

# F-Secure's restated information on 2017 financials as a result of adoption of the IFRS 15 Accounting Standard and revision of Cost of Revenue



F-Secure publishes restated information on 2017 financials as a result of adoption of the IFRS 15 Accounting Standard and revision of Cost of Revenue. First quarter result will be published on May 4th, 2018.

## SUMMARY

Due to the adoption of IFRS 15 Accounting Standard as of 1 January 2018, revenue and EBIT of the Group for 2017 increased by EUR 0.1 million and EUR 0.4 million respectively attributable to this restatement. The tables in this document provide the key financial indicators on a restated basis with description of the transition approach and details of the impact.

Together with analyzing the IFRS 15 impacts F-Secure has also revised the allocation of costs between Cost of Revenue (CoR) and Operating Expenses (OPEX). As a result Cost of Revenue for 2017 increased by EUR 18.4 million and Operating Expenses decreased respectively (Sales and marketing -18.0 MEUR and Research and development -0.4 MEUR). The impact of revised CoR to 2017 financials and a description of the revision is presented in this document.

The restated financial information includes restated opening balance as at 1 January 2017 and provides comparative information for quarterly results released later.

The restated financial information included here within is unaudited.

## TRANSITION TO IFRS 15

F-Secure reviewed the historical contracts with customers and has recalculated the revenue recognition of those based on IFRS 15 standard. The cumulative impact of all previous years on the balance of deferred revenue has been presented as an adjustment on the opening balance of retained earnings in the beginning of 2017.

Review of the contracts and analysis of the sales and products established that F-Secure products and services are to be treated as one performance obligation. According to IFRS 15 these shall be recognized over time throughout the duration of the contract. Contracts with point in time recognition in consumer business and consulting have been identified. IFRS15 had little to no impact on these cases.

## IMPACT OF THE IFRS 15 STANDARD

IFRS 15 Revenue from Customer Contracts requires that revenue is recognized when an entity satisfies performance obligations towards its customers. It has been concluded that the revenue from customer contracts shall mainly be recognized over time, as the nature of the performance obligation is such that F-Secure satisfies it throughout customer contract duration. The analysis has concluded that cyber security software and services are, by large, considered as one performance obligation that is satisfied over time.

The implementation of the new standard impacts mostly corporate and consumer security contracts of which a portion of the revenue was recognized upfront. Majority of the contracts have already been recognized as revenue over time prior to application of IFRS 15. The impact of the new standard on revenue is low due to offsetting effect of the historical recognized revenue and deferral of the new sales. Operator contracts are not impacted.

The new standard has also impacted the recognition of the incremental costs of obtaining contracts with customers, and therefore F-Secure has deferred the recognition of sales commissions. Impact of sales commissions deferral on 2017 restated financials is low as historical costs recognized were compensated by deferral of the new costs.

An impact of the new standard to retained earnings in opening balance as at 1 January 2017 is EUR 0.8 million. The increase of equity is divided between an increase in result before taxes of EUR 1.1 million and a increase in income taxes of EUR 0.2 million. Of the total EUR 1.1 million impact, EUR 4.7 million was due to decreased revenue and EUR 5.8 million due to decrease of sales commissions.

The restatement of revenue and sales commissions had in aggregate of 1.1 million euros impact on Group's retained earnings in opening balance as at 1 January 2018. 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.

Revenue impact on Corporate Security was a reduction of recognized revenue by EUR 0.3 million. Deferred historical revenue brought in an additional EUR 1.9million, whereas the deferral of 2017 contracts to future period caused a reduction of EUR 2.2 million. Impact on Consumer Security was an increase in revenue by EUR 0.3 million.

The restatement impacted following items in balance sheet: Deferred revenue (non current and current), Trade and other payables, Deferred tax assets and liabilities and Equity. Impacts on key economic indicators were minor.

## IMPACT OF REVISION OF COST OF REVENUE

F-Secure has revised the allocation of costs between Cost of Revenue (CoR) and Operating Expenses (OPEX). The impact for 2017 financial statements is a decrease of Gross Margin from 96 % to 85 %. 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.

In previous reporting, F-Secure's Materials and Services 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.

All figures in the following tables are EUR million unless otherwise stated. The figures are subject to rounding which may cause some inaccuracies in aggregate column and row totals.

