

**F-SECURE HALF YEAR REPORT
1 JANUARY – 30 JUNE 2017**

**CORPORATE SECURITY REVENUE
GREW BY 22% IN Q2**



HIGHLIGHTS OF APRIL–JUNE (Q2)

- Revenue increased by 10% year-on-year to EUR 43.2 million (39.3m)
- Revenue from corporate security increased by 22% to EUR 18.8 million (15.4m), representing 43% (39%) of all revenue
- Revenue from consumer security increased by 2% to EUR 24.4 million (23.9m), representing 57% (61%) of all revenue
- EBIT was EUR 2.3 million, representing 5% of revenue (4.6m, 12%) and reflecting significant investments in growth
- Earnings per share (EPS) was EUR 0.03 (EUR 0.03, EUR 0.03 including discontinued operations)
- Deferred revenue increased by 9% to EUR 55.6 million (51.1m) at the end of the quarter, reflecting strong order intake in corporate security
- Cash flow from operations was EUR 8.0 million (6.7m)
- In June, the Finnish Tax Administration's Board of Adjustment approved F-Secure's appeal related to withholding taxes from 2009–2011. As a result, EUR 3.1 million consisting of taxes, interests and late payment penalties was returned to the Company.

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HIGHLIGHTS OF JANUARY–JUNE (H1)

- Revenue increased by 9% year-on-year to EUR 84.3 million (77.1m)
- Revenue from corporate security increased by 18% to EUR 35.5 million (30.0m), representing 42% (39%) of all revenue
- Revenue from consumer security increased by 3% to EUR 48.7 million (47.1m), representing 58% (61%) of all revenue
- EBIT was EUR 3.9 million, representing 5% of revenue (7.8m, 10%)
- Earnings per share (EPS) was EUR 0.03 (EUR 0.04, EUR 0.04 including discontinued operations)
- Cash flow from operations was EUR 13.4 million (5.5m)

OUTLOOK FOR 2017

The Company's outlook for 2017 is unchanged:

- Revenue is anticipated to grow from the previous year's level (2016: EUR 158.3 million)
- Operating profit is anticipated to be EUR 8–12 million (2016: EUR 19.2 million); profitability in the first quarter of 2017 is foreseen to be lowest during the year following typical seasonality, and clearly better towards the year-end

 Figures in this Half Year Report are unaudited. All income statement figures refer to continuing operations, and figures in brackets refer to the corresponding period in the previous year, unless otherwise stated.

F-Secure's personal cloud storage business (younited) was sold to Synchronoss Technologies in February 2015 and is reported as discontinued operations 2015–2016.

KEY FIGURES

Key figures are for continuing operations unless otherwise stated.

EUR m	4–6/2017	4–6/2016	Change	1–6/2017	1–6/2016	Change	1–12/2016
Revenue	43.2	39.3	10%	84.3	77.1	9%	158.3
Operating profit (EBIT)	2.3	4.6	–51%	3.9	7.8	–50%	19.2
% of revenue	5%	12%		5%	10%		12%
Profit before taxes	3.3	5.7	–41%	4.9	8.6	–43%	20.8
Earnings per share, continuing operations (EUR) ^{1) 3)}	0.03	0.03	4%	0.03	0.04	–20%	0.10
Earnings per share, (EUR) ^{1) 2) 3)}	0.03	0.03	0%	0.03	0.04	–19%	0.10
Deferred revenue				55.6	51.1	9%	54.3
Cash and available-for-sale financial assets				80.7	80.9	–13%	92.7
ROI, % ²⁾	17.5%	31.8%		13.1%	26.4%		28.6%
Equity ratio, % ²⁾				61.7%	69.7%		66.7%
Gearing, % ²⁾				–126.4%	–120.9%		–122.1%
Personnel, end of period ²⁾				1,091	982	11%	1,026

¹⁾ Based on the weighted average number of outstanding shares during the period 156,322,620 (4–6/2017) and 156,290,588 (1–6/2017)

²⁾ Includes both continuing and discontinued operations

³⁾ Earnings per share (EPS) excluding returned withholding taxes was EUR 0.01 for 4–6/2017 and EUR 0.02 for 1–6/2017.

