

F-SECURE INTERIM REPORT 1 JANUARY – 31 MARCH 2019

STRONG GROWTH IN CORPORATE SECURITY



HIGHLIGHTS OF JANUARY–MARCH (Q1)

- Revenue increased by 24% to EUR 53.4 million (43.1m)
- Revenue from corporate security increased by 52% to EUR 29.4 million (19.4m)
- Revenue from consumer security increased by 1% to EUR 24.0 million (23.8m)
- Deferred revenue increased by 6% to EUR 71.4 million (67.2m)
- Adjusted EBITDA was EUR 5.0 million (3.8m), 9.4% of revenue (8.9%) ¹⁾
- Earnings per share (EPS) was EUR –0.01 (EUR 0.00)
- Cash flow from operating activities before financials items and taxes was EUR –0.3 million (1.2m) ¹⁾

¹⁾ F-Secure has adopted the new Leases standard (IFRS 16) on 1 January 2019 using the modified approach. Comparative information has not been restated. For the first quarter, the impact of IFRS 16 on adjusted EBITDA is EUR +1.6 million and on operative cash flow EUR +1.5 million. For the full year 2019, the impact on adjusted EBITDA is estimated to be around EUR +6.0 million.

OUTLOOK

Outlook for 2019 unchanged

The company's outlook for 2019 is unchanged:

- Revenue from corporate security is expected to grow by over 30% compared to 2018
- Revenue from consumer security is expected to stay approximately at the same level as in 2018
- Adjusted EBITDA is expected to be above EUR 15 million excluding the impact of IFRS 16

Outlook for the strategy period 2018–2021 is unchanged

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.

CONTENTS

02	Highlights
02	Outlook
03	CEO's review
04	Financial performance
10	Strategy
11	F-Secure products and services
15	Changes in the accounting principles
16	Tables

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

CEO SAMU KONTTINEN

F-Secure's revenue growth improved in both of our businesses during the first quarter. Our total revenue increased by 24% to EUR 53.4 million, with revenue from corporate security increasing by 52%. In terms of profitability, the quarter was in line with our expectations.

I was particularly pleased to see our consumer security revenue growing again. F-Secure's operator channel continues to show steady performance, supported by our very competitive and comprehensive portfolio.

In corporate security, our core endpoint protection (EPP) business performed well. Reliable endpoint protection is the backbone of cyber security, and F-Secure continues to win recognition for its industry leading capabilities to stop cyber threats. In February, we won our seventh Best Protection Award from AV-TEST Institute. The new Endpoint Detection and Response (EDR) solution has improved our protection capabilities further, and forms an increasing part of the discussions with our partners and corporate customers, even if we are still at an early phase in this market.

We continued to put our efforts into integrating our two Managed Detection and Response (MDR) solutions (Countercept & RDS) into a single very competitive modular solution. A combination of MDR solutions and adjacent consultancy services – such as incident response – allows us to help our customers react to cyber attacks effectively. This is reflected in the very high MDR renewal rates, which offer an important validation of the value we deliver and the trust our customers place on us. We expect to see significant variation in new customer acquisition between different quarters depending on the timing of the deals. In January-March, new sales were low, but revenue was in strong growth compared to previous year. At the same time, our MDR sales pipeline continued to develop positively.

**“REVENUE
GROWTH
IMPROVED IN
BOTH OF OUR
BUSINESSES.”**

It was another good quarter for cyber security consulting with revenue growing across all regions. Our global ability to provide cyber advisory services is being recognized among corporate customers, and we closed a number of important new deals in many demanding verticals and expanded our services with existing customers. In the Nordics, revenue growth was driven by a large project, to which we also signed an extension during the quarter.

The first three months were a good start for the year overall, and we continued to focus on the successful integration of MWR InfoSecurity. F-Secure has three strong businesses to build on: our cyber security product business for consumers and corporate customers, as well as our cyber security consulting business. With each business growing and having their unique strengths, we have a solid foundation for delivering on our strategy.



CEO Samu Konttinen

FINANCIAL PERFORMANCE

EUR m	1–3/2019	1–3/2018	Change %	1–12/2018
Revenue	53.4	43.1	24%	190.7
Consumer security products	24.0	23.8	1%	94.9
Corporate security	29.4	19.4	52%	95.9
Products	17.8	14.8	21%	63.8
Consulting	11.6	4.6	158%	32.0
Cost of revenue	–12.6	–7.3	72%	–39.4
Gross Margin	40.8	35.8	14%	151.4
Other operating income	0.2	0.8	–77%	2.3
Operating expenses ¹⁾	–36.0	–32.8	10%	–136.2
Sales & Marketing	–23.5	–20.0	18%	–90.7
Research & Development	–9.3	–9.1	2%	–33.6
Administration	–3.2	–3.6	–12%	–11.9
Adjusted EBITDA ²⁾	5.0 ⁴⁾	3.8	31%	17.4
of revenue, %	9.4%	8.9%		9.1%
M&A expenses				–3.6
EBITDA	5.0 ⁴⁾	3.8	31%	13.8
of revenue, %	9.4%	8.9%		7.2%
Depreciation & amortization	–3.3 ⁴⁾	–1.5	121%	–6.8
PPA amortization	–1.2	–0.1	916%	–2.5
EBIT	0.6 ⁴⁾	2.3	–74%	4.6
of revenue, %	1.1%	5.2%		2.4%
Adjusted EBIT ²⁾	1.7	2.4	–26%	10.6
of revenue, %	3.3%	5.5%		5.6%
Earnings per share, (EUR) ³⁾	–0.01	0.00	–344%	0.01
Deferred revenue	71.4	67.2	6%	72.9
Cash flow from operations before financial items and taxes	–0.3 ⁴⁾	1.2	–130%	13.8
Cash and financial assets at fair value through P&L	23.4	88.5	–74%	27.8
ROI, %	1.6%	19.9%	–92%	7.9%
Equity ratio, %	41.3%	70.4%	–41%	42.7%
Gearing, %	36.5%	–123.1%	–130%	13.9%
Personnel, end of period	1,680	1,145	47%	1,666