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. The content of revenue remains the same. Changes in the content of the item Cost of Revenue has been described above.

## INCOME STATEMENT, QTD

	Reported 1-3/2017	IFRS 15	CoR	Restated 1-3/2017		Reported 4-6/2017	IFRS 15	CoR	Restated 4-6/2017
Revenue	41.0	-0.2		40.9		43.2	0.1		43.3
Cost of revenue	-1.5		-4.1	-5.6		-1.5		-4.3	-5.8
<b>Gross margin</b>	<b>39.6</b>	<b>-0.2</b>	<b>-4.1</b>	<b>35.4</b>		<b>41.7</b>	<b>0.1</b>	<b>-4.3</b>	<b>37.5</b>
Other operating income	0.6			0.6		0.5			0.5
Sales and marketing	-26.1	0.1	4.0	-22.0		-27.3	-0.2	4.2	-23.3
Research and development	-8.7		0.1	-8.6		-8.8		0.1	-8.7
Administration	-3.8			-3.8		-3.9			-3.9
<b>EBIT</b>	<b>1.6</b>	<b>0.0</b>	<b>0.0</b>	<b>1.6</b>		<b>2.3</b>	<b>-0.1</b>	<b>0.0</b>	<b>2.2</b>
Financial net	-0.1			-0.1		1.1			1.1
<b>Result before taxes</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>1.5</b>		<b>3.3</b>	<b>-0.1</b>	<b>0.0</b>	<b>3.2</b>
Income taxes	-0.5	0.0		-0.5		1.1	0.0		1.1
<b>Result for the period</b>	<b>1.0</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.9</b>		<b>4.5</b>	<b>-0.1</b>	<b>0.0</b>	<b>4.4</b>
<b>Other comprehensive income</b>									
Exchange differences on translating foreign operations	0.0			0.0		-0.4			-0.4
Available-for-sale financial assets	0.4			0.4		-0.6			-0.6
Income tax relating to components of other comprehensive income	-0.1			-0.1		0.1			0.1
<b>Total comprehensive income (parent company owners)</b>	<b>1.3</b>			<b>1.2</b>		<b>3.5</b>			<b>3.5</b>

	Reported 7-9/2017	IFRS 15	CoR	Restated 7-9/2017		Reported 10-12/2017	IFRS 15	CoR	Restated 10-12/2017
Revenue	41.0	0.2		41.2		44.4	-0.1		44.4
Cost of revenue	-2.3		-4.0	-6.3		-1.4		-6.0	-7.4
<b>Gross margin</b>	<b>38.7</b>	<b>0.2</b>	<b>-4.0</b>	<b>34.8</b>		<b>43.1</b>	<b>-0.1</b>	<b>-6.0</b>	<b>37.1</b>
Other operating income	0.5			0.5		0.3			0.3
Sales and marketing	-24.0	0.6	3.9	-19.4		-27.6	-0.2	5.9	-21.9
Research and development	-8.6		0.1	-8.5		-8.5		0.1	-8.4
Administration	-3.3			-3.3		-3.3			-3.3
<b>EBIT</b>	<b>3.3</b>	<b>0.8</b>	<b>0.0</b>	<b>4.1</b>		<b>3.9</b>	<b>-0.2</b>	<b>0.0</b>	<b>3.7</b>
Financial net	0.2			0.2		-0.4			-0.4
<b>Result before taxes</b>	<b>3.5</b>	<b>0.8</b>	<b>0.0</b>	<b>4.3</b>		<b>3.6</b>	<b>-0.2</b>	<b>0.0</b>	<b>3.4</b>
Income taxes	-0.9	-0.2		-1.1		-0.9	0.0		-0.9
<b>Result for the period</b>	<b>2.6</b>	<b>0.7</b>	<b>0.0</b>	<b>3.3</b>		<b>2.7</b>	<b>-0.2</b>	<b>0.0</b>	<b>2.5</b>
<b>Other comprehensive income</b>									
Exchange differences on translating foreign operations	-0.3			-0.3		-0.1			-0.1
Available-for-sale financial assets	0.1			0.1		0.0			0.0
Income tax relating to components of other comprehensive income	0.0			0.0		0.0			0.0
<b>Total comprehensive income (parent company owners)</b>	<b>2.4</b>			<b>3.1</b>		<b>2.6</b>			<b>2.4</b>