CEO SAMU KONTTINEN

In the second quarter, F-Secure improved its performance, building on the continued investments we've made to grow our business. I was particularly pleased with the strong revenue growth in F-Secure's corporate security business, where we grew by 22% year-on-year – the high end of our own expectations. Our total revenue increased by 10% compared to the previous year, and amounted to EUR 43.2 million. The 2% growth in consumer security revenue was in line with our plans. In April–June, F-Secure's operating profit was EUR 2.3 million, and 5% of revenue. Our profitability continued to reflect the significant investments we've made in sales, marketing and product development to support our growth.

In corporate security, F-Secure's current portfolio of products and services is well matched with the needs of our customers. Throughout the quarter, we continued to win market share with our award-winning corporate endpoint protection solutions. Moreover, we saw positive development in the demand for our new corporate products, and we received an increasing number of new orders for Rapid Detection Service (RDS), F-Secure Radar and F-Secure Cloud protection for Salesforce. Overall, approximately half of corporate security revenue growth came from product sales.

Cyber security services also enjoyed a strong quarter, and growth accelerated, fueled by high demand in the market. More organizations are choosing to test their cyber resilience with our red teaming service, and there is increased demand for incident response and forensics. The EU's upcoming General Data Protection Regulation (GDPR) continues to create demand for security management services. In keeping with our goal of expanding the geographical reach of our services business in European key markets, in May we announced the acquisition of UK-based Digital Assurance. Overall, cyber security services are complementary to our product business, and our learnings from incident investigations provide valuable insights that feed back into our product creation.

Our consumer security business had a solid quarter with revenue both from the operator and direct sales channels growing. Demand for F-Secure Safe increased slightly, and some of our largest operator partners extended their security offering by combining Safe with our password management solution F-Secure Key. In direct sales we continued to see good demand for our privacy and VPN product, F-Secure Freedom. In June, we reached a clear milestone in expanding our consumer portfolio with the launch of F-Secure Sense, our new solution for protecting the connected home. The delivery of F-Secure's first-ever hardware product was greeted with positive media reviews. The connected home market is an interesting business opportunity for F-Secure.

The fact that Sense is being sold through two operators immediately after the product's launch, is one example of the benefits of our go-to-market model in the consumer market. Overall the operator channel remains a strategic asset to F-Secure, and our leadership in this ecosystem was underscored by the over 80 operator partners who joined our annual partner summit in Barcelona.

Recent high-profile malware outbreaks Wannacry and Petya have acted as a reminder of the broad challenges that consumers and companies of all sizes face today. These cases also show that we are on the right track by providing solutions not only for endpoint protection, but also for vulnerability management as well as detection and response. These products, combined with world-class cyber security services, ensure F-Secure's competitiveness in this market.



Samu Konttinen



“WE IMPROVED OUR PERFORMANCE, BUILDING ON THE CONTINUED INVESTMENTS WE’VE MADE TO GROW OUR BUSINESS.”

F-Secure products and services

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

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

Consumer security: The majority of F-Secure's consumer security revenue comes from the sale of endpoint protection products (mainly F-Secure Safe) through the operator channel, with F-Secure Freedom (VPN, privacy and security) and F-Secure Key (password manager) increasingly being part of the offering. In June 2017, the Company started the first deliveries of F-Secure Sense, an innovative security solution for protecting connected home devices. In addition to operator sales, F-Secure sells consumer products through various online and retail partners, as well as the Company's own web shop. F-Secure is increasingly offering consumer products as combined bundles, such as F-Secure Total (F-Secure Safe & F-Secure Freedom).