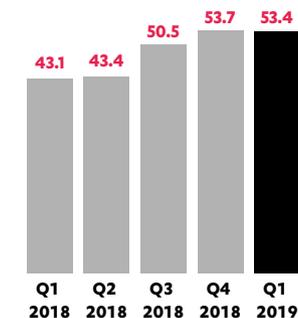
¹⁾ Excluding M&A related expenses, depreciation and amortization

²⁾ Adjustments are material items outside normal course of business associated with acquisitions, integration, gains or losses from sales of businesses and other items affecting comparability. Reconciliation and a breakdown of adjusted costs is in note 7 of the Table Section of this report.

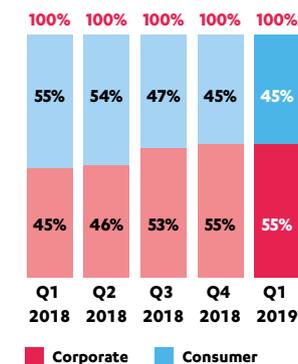
³⁾ Based on the weighted average number of outstanding shares during the period 157,630,535 (1–3/2019).

⁴⁾ IFRS 16 increased Adjusted EBITDA and EBITDA by EUR 1.6 million and Adjusted EBIT and EBIT by EUR 0.1 million. Depreciation and amortization increased by EUR 1.5 million. Positive impact on cash flow from operations before financial items and taxes was EUR 1.5 million.

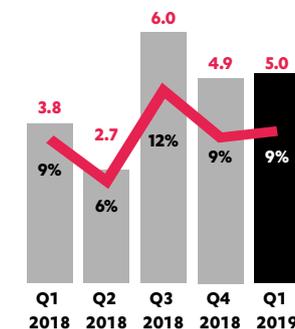
Revenue, MEUR



Revenue per business, % of revenue



Adjusted EBITDA, MEUR and % of revenue



First quarter (Q1)

Total revenue in January–March increased by 24% to EUR 53.4 million (43.1 m), driven by corporate security. The share of corporate security of total revenue was 55% (45%).

Corporate security

Revenue from corporate security increased by 52% year-on-year to EUR 29.4 million (19.4m), driven by both the contribution from the acquired MWR InfoSecurity as well as continued organic growth.

Products

Revenue from corporate security products increased by 21% to EUR 17.8 million (14.8m).

Revenue from endpoint protection (EPP) solutions increased from the previous year's level. Renewal rates with existing EPP installations were at a high level. New customer acquisition was slightly lower than during the comparison period, but good progress was made in several countries. In February, F-Secure won its seventh Best Protection Award from the AV-TEST Institute, highlighting the competitiveness of the company's offering. Going forward, new Endpoint Detection and Response (EDR) capabilities are increasingly supplementing customers' existing EPP solutions. F-Secure continued to work closely with new and existing partners to ramp up sales during the quarter, but EDR's revenue impact was still small for these three months. Initial customer and partner reactions have been positive.

Revenue from Managed Detection and Response (MDR) solutions (RDS, Countercept) increased significantly compared to the previous year. New customer acquisition for MDR solutions was lower than during the previous quarter, but overall the sales pipeline continued to develop positively. Both customer satisfaction and renewal rates with existing installations also remained very high, highlighting the competitiveness of F-Secure's MDR offering. Overall, the demand for detection and response solutions remains strong, but the new customer acquisition is expected to show significant variation between quarters typical to new advanced solutions.

Cyber security consulting

Revenue from cyber security consulting increased by 158% to EUR 11.6 million (4.6m).

F-Secure continued to win new deals and expand existing accounts in many demanding verticals. Revenue increased in all regions with growth being especially strong in Singapore, South Africa and the Nordics, where growth was driven by a large project to which an extension was also signed during the quarter. Overall, F-Secure continued to see strong demand in the cyber security services market, and successfully recruited new consultants to meet this in all regions.

Consumer security

Revenue from consumer security increased by 1% to EUR 24.0 million (23.8m) during the quarter, driven by improved performance in the operator channel.

Operators

Revenue from the operator channel increased slightly compared to the previous year's level. Overall, business developed as expected, and the company continued to work closely with its broad global network of partners to increase product activation. Negotiations with operators and router manufacturers to include F-Secure SENSE's capabilities in their router offering progressed well with several partners.