## INCOME STATEMENT, YTD

	Restated					Reported			
	1-3/2017	1-6/2017	1-9/2017	1-12/2017		1-3/2017	1-6/2017	1-9/2017	1-12/2017
Revenue	40.9	84.2	125.4	169.8		41.0	84.3	125.3	169.7
Cost of revenue	-5.6	-11.4	-17.7	-25.0		-1.5	-3.0	-5.3	-6.6
<b>Gross margin</b>	<b>35.4</b>	<b>72.8</b>	<b>107.7</b>	<b>144.8</b>		<b>39.6</b>	<b>81.2</b>	<b>120.0</b>	<b>163.1</b>
Other operating income	0.6	1.2	1.6	1.9		0.6	1.2	1.6	1.9
Sales and marketing	-22.0	-45.3	-64.8	-86.7		-26.1	-53.4	-77.4	-105.0
Research and development	-8.6	-17.3	-25.7	-34.1		-8.7	-17.5	-26.0	-34.5
Administration	-3.8	-7.7	-11.0	-14.3		-3.8	-7.7	-11.0	-14.3
<b>EBIT</b>	<b>1.6</b>	<b>3.7</b>	<b>7.8</b>	<b>11.5</b>		<b>1.6</b>	<b>3.9</b>	<b>7.2</b>	<b>11.1</b>
Financial net	-0.1	1.0	1.2	0.8		-0.1	1.0	1.2	0.8
<b>Result before taxes</b>	<b>1.5</b>	<b>4.7</b>	<b>9.0</b>	<b>12.3</b>		<b>1.5</b>	<b>4.9</b>	<b>8.4</b>	<b>11.9</b>
Income taxes	-0.5	0.6	-0.5	-1.3		-0.5	0.6	-0.3	-1.2
<b>Result for the period</b>	<b>0.9</b>	<b>5.3</b>	<b>8.6</b>	<b>11.1</b>		<b>1.0</b>	<b>5.5</b>	<b>8.1</b>	<b>10.8</b>
<b>Other comprehensive income</b>									
Exchange differences on translating foreign operations	0.0	-0.5	-0.7	-0.8		0.0	-0.5	-0.7	-0.8
Available-for-sale financial assets	0.4	-0.2	-0.1	-0.1		0.4	-0.2	-0.1	-0.1
Income tax relating to components of other comprehensive income	-0.1	0.0	0.0	0.0		-0.1	0.0	0.0	0.0
<b>Total comprehensive income (parent company owners)</b>	<b>1.2</b>	<b>4.6</b>	<b>7.8</b>	<b>10.2</b>		<b>1.3</b>	<b>4.8</b>	<b>7.2</b>	<b>9.8</b>