F-Secure has won several international tests for endpoint protection by independent testing institutes. In February 2017, F-Secure received the Best Protection Award 2016 from AV-Test for the fifth time in six years.



F-Secure Sense is an innovative security solution protecting all the connected home devices.

F-Secure **SENSE**

FINANCIAL HIGHLIGHTS

EUR m	4-6/2017	4-6/2016	Change	1-6/2017	1-6/2016	Change	1-12/2016
Revenue	43.2	39.3	10%	84.3	77.1	9%	158.3
of which corporate security	18.8	15.4	22%	35.5	30.0	18%	62.5
of which consumer security	24.4	23.9	2%	48.7	47.1	3%	95.8
Fixed costs	-39.9	-34.3	17%	-78.5	-68.2	15%	-137.6
of which Sales & Marketing	-27.3	-24.4	12%	-53.4	-47.9	11%	-95.5
of which Research & Development	-8.8	-6.6	32%	-17.5	-14.1	24%	-28.4
of which Administration	-3.9	-3.3	20%	-7.7	-6.2	24%	-13.7
Operating result (EBIT)	2.3	4.6	-51%	3.9	7.8	-50%	19.2
Deferred revenue				55.6	51.1	9%	54.3
Depreciation & amortization	-1.5	-1.3	14%	-2.9	-2.7	8%	-5.3
Cash flow from operations	8.0	6.7	19%	13.4	5.5	142%	21.9

April–June (Q2)

In April–June, total revenue increased by 10% year-on-year to EUR 43.2 million (39.3 m), driven by corporate security and with revenue from consumer security also growing.

Corporate security

Revenue from corporate security increased by 22% year-on-year to EUR 18.8 million (15.4 m) in the second quarter. Revenue from corporate product sales continued to show strong above-market growth, while cyber security services had a particularly good second quarter with very strong double-digit growth. Overall, approximately half of corporate security revenue growth came from increased product sales.

The majority of product revenue comes from endpoint protection solutions (Protection Service for Business, Business Suite), for which order intake ¹⁾ continued to show above-market growth. New customer acquisition continued at a strong pace, and renewals and upsells to the existing customer base were slightly above previous year’s level.

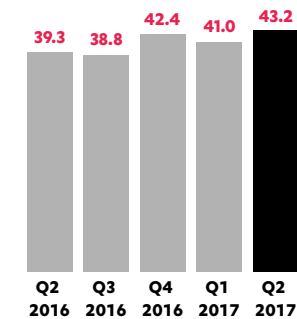
An increasing share of product order intake comes from new solutions for managed detection and response (Rapid Detection Service, or RDS) and vulnerability management (F-Secure Radar). While these solutions are still in an early phase of their lifecycle, the first RDS and Radar deals have now been signed in 13 countries in Europe, Asia-Pacific and North America. Additionally, F-Secure Cloud Protection for Salesforce continued to gain new customers, following its recent launch in March. During the quarter, the sales pipelines for all new corporate products developed favorably.

F-Secure continued to develop the corporate reseller channel to drive sales of the expanded portfolio with current and new partners. The number of active resellers increased from the previous year, and the Company signed several new key partnerships for new solutions.

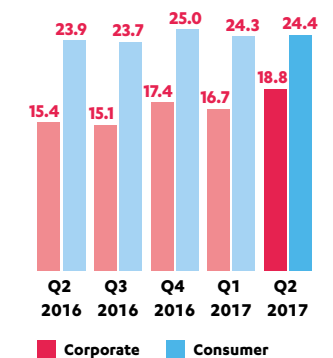
Regionally, two thirds of product sales growth (in terms of order intake) came from Europe, while a third of growth came from Asia-Pacific and North America. India, France and Benelux operations continued to show particularly good performance, and these regions are steadily increasing their contribution to new corporate product order intake.