Direct sales

Revenue from direct sales to consumers increased slightly from the previous year's level, and renewals remained at a good level. Consumers are increasingly seeking to buy bundled solutions in order to secure their digital lives, which is driving sales of F-Secure TOTAL, the company's flagship product bundle for consumers. F-Secure continued to focus on pushing the sales of the company's broad consumer portfolio to increase average revenue per customer.

Deferred revenue

Deferred revenue increased by 6% (year-on-year) to EUR 71.4 million (67.2m), driven by the inclusion of MWR InfoSecurity.

Gross margin

Gross margin increased by EUR 5.0 million to 40.8 million (35.8m) and was 77% of revenue (83%). Relative gross margin decreased compared to previous year as the share of cyber security consultancy business increased due to the acquisition of MWR InfoSecurity. In comparison to previous quarter gross margin remained stable.

Operating expenses

Operating expenses excluding depreciation and amortization increased by EUR 3.2 million to 36.0 million (32.8m) due to the inclusion of MWR InfoSecurity in the company's financials.

Depreciation and amortization increased by EUR 2.8 million to 4.4 million (1.6m), where IFRS 16 impact was EUR 1.5 million and PPA amortization from acquisition of MWR InfoSecurity was EUR 1.1 million.

Profitability

Adjusted EBITDA was EUR 5.0 million and 9.4% of revenue (3.8m, 8.9%) and adjusted EBIT was EUR 1.7 million and 3.3% of revenue (2.4m, 5.5%). IFRS 16 had a positive impact of EUR 1.6 million to adjusted EBITDA, and EUR 0.1 million to adjusted EBIT.

EBIT was EUR 0.6 million and 1.1% of revenue (2.3m, 5.2%) including EUR 1.2 million of PPA amortization.

Cash flow

Cash flow from operating activities before financial items and taxes was –0.3m (1.2m). Compared to previous year cash flow decreased due to slower growth in deferred revenue. Cash flow from operations was EUR –1.4 million (–0.3m). IFRS 16 had a positive impact of EUR 1.5 million to operative cash flow.

FINANCING, CAPITAL STRUCTURE AND CAPITAL EXPENDITURE

EUR m	1-3/2019	1-3/2018	Change %	1-12/2018
Cash and financial assets at fair value through P&L	23.4	88.5	-74%	27.8
Interest bearing liabilities, non-current	36.8			31.0
Interest bearing liabilities, current	11.8			6.1
Capital expenditure	1.8	1.0	79%	99.8
Capital expenditure, excl. acquisitions	1.8	1.0	79%	7.5
Capitalized development expenses	1.2	0.5	140%	4.7
ROI, %	1.6%	19.9%		7.9%
Equity ratio, %	41.3%	70.4%		42.7%
Gearing, %	36.5%	-123.1%		13.9%

Financial position remained solid. First repayment of company's bank loan (EUR 3.0 million) is due at the end of second quarter.

Increase in interest bearing liabilities compared to previous year-end is due to adoption of IFRS 16 Leases -standard. At first quarter end the

amount of non-current lease liabilities is EUR 5.8 million and current lease liabilities is EUR 5.8 million. Recognition of lease liabilities also had an impact on F-Secure's equity ratio and gearing. Excluding IFRS 16 impact equity ratio is 44.4% and gearing 19.7%.

ORGANIZATION AND LEADERSHIP

Personnel

At the end of the quarter, F-Secure had 1,680 employees, which shows a net increase of 14 employees (8%) since the beginning of the year (1,666 on 31 December 2018), and an increase of 535 employees (47%) compared with end of March in 2018 (1,145). The acquisition of MWR InfoSecurity (July 2018) was the main reason behind the significant growth in personnel from the previous year, but F-Secure also continued recruitment in corporate security.

Leadership team

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

Samu Konttinen (CEO), Antti Hovila (Strategy & Corporate Development, as of March 25, 2019), Kristian Järnefelt (Consumer Cyber Security), Juha Kivikoski (Enterprise & Channel Sales), Jyrki Rosenberg (Marketing & Communications), Ian Shaw (Cyber Security), Jari Still (Information & Business Services), Mika Ståhlberg (Security Research & Technologies), Eriikka Söderström (CFO), Jyrki Tulokas (Cyber Security Products & Services) and Eva Tuominen (People Operations & Culture, as of March 12, 2019).

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 1,053,663 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 performance-based long-term share-based incentive programs for key employees and a matching share plan for all employees.

RISKS AND UNCERTAINTIES

Risks are defined as uncertainties which can impact the achievement of the Company's short and long term objectives. Risks are assessed as a combination of probability and impact.

The most significant risks are:

- Endpoint protection market disruption
- Market consolidation and failure to successfully complete acquisitions or divestments: in particular the integration of MWR InfoSecurity
- Failure to innovate and launch new technologies
- Failure to attract and retain talent

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

- Increased exposure outside the Eurozone carries increased risk related to currency fluctuations
- 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
- Interest rate risk exposure through increased borrowing
- Risk exposure from contractual liability requirements
- Potential security threats related to F-Secure's products and services
- Impact of a potential BREXIT to F-Secure's business

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, tightening regulation and increasing significance of geopolitics, these trends are driving demand for security products and 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, both traditional and new connected devices as well as online services. Apart from pure criminal activity, governments and hacktivists use vulnerabilities and malware for things including espionage and surveillance.

