revenue estimate is based on the sales pipeline at the time of publishing, existing subscriptions and support contracts as well as current exchange rates.

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

A news conference for analysts and press is arranged today, on October 26, at 11 am Finnish time at F-Secure's Headquarters, address: Tammasaarencatu 7, Ruoholahti, Helsinki. In the news conference, CEO Kimmo Alkio will present the Q3 financial results. Acting CEO as of November 1, Pirkka Palomäki, will join the news conference for possible questions. A conference call for international investors and analysts is arranged at 14.00 Finnish time (13.00 CET, 12.00 pm UK time). To participate in the call, please dial in and register 5-10 minutes prior to the event in 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 [http://www.f-secure.com/en\\_EMEA-Corp/investor-relations/financial-publications/](http://www.f-secure.com/en_EMEA-Corp/investor-relations/financial-publications/) before the call begins.

#### **F-Secure Corporation**

##### **Additional information**

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This interim report is prepared in accordance with IAS 34 standard Interim Financial Reporting and with accounting principles stated in the annual report 2010.

Key figures (unaudited):						
Euro million						
INCOME STATEMENT	2011	2010	2011	2010	Chge	2010
	7-9	7-9	1-9	1-9	%	1-12
Revenues	36.6	32.0	106.1	95.7	11	130.1
Cost of revenues	2.0	2.2	5.7	6.1	-6	8.1
Gross margin	34.6	29.9	100.3	89.7	12	122.0
Other operating income	0.2	0.2	1.0	0.7	46	1.0
Sales and marketing	15.8	13.9	46.7	43.7	7	59.6
Research and development	9.4	8.2	28.8	24.3	19	34.5
Administration	2.8	2.1	8.8	6.1	44	9.1
Operating result	6.9	5.9	17.1	16.3	5	19.8
Financial net	0.0	-0.4	-0.2	-0.2		0.0
Result before taxes	7.0	5.5	16.9	16.1		19.9
Income taxes	-2.0	-1.4	-5.1	-4.2		-4.6
Result for the period	4.9	4.2	11.7	12.0		15.2
Other comprehensive income:						
Exchange diff. on translating foreign operations	0.0	-0.1	-0.1	0.1		0.1
Available-for-sale fin. assets	0.0	0.2	0.0	0.2		0.0
Income tax rel. to components of other comprehensive income	0.0	-0.1	0.0	-0.1		0.0
Total compr. income (owners)	5.0	4.2	11.7	12.2		15.4
Earnings per share, e	0.03	0.03	0.08	0.08		0.10
EPS diluted. e	0.03	0.03	0.07	0.07		0.10

BALANCE SHEET ASSETS	30/09/2011	30/09/2010	31/12/2010
Intangible assets	22.1	15.4	16.0
Tangible assets	8.6	7.1	7.5
Goodwill	19.4	19.4	19.4
Other financial assets	5.9	4.9	6.0
Non-current assets total	56.0	46.8	48.8
Inventories	0.1	0.4	0.4
Other receivables	31.0	28.1	29.7
Available-for-sale financial assets	15.9	16.8	16.8
Cash and bank accounts	10.1	12.1	16.2
Current asset total	57.2	57.5	63.1
Total	113.2	104.3	111.9

SHAREHOLDERS' EQUITY AND LIABILITIES	30/09/2011	30/09/2010	31/12/2010
Equity	54.4	49.0	51.4
Other non-current	1.8	2.3	2.2
Deferred revenues	7.7	7.3	7.8
Non-current liabilities total	9.5	9.6	10.0
Other current	22.0	17.8	21.1
Deferred revenues	27.3	27.9	29.4
Current liabilities total	49.3	45.6	50.4
Total	113.2	104.3	111.9

CASH FLOW STATEMENT	30/09/2011	30/09/2010	31/12/2010
Cash flow from operations	13.7	16.0	23.2
Cash flow from investments	-11.4	-9.3	-11.5
Cash flow from financing activities 1)	-9.4	-12.3	-13.2
Change in cash	-7.1	-5.6	-1.5
Cash and bank at 1 Jan	32.9	34.1	34.3
Change in net fair value of Available-for- sale	0.1	0.2	0.0
Cash and bank at end of period	25.9	28.8	32.8

### 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: 31.12.2010	1.6	0.2	3.2	-7.5	54.1	0.0	-0.2	51.4
Total comprehensive income for the year					11.7	0,1	-0.1	11.7
Dividend					-9.3			-9.3
Other change								
Exercise of options			1.3					1.3
Treasury shares				-1.2				-1.2
Cost of share based payments					0.4			0.4
Equity on 30.9.2011	1.6	0.2	4.4	-8.7	57.1	0.1	-0.2	54.4

### NOTES

1) Cash flow from financing

Dividend for year 2010 0.06 euro per share totaling 9.253.915.80 euro was paid on 12<sup>th</sup> April 2011. In 2010. Paid dividend totaled 9.310.086.12 euro. The company has bought own shares by 1.182.640 euro.



Key ratios	2011	2010	2010
	9 m	9 m	12 m
Operating result. % of revenues	16.1	17.0	15.2
ROI, %	44.5	47.3	42.5
ROE, %	29.6	32.5	30.3
Equity ratio, %	69.5	71.2	69.1
Debt-to-equity ratio, %	-47.5	-58.0	-63.2
Earnings per share (EUR)	0.08	0.08	0.10
Earnings per share diluted	0.07	0.07	0.10
Shareholders' equity per share. e	0.34	0.31	0.33
P/E ratio	19.2	22.1	23.1
Capitalized expenditures (Me)	12.7	9.0	10.4
Contingent liabilities	15.8	19.1	17.6
Personnel, average	860	841	835
Personnel, end of period	907	855	812

### Segment information

The Group has only one segment; data security.

Quarterly development	1/10	2/10	3/10	4/10	1/11	2/11	3/11
Revenues	31.4	32.3	32.0	34.4	34.1	35.3	36.6
Cost of revenues	2.0	1.9	2.2	2.0	1.8	1.9	2.0
Gross margin	29.4	30.4	29.9	32.4	32.3	33.4	34.6
Other operating income	0.3	0.2	0.2	0.3	0.4	0.4	0.2
Sales and marketing	14.4	15.4	13.9	15.9	14.8	16.2	15.8
Research and development	7.8	8.3	8.2	10.2	9.4	9.9	9.4
Administration	1.9	2.1	2.1	3.0	3.0	3.0	2.8
Operating result	5.5	4.9	5.9	3.6	5.5	4.6	6.9
Financial net	-0.1	0.2	-0.4	0.2	-0.2	0.0	0.0
Result before taxes	5.5	5.2	5.5	3.7	5.3	4.6	7.0

### Geographical information

Revenue	7-9/2011	7-9/2010	1-9/2011	1-9/2010
Nordic countries	11.6	10.5	34.7	31.7
Rest of Europe	16.4	14.6	47.9	44.2
North America	4.2	2.8	11.2	8.3
Rest of the world	4.4	4.1	12.3	11.5
Total	36.6	32.0	106.1	95.7