¹⁾ Order intake is recognized as revenue according to the accounting principles outlined in the Notes to the Financial Statements, Revenue recognition, as published in the Annual Report for 2016.

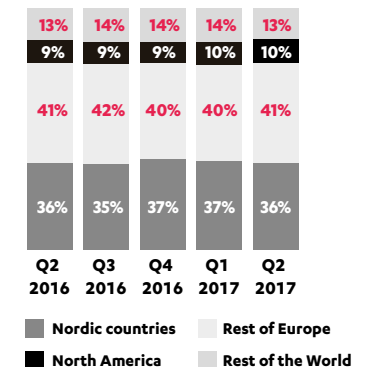
Revenue, MEUR



Revenue per business, MEUR



Regional revenue split, %



Cyber security consultancy had a particularly strong quarter and revenue continued to be in very strong double-digit growth. The majority of cyber security services order intake came from Denmark and Finland, but the share of order intake coming from other regions within Europe continued to increase.

In May, F-Secure acquired Digital Assurance, a UK-based company offering information security assessment services to governments and companies in the financial, petrochemical, retail, communication, and defense industries. The acquisition did not have a significant impact on cyber security services revenue during the second quarter. F-Secure continued to recruit more consultants and sales personnel to meet the rising demand.

Consumer security

Revenue from consumer security increased by 2% year-on-year to EUR 24.4 million (23.9 m) in the second quarter. Revenue from both the operator channel and direct sales continued to grow.

In the operator channel business developed steadily, and revenue grew slightly. The Company's efforts in improving operational excellence with operator partners continued to result in increases in product activation rates. Regionally, best performing areas were Germany, North America, Finland and the Benelux. During the quarter, significant operator partners started to sell F-Secure Key bundled with F-Secure Safe. F-Secure's leadership in the operator ecosystem was underscored by the over 80 operator partners who joined the Company's annual partner summit in Barcelona.

In direct sales, F-Secure continued to outpace the market in revenue growth during the quarter. In terms of order intake, growth was driven by increasing online and retail sales of both F-Secure Freedom and F-Secure Safe. Freedom showed strong growth year-on-year, driven by strong interest in VPN and privacy solutions. The Company continued to focus on promoting F-Secure Safe and F-Secure Freedom as a commercial bundle ("F-Secure Total"), to provide better protection for customers as well as increase average revenue per user.

In June, the Company started shipments of F-Secure Sense, an innovative security solution for protecting connected home devices. F-Secure is now selling the product directly online in Finland, Denmark, France, Germany, Ireland, Netherlands, Norway, Sweden, United

Kingdom and the USA. During the quarter, operator sales were initiated in Finland with Elisa and Telia, and several other operator and retail partners have expressed interest in distributing the new product. The revenue impact of F-Secure Sense was still limited during the quarter, but customer and partner reaction to the launch was positive.

Deferred revenue

Deferred revenue increased by 9% (year-on-year) to EUR 55.6 million (51.1m), driven primarily by the increased sale of corporate security products and services with multi-year contracts.

Costs

Fixed costs increased by 17% (year-on-year) to 39.9 million (34.3m). Key drivers behind the increase were recruitments in corporate security, the impact of share-based incentive programs as well as acquisition-related costs.

Profitability

EBIT was EUR 2.3 million and 5% of revenue (4.6m, 12%).

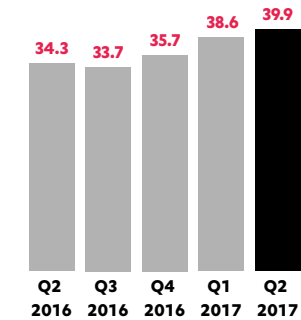
Cash flow

Cash flow from operations was EUR 8.0 million (6.7m). Net working capital remained at previous year's level. The Company received a payment of EUR 3.1 million, related to withholding taxes from 2009–2011.