Attacks against corporations often go undetected for months. As most companies lack relevant capabilities for detection and response, it is estimated that the demand for both Endpoint Detection and Response (EDR) solutions and Managed Detection and Response (MDR) will continue to increase rapidly. The new detection and response capabilities are supplementing existing endpoint protection solutions (EPP), causing the EPP market to be in transition. Overall, as organizations are increasingly adopting cloud services, they seek managed security services and cloud-based delivery to help them maintain control of their security.

The consumer security software market continues to be impacted by the changing device landscape, app stores and online sales overall. On the whole, the number of connected smart home devices is growing very rapidly, and as a result telecommunications operators are investing heavily in upgrading connectivity and introducing new security related services into their offerings. As consumers become increasingly aware of the threats to their privacy and security, they seek to buy more comprehensive solutions to secure their digital lives. This creates opportunities for innovative new security products.

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 have transformed 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 cyber 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. We foresee the market moving towards managed endpoint security, and see especially strong growth in detection and response solutions. 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 security and privacy 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.

F-SECURE PRODUCTS AND SERVICES

Corporate security

In corporate security F-Secure provides a broad range of cyber security products, managed detection and response services and cyber security consulting to companies globally with a focus on the mid-market and local enterprises. The majority of revenue comes from product sales through a large network of solution and service provider partners.

Prediction solutions

F-Secure Radar – Vulnerability scanning and management platform

phishd – Anti-phishing behavior management platform



Prevention solutions

F-Secure Protection Service for Business – Cloud-hosted endpoint security

F-Secure Business Suite – On-site deployed endpoint security

F-Secure Cloud Protection for Salesforce – Content level security for Salesforce's customers

Detection & Response solutions

F-Secure Rapid Detection & Response – Customer- or partner-managed EDR solution for detecting and responding to targeted attacks

F-Secure Rapid Detection & Response Service – Managed detection and response service (MDR) providing 24/7 monitoring, alerts within minutes, and gives clear guidance on how to respond

Countercept – Advanced threat hunting and continuous response capabilities against targeted attacks delivered as a managed service (MDR)

Cyber security services

F-Secure provides premium consultancy services for all areas of cyber security on four continents, including services such as:

- F-Secure Cyber Incident & Resilience Services
- F-Secure Security Assessments
- F-Secure Red Team Testing
- F-Secure Cyber Risk Management

Consumer security

In consumer security the company provides a comprehensive range of endpoint protection, privacy and password management solutions, and security for all the connected devices at home, both separately and as a bundled premium offering (F-Secure TOTAL). The majority of consumer sales comes from the sale of endpoint protection products through the operator channel, but the company also sells consumer products through various online and retail partners, as well as the company's own web shop.

F-Secure SAFE – Easy to use antivirus and internet security, including Family rules to let you set healthy boundaries for your children's device use.

F-Secure FREEDOME – VPN that hides your online activity to ensure anonymous and secure internet browsing.

F-Secure KEY – A light and easy password manager, allowing you to store your passwords securely and access them from any device.

F-Secure SENSE – Protects every device in your connected home while serving as a fast, technologically advanced wireless router. The required router is sold separately or provided by the operator.



ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of F-Secure Corporation was held on March 19, 2019. The Meeting confirmed the financial statements for the financial year 2018. The members of the Board and the President and CEO were discharged from liability.

The following Board members were re-elected: Pertti Ervi, Bruce Oreck, Päivi Rekonen and Risto Siilasmaa. Tuomas Syrjänen and Matti Aksela, who belongs to the personnel of F-Secure Corporation, were elected as new members of the Board of Directors. The Board elected in its organizational meeting Risto Siilasmaa as the Chairman of the Board.

The Board decided to establish two committees: Personnel Committee (compensation and nomination matters) and Audit Committee.

- Personnel Committee: Risto Siilasmaa (Chairman), Bruce Oreck and Päivi Rekonen
- Audit Committee: Pertti Ervi (Chairman), Päivi Rekonen, Matti Aksela and Tuomas Syrjänen

The Annual General Meeting decided exceptionally to distribute no dividend for year 2018.

The AGM approved all proposals made by the Board of Directors as described in the Notice to the AGM published on February 25, 2019. The resolutions of the AGM can be found in the Company's stock exchange release of March 19, 2019.

EVENTS AFTER PERIOD-END

No material changes regarding the company's business or financial position have materialized after the end of the quarter.