## STATEMENT OF FINANCIAL POSITION

	Restated					Reported				
	1 Jan 2017	31 Mar 2017	30 Jun 2017	30 Sep 2017	31 Dec 2017	1 Jan 2017	31 Mar 2017	30 Jun 2017	30 Sep 2017	31 Dec 2017
<b>Assets</b>										
<b>Non-current assets</b>										
Tangible assets	3.3	3.2	3.3	3.2	3.2	3.3	3.2	3.3	3.2	3.2
Intangible assets	13.4	14.0	15.3	14.5	14.7	13.4	14.0	15.3	14.5	14.7
Goodwill	7.6	8.4	10.1	10.1	10.1	7.6	8.4	10.1	10.1	10.1
Deferred tax assets	3.3	3.4	3.6	4.1	4.1	2.7	2.8	3.0	3.5	3.5
Other receivables	0.1	0.1	0.1	0.2	0.7	0.1	0.1	0.1	0.2	0.7
<b>Total non-current assets</b>	<b>27.8</b>	<b>29.0</b>	<b>32.4</b>	<b>32.0</b>	<b>32.8</b>	<b>27.2</b>	<b>28.4</b>	<b>31.8</b>	<b>31.4</b>	<b>32.2</b>
<b>Current assets</b>										
<b>Total current assets</b>	<b>139.4</b>	<b>140.3</b>	<b>127.2</b>	<b>127.6</b>	<b>142.3</b>	<b>139.4</b>	<b>140.3</b>	<b>127.2</b>	<b>127.6</b>	<b>142.3</b>
Discontinued operations	1.5					1.5				
<b>Total assets</b>	<b>168.7</b>	<b>169.3</b>	<b>159.7</b>	<b>159.6</b>	<b>175.1</b>	<b>168.1</b>	<b>168.7</b>	<b>159.1</b>	<b>159.0</b>	<b>174.5</b>
<b>Shareholders' equity and liabilities</b>										
<b>Shareholder's equity</b>	<b>76.8</b>	<b>78.2</b>	<b>64.6</b>	<b>68.0</b>	<b>70.6</b>	<b>75.9</b>	<b>77.4</b>	<b>63.9</b>	<b>66.7</b>	<b>69.5</b>
<b>Non-current liabilities</b>										
Deferred tax liabilities	1.2	1.2	1.3	1.4	1.4	0.4	0.3	0.4	0.4	0.4
Deferred revenue, non current	14.9	13.9	18.7	18.7	17.4	13.7	12.9	16.3	16.4	15.0
Other non-current liabilities	0.2		0.2	0.2	2.5	0.2		0.2	0.2	2.5
Provisions	0.2	1.2	1.2	1.2	1.2	0.2	1.2	1.2	1.2	1.2
<b>Total non-current liabilities</b>	<b>16.4</b>	<b>16.2</b>	<b>21.4</b>	<b>21.5</b>	<b>22.4</b>	<b>14.4</b>	<b>14.4</b>	<b>18.2</b>	<b>18.2</b>	<b>19.0</b>
<b>Current liabilities</b>										
Trade and other payables	26.3	24.5	30.8	27.0	31.8	32.1	30.5	36.5	33.3	37.9
Income tax liabilities	2.5	2.2	1.3	1.2	1.9	2.5	2.2	1.3	1.2	1.9
Deferred revenue, current	44.0	47.4	41.7	41.9	48.3	40.5	43.4	39.3	39.6	46.1
Provisions		0.8					0.8			
<b>Total current liabilities</b>	<b>72.8</b>	<b>74.9</b>	<b>73.7</b>	<b>70.0</b>	<b>82.1</b>	<b>75.1</b>	<b>76.9</b>	<b>77.0</b>	<b>74.1</b>	<b>86.0</b>
Discontinued operations	2.6					2.6				
<b>Total shareholder's equity and liabilities</b>	<b>168.7</b>	<b>169.3</b>	<b>159.7</b>	<b>159.6</b>	<b>175.1</b>	<b>168.1</b>	<b>168.7</b>	<b>159.1</b>	<b>159.0</b>	<b>174.5</b>

## RESTATED CASH FLOW STATEMENT, YTD

Neither IFRS 15 adoption nor revision of Cost of Revenue has impact on Group cash flows. IFRS 15 adoption has an immaterial impact on two items within Cash flow from operations (Result for the financial year and Change in net working capital).

	1-3/2017	1-6/2017	1-9/2017	1-12/2017
Cash flow from operations	5.5	13.4	14.7	26.0
Cash flow from investments	-2.3	3.2	3.5	1.4
Cash flow from financing activities	0.0	-18.8	-18.8	-18.8
Change in cash	3.3	-2.2	-0.6	8.7
Cash and bank at the beginning of the period	29.0	29.0	29.0	29.0
Effects of exchange rate changes	0.1	-0.8	-1.1	-1.4
Cash and bank at period end	32.3	26.1	27.3	36.3

## RESTATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium fund	Treasury shares	Available-for-sale assets	Translation difference	Unrestricted equity reserve	Retained earnings	Total
<b>Reported equity January 1, 2017</b>	<b>1.6</b>	<b>0.2</b>	<b>-5.7</b>	<b>1.1</b>	<b>0.3</b>	<b>5.2</b>	<b>73.4</b>	<b>75.9</b>
Impact of IFRS 15 restatement					0.0		0.8	0.9
<b>Restated equity January 1, 2017</b>	<b>1.6</b>	<b>0.2</b>	<b>-5.7</b>	<b>1.1</b>	<b>0.3</b>	<b>5.2</b>	<b>74.2</b>	<b>76.8</b>
Available-for-sale financial assets, net				-0.1				-0.1
Translation difference					-0.8			-0.8
Result of the financial year							11.1	11.1
<b>Total comprehensive income for the year</b>				<b>-0.1</b>	<b>-0.8</b>	<b>0.0</b>	<b>11.1</b>	<b>10.2</b>
Dividends							-18.8	-18.8
Cost of share based payments			1.2			0.2	1.1	2.5
<b>Restated equity December 31, 2017</b>	<b>1.6</b>	<b>0.2</b>	<b>-4.6</b>	<b>1.0</b>	<b>-0.5</b>	<b>5.4</b>	<b>67.7</b>	<b>70.6</b>

## RESTATED SEGMENT INFORMATION

The Group has one business segment (security).