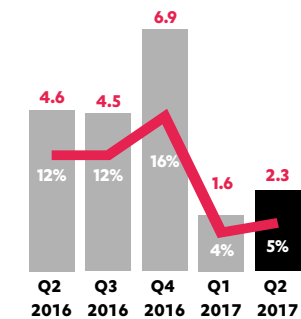
Taxes

In June, the Finnish Tax Administration's Board of Adjustment approved F-Secure's appeal related to withholding taxes. As a result EUR 3.1 million consisting of taxes, interests and late penalty payments was returned to the Company, and the payment was recorded in financial items and income taxes in the second quarter. The payment relates to the decision of Finnish Tax Authority in 2015 to adjust taxation for tax years 2009–2011 based on a partial tax audit. F-Secure appealed the decision and the Finnish Tax Administration's Board of Adjustment approved the appeal. The approval does not have an impact on future taxation of the Company. More information regarding the tax audit is available in the 2016 financial statements, disclosure 10, Income taxes.

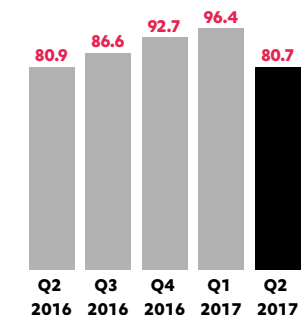
Fixed costs, MEUR



EBIT, MEUR and % of revenue



Cash and available-for-sale assets, MEUR



January–June (H1)

In January–June, total revenue grew by 9% year-on-year to EUR 84.3 million (77.1m), driven by corporate security and with revenue from consumer security also growing.

Corporate security

Revenue from corporate security increased by 18% year-on-year to EUR 35.5 million (30.0m), and represented 42% (39%) of F-Secure's total revenue. The growth throughout the first half of the year stemmed both from increasing product sales through the reseller channel and from very strong performance in cyber security services. The revenue increase reflected significant investments in product development as well as recruiting in the sales organization during the past two years.

Consumer security

Revenue from consumer security increased 3% year-on-year to 48.7 million (47.1), and represented 58% (61%) of F-Secure's total revenue. The direct consumer sales continued to show good growth, while sales from the operator channel also increased slightly.

Deferred revenue

Deferred revenue increased by 9% (year-on-year) to EUR 55.6 million (51.1m), driven primarily by the increased sale of corporate security products and services with multi-year contracts.

Costs

Fixed costs increased by 15% (year-on-year) to 78.5 million (68.2m). Key drivers behind the increase were recruitments in corporate security and the impact of share-based incentive programs.

Profitability

EBIT was EUR 3.9 million and 5% of revenue (7.8m, 10%), including a restructuring cost EUR 0.8 million related to the cooperation negotiations which were concluded in March.

Cash flow

Cash flow from operations was EUR 13.4 million (5.5m). In June, the Company received a payment of EUR 3.1 million related to withholding taxes from 2009–2011.

Financing and Capital structure

	4-6/2017	4-6/2016	Change	1-6/2017	1-6/2016	Change	1-12/2016
Cash and available-for-sale financial assets				80.7	80.9	0%	92.7
Capital expenditure, EUR m	3.8	2.0	90%	6.5	2.6	150%	6.9
Capitalized development expenses, EUR m	1.1	1.0	8%	1.7	1.4	29%	3.2
ROI, %	17.5%	31.8%		13.1%	26.4%		28.6%
Equity ratio, %				61.7%	69.7%		66.7%
Gearing, %				-126.4%	-120.9%		-122.1%

F-Secure's financial position remained solid.

Acquisitions

Acquisition of Digital Assurance

On 10 May 2017, F-Secure acquired 100% of shares of Digital Assurance, a UK based security consultancy firm offering information security assessment services to governments and companies in the financial, petrochemical, retail, communication, and defense industries. The acquisition is immaterial to the consolidated financial statements.