ADDITIONAL INFORMATION

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Financial calendar

F-Secure Corporation will publish its interim reports during 2019 as follows:

- Q2/2019: 19 July 2019
- Q3/2019: 30 October 2019

KEY RATIOS AND OTHER KEY FIGURES

PROFITABILITY	1–3/2019	1–3/2018	1–12/2018
Revenue	53.4	43.1	190.7
Consumer security products	24.0	23.8	94.9
Corporate security	29.4	19.4	95.9
Products	17.8	14.8	63.8
Consulting	11.6	4.6	32.0
Gross margin	40.8	35.8	151.4
Gross margin, % of revenue	76.5%	83.1%	79.4%
Operating expenses	–40.4	–34.3	–149.1
Operating expenses for adjusted EBITDA	–36.0	–32.7	–136.2
Adjusted EBITDA	5.0 ¹⁾	3.8	17.4
Adjusted EBITDA, % of revenue	9.4%	8.9%	9.1%
EBITDA	5.0 ¹⁾	3.8	13.8
EBITDA, % of revenue	9.4%	8.9%	7.2%
Adjusted EBIT	1.7 ¹⁾	2.4	10.6
Adjusted EBIT, % of revenue	3.3%	5.5%	5.6%
EBIT	0.6 ¹⁾	2.3	4.5
EBIT, % of revenue	1.1%	5.2%	2.4%
ROI, %	1.6%	19.9%	7.9%
ROE, %	–8.3%	3.3%	1.2%
CAPITAL STRUCTURE			
Equity ratio, %	41.3% ¹⁾	70.4%	42.7%
Gearing, %	36.5% ¹⁾	–123.1%	13.9%
Interest bearing liabilities	48.6 ¹⁾		37.1
Cash and financial assets at FVTPL	23.4	88.5	27.8
SHARE RELATED			
Earnings per share, basic and diluted	–0.01	0.00	0.01
Shareholders' equity per share, EUR	0.44	0.46	0.42
OTHER			
Capitalized expenditure, excl. acquisition	1.8	1.0	7.5
Capitalized development expenses	1.2	0.5	4.7
Depreciation and amortization excl. PPA amortization	–3.3 ¹⁾	–1.5	–6.8
Depreciation and amortization	–4.4 ¹⁾	–1.6	–9.3
Personnel, average	1,667	1,130	1,364
Personnel, period end	1,680	1,145	1,666

¹⁾ IFRS 16 impacts the figure in Q1 2019

CHANGES IN THE ACCOUNTING PRINCIPLES

The Group has adopted following new and amended standards and interpretations as of 1 January 2019:

IFRS 16 Leases

F-Secure adopted IFRS 16 Leases standard using modified approach on 1 January 2019. Comparative information has not been restated. Under IFRS 16 almost all leases are recognized on the balance sheet as the distinction between operating and finance leases was removed. Right-of-use assets (leased item) and corresponding lease liability was recognized according to the standard in opening balance sheet on 1 January 2019.

IFRS 16 changes the definition of a lease to mainly relate to the concept of control. Leases and service contracts are distinguished on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

F-Secure's right-of-use assets comprise of rented office premises and leased cars. Under IAS 17 these were classified as operating leases. Based on the analysis carried out in the implementation project lease definition under IFRS 16 is met by most of the rented office premises and leased cars. Short-term contracts (remaining contract period less than 12 months) and low value assets are excluded from leases and lease expense is recognized on a straightline basis as permitted by IFRS 16.

On initial application of IFRS 16 F-Secure has:

- Recognized right-of-use assets and lease liabilities in the consolidated statement of financial position measured at the present value of the future lease payments;
- Recognized depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit and loss; and
- Separated the total amount of cash paid into principal and interest in the consolidated cash flow statement. Principal payment is presented in financing activities and interest in operating activities.

Impact of IFRS 16 in opening balance as at 1 January 2019 is EUR 12.8 million increase in tangible assets (right-of-use assets) and interest bearing liabilities. Short-term portion of interest bearing liabilities on 1 January 2019 is EUR 5.7 million.

Right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of assets.

IFRIC 23 Uncertainty over income tax treatment

F-Secure has adopted IFRIC 23 interpretation on 1 January 2019. The interpretation clarifies the application of IAS 12 Income taxes when there is uncertainty related to the tax treatment. The new interpretation did not have material impact on Group's income tax treatment.

The Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting standard. Apart from the changes in accounting principles stated below, the accounting principles applied in the interim report are the same as in the annual report 2018.

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

INCOME STATEMENT

	1-3/2019	1-3/2018	Change %	1-12/2018
Revenue	53.4	43.1	24%	190.7
Cost of revenue	-12.6	-7.3	72%	-39.4
Gross margin	40.8	35.8	14%	151.4
Other operating income	0.2	0.8	-77%	2.3
Sales and marketing	-25.7	-21.0	23%	-95.0
Research and development	-10.2	-9.6	7%	-35.7
Administration	-4.6	-3.8	19%	-18.3
EBIT	0.6	2.3	-75%	4.5
Financial net	-1.5	-1.0	62%	-2.8
Result before taxes	-1.0	1.3	-176%	1.7
Income taxes	-0.4	-0.7	-41%	-0.9
Result for the period total	-1.4	0.6	-345%	0.8
Other comprehensive income				
Exchange differences on translating foreign operations	3.5	0.0		-1.3
Total comprehensive income (parent company owners)	2.1	0.6	303%	-0.4
Earnings per share				
Earnings per share, basic and diluted, EUR	-0.01	0.00	-344%	0.01