Quarterly development	1-3/2017	4-6/2017	7-9/2017	10-12/2017	2017
Revenue	40.9	43.3	41.2	44.4	169.8
Cost of revenue	-5.6	-5.8	-6.3	-7.4	-25.0
<b>Gross margin</b>	<b>35.4</b>	<b>37.5</b>	<b>34.8</b>	<b>37.1</b>	<b>144.8</b>
Other operating income	0.6	0.5	0.5	0.3	1.9
Sales and marketing	-22.0	-23.3	-19.4	-21.9	-86.7
Research and development	-8.6	-8.7	-8.5	-8.4	-34.1
Administration	-3.8	-3.9	-3.3	-3.3	-14.3
<b>EBIT</b>	<b>1.6</b>	<b>2.2</b>	<b>4.1</b>	<b>3.7</b>	<b>11.5</b>
Financial net	-0.1	1.1	0.2	-0.4	0.8
<b>Result before taxes</b>	<b>1.5</b>	<b>3.2</b>	<b>4.3</b>	<b>3.4</b>	<b>12.3</b>

## RESTATED REVENUE BY SALES CHANNEL

	1-3/2017	4-6/2017	7-9/2017	10-12/2017	2017
Consumer security	24.2	24.7	24.3	24.3	97.5
Corporate security	16.6	18.6	16.9	20.1	72.2
<b>Total revenue</b>	<b>40.9</b>	<b>43.3</b>	<b>41.2</b>	<b>44.4</b>	<b>169.8</b>

## RESTATED GEOGRAPHICAL INFORMATION

	1-3/2017	4-6/2017	7-9/2017	10-12/2017	2017
Nordic countries	15.0	15.8	14.9	17.4	63.0
Rest of Europe	16.2	17.6	17.3	18.4	69.4
North America	3.9	4.2	3.8	4.4	16.4
Rest of the world	5.8	5.7	5.2	4.2	21.0
<b>Total revenue</b>	<b>40.9</b>	<b>43.3</b>	<b>41.2</b>	<b>44.4</b>	<b>169.8</b>

## RESTATED KEY RATIOS AND OTHER KEY FIGURES 2017 (YTD)

Economic indicators	1-3/2017	1-6/2017	1-9/2017	1-12/2017
Revenue	40.9	84.2	125.4	169.8
EBIT	1.6	3.7	7.8	11.5
% of revenue	3.9	4.4	6.3	6.7
Result before taxes	1.5	4.7	9.0	12.3
ROE, %	4.9	15.0	15.8	15.0
ROI, %	8.4	14.2	18.3	20.0
Equity ratio, %	69.1	62.0	65.7	61.9
Deferred revenue	61.2	60.4	60.6	65.7
Gearing %	-123.3	-125.1	-119.2	-127.8

Key ratios	1-3/2017	1-6/2017	1-9/2017	1-12/2017
Earnings per share, basic and diluted (EUR)	0.01	0.03	0.05	0.07
Shareholders' equity per share (EUR)	0.50	0.41	0.43	0.45
P/E ratio	139.8	61.7	58.5	55.2

## RESTATED QUARTERLY KEY FIGURES

Economic indicators	1-3/2017	4-6/2017	7-9/2017	10-12/2017
Revenue	40.9	43.3	41.2	44.4
EBIT	1.6	2.2	4.1	3.7
% of revenue	3.9	5.0	10.0	8.2
Result before taxes	1.5	3.2	4.3	3.4
ROE, %	4.9	24.3	19.8	14.2
ROI, %	8.4	18.9	29.6	27.7

Key ratios	1-3/2017	4-6/2017	7-9/2017	10-12/2017
Earnings per share, basic and diluted (EUR)	0.01	0.03	0.02	0.02
P/E ratio	139.8	37.5	51.0	61.8

CALCULATION OF KEY FIGURES

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