Acquisition of Inverse Path

On 15 February 2017, F-Secure acquired 100% of the shares of Inverse Path, a small privately held security services company based in Italy providing security services to the avionics, automotive, and industrial control sectors. The acquisition is immaterial to the consolidated financial statements.

Organization and leadership

Personnel

At the end of June, F-Secure had 1,091 employees, which shows a net increase of 11% from the previous year (982 on 30 June in 2016), and an increase of 6% since the beginning of the year (1,026 on 31 December 2016). F-Secure continues to actively recruit security professionals, cyber security consultants and sales personnel especially in corporate security.

Leadership team

On 30 June 2017, the composition of the Leadership Team was the following:

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

Shares, Shareholders' Equity, Own Shares

The total number of Company shares is currently 158,798,739. The Company's registered shareholders' equity is EUR 1,551,311.18. The Company currently holds 2,096,038 of its own shares.

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

The Company currently has share-based incentive programs for key employees: performance-based long-term share-based programs and a restricted program (Stock exchange release, 16 February 2017).

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 objective of risk management is to ensure a current, correct and comprehensive understanding and prioritized management of key uncertainties related to strategy implementation and business operations.

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

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

Annual General Meeting

The Annual General Meeting (AGM) of F-Secure Corporation was held on 5 April 2017. The Meeting confirmed the financial statements for the financial year 2016. The members of the Board and the President and CEO were granted discharge from liability.

The AGM re-elected the following members to the Board of Directors: Pertti Ervi, Matti Heikkonen, Bruce Oreck and Risto Siilasmaa. Sofie Nystrøm, Päivi Rekonen and Ari Inki were elected as new members of the Board. The Board elected in its organizational meeting Risto Siilasmaa as the Chairman of the Board. Additionally, the Board nominated Risto Siilasmaa as the Chairman of the Personnel Committee, and Bruce Oreck and Matti Heikkonen as members of the Personnel Committee. Pertti Ervi was nominated as the Chairman of the Audit Committee, and Sofie Nystrøm, Päivi Rekonen and Ari Inki were nominated as members of the Audit Committee.

The AGM decided to distribute a dividend of EUR 0.06 per share and an extra dividend of EUR 0.06 per share, to be paid to those shareholders that on the record date of 7 April 2017 were registered in the Register of Shareholders held by Euroclear Finland Ltd. The dividend was paid on 20 April 2017.

The AGM approved all proposals made by the Board of Directors as described in the Notice to the AGM published on 15 March 2017. The resolutions of the AGM can be found in the Company's stock exchange release of 5 April 2017 and on the Company web site.

Events after period-end

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

Market overview

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

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

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

The information security market overall was estimated to be worth USD 80.7 billion in 2016, and the market is expected to grow by 8.0% annually in 2016–2021. The endpoint security platforms (enterprise) market was worth USD 3.3 billion in 2016, and is expected to grow by 2.5% annually in 2016–2021. The consumer security software market was worth USD 4.7 billion in 2016, and is expected to grow by 1.5% annually in 2016–2021. The IT outsourcing market, including managed security services, was worth USD 15.1 billion in 2016, and is estimated to grow by 12.0% annually in 2016–2021*.

*Source: *Gartner, Forecast: Information Security, Worldwide, 2015–2021, 1Q17 Update, Ruggero Contu, Christian Canales, Sid Deshpande, Lawrence Pingree, 18 May 2017. Market size quoted in current dollars, growth rates in constant dollars. The Gartner Report(s) described herein, (the "Gartner Report(s)") represent(s) research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Half Year Report) and the opinions expressed in the Gartner Report(s) are subject to change without notice.*

Strategy 2017–2020

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

The key driver behind the strategy is F-Secure's aspiration for growth. F-Secure continues its investments in the fastest growing markets within corporate security. These include new security products for cloud services, managed endpoint security services and managed detection and response services sold through the reseller channel as well as the cyber security services business. Investments in consumer security are continued at a level that targets profitable growth. To enable execution of the growth strategy, F-Secure is actively recruiting highly skilled security professionals, rising cyber security talents and capable sales personnel. The Company also aims at growing through M&A.