BALANCE SHEET

Assets	31 Mar 2019	31 Mar 2018	31 Dec 2018
Tangible assets ¹⁾	16.7	3.3	5.2
Intangible assets	38.2	14.0	38.4
Goodwill	93.2	10.1	90.7
Deferred tax assets	3.9	3.6	4.0
Other receivables	0.6	0.7	0.5
Total non-current assets	152.6	31.8	138.7
Inventories	0.4	0.7	0.6
Accrued income	2.5	0.0	1.3
Trade and other receivables	53.7	48.1	55.3
Income tax receivables	5.3	0.1	4.2
Financial asset at fair value through profit and loss	0.1	53.9	0.1
Cash and bank accounts	23.4	34.6	27.8
Total current assets	85.4	137.4	89.4
Total assets	238.0	169.3	228.0
Shareholders' equity and liabilities	31 Mar 2019	31 Mar 2018	31 Dec 2018
Equity	68.8	71.9	66.3
Interest bearing liabilities, non-current ¹⁾	36.8	...	31.0
Deferred tax liability	4.4	1.5	4.1
Deferred revenue, non-current	17.5	12.4	17.6
Other non-current liabilities	1.1	1.1	16.2
Provisions ²⁾	...	1.2	1.2
Total non-current liabilities	59.8	16.2	70.0
Interest bearing liabilities, current ¹⁾	11.8	...	6.1
Trade and other payables	42.4	26.7	29.5
Income tax liabilities	1.3	-0.3	0.8
Deferred revenue, current	53.9	54.8	55.3
Total current liabilities	109.4	81.2	91.7
Total liabilities and equity	238.0	169.3	228.0

¹⁾ IFRS 16 impact in Q1 2019, see note 5

²⁾ Provisions which related to a claim in France will become payable during second quarter of 2019 and are now included in Trade and other payables.

CASH FLOW STATEMENT

	1–3/2019	1–3/2018	1–12/2018
Cash flow from operations			
Result for the financial year	–1.4	0.6	0.8
Adjustments	6.9	4.7	15.1
Cash flow from operations before change in working capital	5.5	5.2	16.0
Change in net working capital	–5.8	–4.1	–2.2
Cash flow from operating activities before financial items and taxes	–0.3	1.2	13.8
Net financial items and taxes	–1.0	–1.5	–7.0
Cash flows from operating activities	–1.4	–0.3	6.8
Cash flow from investments			
Net investments in tangible and intangible assets	–1.7	–1.0	–7.1
Acquisition of subsidiaries, net of cash acquired			–91.9
Other investments, net		–0.3	53.5
Cash flow from investments	–1.7	–1.3	–45.6
Cash flow from financing activities			
Repayments of interest bearing liabilities ¹⁾	–1.5		–0.5
Increase in interest-bearing liabilities			37.0
Own shares			–0.1
Dividends paid			–6.3
Cash flow from financing activities	–1.5	0.0	30.1
Change in cash	–4.6	–1.5	–8.7
Cash and bank at the beginning of the period	27.8	36.3	36.3
Effect of exchange rate changes on cash	0.2	–0.1	0.2
Cash and bank at period end	23.4	34.6	27.8

¹⁾ IFRS 16 lease liability repayments in Q1 2019

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
Equity 31 Dec 2017	1.6	0.2	5.4	-4.6	66.5	1.0	-0.6	69.5
Impact of IFRS 15 restatement					1.1			1.1
Impact of IFRS 9 restatement					1.2	-1.0		0.2
Equity 1 Jan 2018 (restated)	1.6	0.2	5.4	-4.6	68.8	0.0	-0.6	70.8
Total comprehensive income for the year					0.6			0.6
Cost of share based payments			0.4	0.8	-0.6			0.5
Equity 31 Mar 2018	1.6	0.2	5.7	-3.8	68.7	0.0	-0.6	71.9
	Share capital	Share premium fund	Unrestricted equity reserve	Treasury shares	Retained earnings	Available-for-sale assets	Translation difference	Total
Equity 31 Dec 2018	1.6	0.2	6.1	-2.8	63.1	0.0	-1.8	66.3
Total comprehensive income for the year					-1.4		3.5	2.1
Cost of share based payments			0.1	0.5	-0.2			0.4
Equity 31 Mar 2019	1.6	0.2	6.2	-2.2	61.5	0.0	1.8	68.8

1 SIGNIFICANT EXCHANGE RATES AND SENSITIVITY TO EXCHANGE RATE CHANGES

One Euro is	Average rates			End rates		
	1-3/2019	1-3/2018	1-12/2018	31 Mar 2019	31 Mar 2018	31 Dec 2018
USD	1.1451	1.2221	1.1838	1.1235	1.2321	1.1450
GBP	0.8762	0.8835	0.8853	0.8583	0.8749	0.8945
JPY	125.70	133.78	130.77	124.45	131.15	125.85

Changes in exchange rates on profit before taxes

+/-10% FX rate change	1-3/2019	1-12/2018
USD	+/-0.6	+/-1.2
GBP	+/-1.0	+/-2.4
JPY	+/-0.6	+/-0.4

2 SEGMENT INFORMATION

The Group has one segment (security).

	1-3/2019	1-3/2018	1-12/2018
Revenue	53.4	43.1	190.7
Cost of revenue	-12.6	-7.3	-39.4
Gross profit	40.8	35.8	151.4
Other operating income	0.2	0.8	2.3
Sales and marketing	-25.7	-21.0	-95.0
Research and development	-10.2	-9.6	-35.7
Administration	-4.6	-3.8	-18.3
EBIT	0.6	2.3	4.5
Financial net	-1.5	-1.0	-2.8
Result before taxes	-1.0	1.3	1.7

Disaggregation of revenue

By sales channels	1-3/2019	1-3/2018	1-12/2018
Consumer security products	24.0	23.8	94.9
Corporate security	29.4	19.4	95.9
Products	17.8	14.8	63.8
Consulting	11.6	4.6	32.0
Total revenue	53.4	43.1	190.7

By geographical area	1-3/2019	1-3/2018	1-12/2018
Nordic countries	18.5	16.4	67.0
Rest of Europe	23.5	18.6	84.6
North America	4.5	4.0	17.2
Rest of the world	6.9	4.1	21.9
Total revenue	53.4	43.1	190.7

3 ACQUISITIONS

Prior period

On 2 July 2018 F-Secure acquired 100% of the share capital of MWR InfoSecurity Ltd, a privately held cyber security company operating globally from its main offices in the UK, the US, South Africa and Singapore. Details of this acquisition were disclosed in note 11 of the Group's annual financial statements for the year ended 31 December 2018.

4 INTANGIBLE AND TANGIBLE ASSETS

	31 Mar 2019	31 Mar 2018	31 Dec 2018
Book value at the beginning of the period	134.2	28.0	28.0
Right-of-use assets at the beginning of the period	12.8		
Acquisitions and divestments			108.3
Additions	2.0	1.0	7.5
Disposals	0.0	0.0	-0.4
Depreciation and amortization	-4.4	-1.6	-9.1
Translation differences	3.5	0.0	0.0
Book value at the end of the period	148.1	27.5	134.2

5 RIGHT-OF-USE ASSETS AND ADOPTION OF IFRS 16

Adoption of IFRS 16

On adoption of IFRS 16 the Group recognized lease liabilities in relation to leases which had under IAS 17 been classified as operating leases. Lease liabilities are presented as part of interest bearing liabilities in the Group's balance sheet. These liabilities were measured at the present value of the remaining lease payments on 1 January, 2019. The incremental borrowing rate applied in discounting the lease liabilities is 2.45 – 9.15% depending on the geographical location of the leased asset.

The impacts of IFRS 16 to the Group's EBIT, adjusted EBIT, EBITDA and adjusted EBITDA are presented in the note 7.

In applying IFRS 16 the Group is using following judgments and expedients:

- property leases with lease term of less than 12 months are excluded from right-of-use assets and lease liabilities as short-term leases
- in the adoption of IFRS 16 all car leases were included in right-of-use assets and lease liabilities even with remaining lease term of less than 12 months as it is probable that an ending lease contract will be replaced by a new contract
- low value assets are excluded from right-of-use assets and lease liabilities

Lease contracts for the Group's office premises are typically made for fixed periods of 3 to 6 years and they may contain extension options. Each office lease contract is negotiated individually and the contracts may contain wide range of different terms and conditions. Some of Group's office premises are leased with on-going contracts where the ending date is not defined. The management has assessed the probable duration for these contracts case-by-case and the lease liability is calculated accordingly. Estimated duration for on-going contracts vary between 3 to 5 years and the total liability from on-going contracts is EUR 4.6 million.

In measuring the present value of the liabilities arising from leases any service related fees were excluded from the lease payment. The Group's lease contracts do not contain residual value guarantees or purchase options.

Adjustments made in adoption of IFRS 16

	1 Jan 2019
Operating lease commitments disclosed on 31 December 2018	13.8
Less short-term leases recognized on a straight-line basis as expense	-0.3
Less service portion in reported lease commitments	-1.9
Add IT contracts recognized as leases according to IFRS 16	0.3
Adjustments as a result of assumptions in contract durations	0.8
Lease liability recognized on 1 Jan 2019	12.8
Of which	
Current lease liabilities	5.7
Non-current lease liabilities	7.1

The recognized right-of-use assets are presented as part of tangible assets in the Group balance sheet. The right-of-use assets relate to following types of assets:

	31 Mar 2019	1 Jan 2019
Properties	9.2	10.3
Cars	2.0	2.1
Machinery and equipment	0.3	0.3
Total right-of-use assets	11.6	12.8

Impacts of IFRS 16 to the Group's income statement for 1-3/2019 are as follows:

	1-3/2019
Decrease in Cost of Revenue	0.1
Decrease in operating expenses (lease expenses)	1.5
Increase in right-of-use asset depreciation	-1.5
Increase in EBIT	0.1
Increase in financial expenses	-0.1
Profit / Loss for the period	0.0

7 RECONCILIATION BETWEEN ADJUSTED EBITDA, EBITDA, ADJUSTED EBIT AND EBIT

Certain non-IFRS based alternative performance measures (APM) are included in F-Secure's reporting. Alternative performance measures are provided to reflect the underlying business performance, and to exclude certain non-operational or non-cash valuation items affecting comparability (IAC). The aim is to improve comparability, and alternative performance measures should not be regarded as substitutes for IFRS based

measures. Alternative performance measures include EBITDA, adjusted EBITDA and adjusted EBIT. Depreciations, amortization and impairments are excluded from EBITDA. Also, the adjusted EBITDA and adjusted EBIT exclude IACs which are material items outside normal course of business. These items are associated with acquisitions, integration costs, gains and losses from sales of businesses and other items affecting comparability.