Due to the explosive growth in the number of internet-connected devices both in business and in our private lives, society now expects services and data to be accessible everywhere and on any device. Online business services are becoming the de-facto standard, but at the same time online crime has become ever present and globally connected. Cyber threats are growing rapidly and evolving in both scope and sophistication. Protecting people and organizations from new types of attacks, as well as securing new areas of technology and business requires a move away from single solutions towards a broader cyber security portfolio.

In cyber security, F-Secure sees the enterprises with business critical IT systems or customer data as being at the forefront of the market. Such enterprises have needs for cutting-edge threat prevention and detection solutions, as well as solutions that enable them to respond to and predict threats. F-Secure is already serving even the most demanding customers utilizing its know-how and expertise, and aims to increase its presence in this market segment especially in selected target verticals. These include the financial industry, gaming and gambling companies, aviation, defense, law enforcement, and certain global brands.

Over time, the most advanced cyber security solutions will be adapted to more easily scalable corporate security offerings sold through the Company's strong and expanding reseller channel. Eventually, the same technologies can be commercialized in consumer security products as well, for which F-Secure's extensive operator channel offers an attractive route to market.

F-Secure aims to maximize the commercial impact of its technical expertise and multiple sales channels for further growth in its chosen key market segments. These include cyber security services offerings to large enterprises in Europe and globally selected industry verticals, and corporate security business through the reseller channel globally. In consumer security, F-Secure continues with its existing sales channels aiming at profitable growth.

Outlook for 2017

Encouraged by the results from our growth investments in corporate security in 2016, we have decided to make a meaningful additional investment in both product development and go-to-market in 2017. Consequently, the Company's outlook for 2017 is the following:

- Revenue is anticipated to grow from the previous year's level (2016: EUR 158.3 million)
- Operating profit is anticipated to be EUR 8–12 million (2016: EUR 19.2 million); profitability in the first quarter of 2017 is foreseen to be lowest during the year following typical seasonality, and clearly better towards the year-end

Revenue growth is expected to be driven by F-Secure's cyber security services and corporate security products (in particular endpoint protection products, RDS and F-Secure Radar) sold through the reseller channel.

The decision to continue increasing investment in corporate security is based on the already proven revenue growth seen during the last two years. F-Secure believes that additional investment to expedite market penetration of Rapid Detection Service and F-Secure Radar, in addition to endpoint protection products, and to improve portfolio competitiveness for better cross sell opportunities to existing customers will further enhance growth opportunities. The profitability impact of these growth investments will be clearly negative in 2017.

In cyber security services, F-Secure's consultants are widely recognized as leading experts in the field, and demand for their services is high across several industry verticals internationally. Expansion of the consultancy business therefore continues.

Revenue from consumer security is anticipated to remain at approximately previous year's level.

Outlook for strategy period 2017–2020

Driven by the anticipated revenue growth and scalability of the high gross margin, product based business model, profitability is expected to improve clearly above the level achieved last year (2016: 12% of revenue) towards the end of the 2017–2020 strategy period.

ADDITIONAL INFORMATION

News conference and webcast

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

A webcast for international investors and analysts will be held (in English) at 14.00 p.m. (EET).

- To participate and ask questions in the online meeting via web, please click on the link:
<https://meet.f-secure.com/tapio.pesola/WLW2FVWV>
- To listen via phone, please dial in to +358 9 7511 0100. The conference ID is 4666716.

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

Financial calendar

F-Secure Corporation will publish its next interim report as follows:

- Q3/2017: 9 November 2017

Contact information



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This half year report is unaudited and prepared in accordance with IAS 34 standard Interim Financial Reporting and with accounting principles stated in the annual report 2016.