	1-3/2019	1-3/2018	1-12/2018
Adjusted EBITDA excluding IFRS 16	3.4	3.8	17.4
IFRS 16 impact	1.6		
Adjusted EBITDA	5.0	3.8	17.4
Adjustments to EBITDA			
Costs related to business acquisitions			-2.6
Costs related to integration			-1.0
EBITDA	5.0	3.8	13.8
Depreciation, amortization and impairment losses	-4.4	-1.6	-9.3
EBIT	0.6	2.3	4.5
	1-3/2019	1-3/2018	1-12/2018
Adjusted EBIT excluding IFRS 16	1.7	2.4	10.6
IFRS 16 impact	0.1		
Adjusted EBIT	1.7	2.4	10.6
Adjustments to EBIT			
Costs related to business acquisitions			-2.6
Costs related to integration			-1.0
PPA amortization	-1.2	-0.1	-2.5
EBIT	0.6	2.3	4.5

Classification of adjusted costs in operating expenses

	Operating Expenses 1-3/2019	M&A expenses	Expenses for adjusted EBIT	Depreciation	IFRS 16 depreciation	PPA amortization	Operating Expenses for Adjusted EBITDA 1-3/2019
Sales and marketing	-25.7		-25.7	0.5	1.1		-24.1
Research and development	-10.2		-10.2	1.2	0.3		-8.7
Administration	-4.6		-4.6	0.1	0.1	1.2	-3.2
Operating expenses	-40.4	0.0	-40.4	1.8	1.5	1.2	-36.0

8 QUARTERLY FIGURES

INCOME STATEMENT	1–3/2019	10–12/2018	7–9/2018	4–6/2018	1–3/2018
Revenue	53.4	53.7	50.5	43.4	43.1
Cost of revenue	-12.6	-12.5	-11.7	-7.8	-7.3
Gross margin	40.8	41.3	38.7	35.6	35.8
Other operating income	0.2	0.6	0.3	0.5	0.8
Sales and marketing	-25.7	-26.2	-24.0	-23.9	-21.0
Research and development	-10.2	-9.7	-8.2	-8.2	-9.6
Administration	-4.6	-4.6	-6.5	-3.4	-3.8
EBIT	0.6	1.4	0.4	0.5	2.3
Financial net	-1.5	-0.9	-0.3	-0.7	-1.0
Result before taxes	-1.0	0.5	0.1	-0.2	1.3
Income taxes	-0.4	-0.9	0.7	0.0	-0.7
Result for the period total	-1.4	-0.4	0.8	-0.2	0.6
EARNINGS PER SHARE					
Earnings per share, basic and diluted, EUR	-0.01	0.00	0.01	0.00	0.00
KEY FIGURES					
Gross margin, % of revenue	76.5%	76.8%	76.8%	81.9%	83.1%
Adjusted EBITDA ¹⁾	5.0	4.9	6.0	2.7	3.8
Adjusted EBITDA, % of revenue ¹⁾	9.4%	9.0%	11.9%	6.3%	8.9%
Adjusted EBIT	1.7	2.8	4.2	1.2	2.4
Adjusted EBIT, % of revenue	3.3%	5.3%	8.3%	2.6%	5.5%
ROI, %	1.6%	6.2%	7.7%	0.6%	19.9%
ROE, %	-8.3%	-2.2%	4.7%	-0.9%	3.3%
Equity ratio, % (YTD) ¹⁾	41.3%	42.7%	43.7%	70.0%	70.4%
Gearing, % (YTD) ¹⁾	36.5%	13.9%	23.4%	-112.7%	-123.1%
Interest bearing liabilities ¹⁾	48.6	37.1	37.2		
Cash and financial assets at FVTPL	23.4	27.9	21.5	79.8	88.5
Capitalized expenditure, excl. acquisition	1.8	2.3	1.8	2.3	1.0
Capitalized development expenses	1.2	1.3	1.4	1.5	0.5
Depreciation and amortization excl. PPA amortization ¹⁾	-3.3	-2.0	-1.8	-1.5	-1.5
Depreciation and amortization ¹⁾	-4.4	-3.2	-2.9	-1.6	-1.6
Personnel, period end	1,680	1,666	1,636	1,201	1,145

¹⁾ IFRS 16 impacts the key figure in Q1 2019

CALCULATION OF KEY FIGURES

Equity ratio, %	$\frac{\text{Total equity}}{\text{Total assets – deferred revenue}} \times 100$
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, %	$\frac{\text{Interest bearing liabilities – cash and bank and financial assets through profit and loss}}{\text{Total equity}} \times 100$
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	$\frac{\text{Equity attributable to equity holders of the company}}{\text{Number of outstanding shares at the end of period}}$
Operating expenses	Sales and marketing, research and development, and administration costs
EBITDA	EBIT + Depreciation, amortization and impairment

CYBER SECURITY LIVES HERE

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