The personal cloud business, sold in 2015, was reported as discontinued operations in 2015–2016. All figures in the following tables are EUR million unless otherwise stated.

INCOME STATEMENT

Continuing operations	4–6/2017	4–6/2016	Change	1–6/2017	1–6/2016	Change	1–12/2016
Revenue	43.2	39.3	10%	84.3	77.1	9%	158.3
Cost of revenue	-1.5	-1.5	3%	-3.0	-3.1	-3%	-5.8
Gross margin	41.7	37.8	10%	81.2	74.0	10%	152.5
Other operating income	0.5	1.1	-50%	1.2	2.0	-41%	4.3
Sales and marketing	-27.3	-24.4	12%	-53.4	-47.9	11%	-95.5
Research and development	-8.8	-6.6	32%	-17.5	-14.1	24%	-28.4
Administration	-3.9	-3.3	20%	-7.7	-6.2	24%	-13.7
EBIT	2.3	4.6	-51%	3.9	7.8	-50%	19.2
Financial net	1.1	1.1	-1%	1.0	0.8	22%	1.5
Result before taxes	3.3	5.7	-41%	4.9	8.6	-43%	20.8
Income taxes	1.1	-1.2		0.6	-1.9		-5.1
Result for the period, continuing operations	4.5	4.5	0%	5.5	6.7	-19%	15.7
Discontinued operations		-0.2			0.0		-0.5
Result for the period total	4.5	4.3	5%	5.5	6.8	-20%	15.2
Other comprehensive income							
Exchange differences on translating foreign operations	-0.4	-0.1		-0.5	-0.1		-0.3
Available-for-sale financial assets	-0.6	0.2		-0.2	0.7		0.9
Income tax relating to components of other comprehensive income	0.1	0.0		0.0	-0.1		-0.2
Total comprehensive income (parent company owners)	3.5	4.3		4.8	7.2		15.6
Earnings per share							
Earnings per share, basic and diluted, EUR	0.03	0.03	4%	0.03	0.04	-20%	0.10
Earnings per share, continuing operations, basic and diluted, EUR	0.03	0.03	0%	0.03	0.04	-19%	0.10

BALANCE SHEET

Assets	30 Jun 2017	30 Jun 2016	31 Dec 2016
Tangible assets	3.3	3.1	3.3
Intangible assets	15.3	12.3	13.4
Goodwill	10.1	7.6	7.6
Deferred tax assets	3.0	1.3	2.7
Other receivables	0.1	0.0	0.1
Total non-current assets	31.8	24.3	27.2
Inventories	0.4	0.5	0.1
Trade and other receivables	45.9	39.3	46.2
Income tax receivables	0.2	0.6	0.3
Available-for-sale financial assets	54.6	59.2	63.7
Cash and bank accounts	26.1	21.8	29.0
Total current assets	127.2	121.4	139.4
Discontinued operations		1.5	1.5
Total	159.1	147.2	168.1
Shareholders' equity and liabilities	30 Jun 2017	30 Jun 2016	31 Dec 2016
Equity	63.9	67.0	75.9
Deferred tax liabilities	0.4	1.0	0.4
Deferred revenue, non-current	16.3	12.3	13.7
Other non-current liabilities	0.2		0.2
Provisions	1.2		0.2
Total non-current liabilities	18.2	13.3	14.4
Trade and other payables	36.5	24.8	32.1
Income tax liabilities	1.3	0.4	2.5
Deferred revenue, current	39.3	38.8	40.5
Total current liabilities	77.0	64.0	75.1
Discontinued operations		2.9	2.6
Total	159.1	147.2	168.1

CASH FLOW STATEMENT

CASH FLOW STATEMENT	4-6/2017	4-6/2016	1-6/2017	1-6/2016	1-12/2016
Cash flow from operations	8.0	6.7	13.4	5.5	21.9
Cash flow from investments ¹⁾	5.5	3.9	3.2	3.3	-4.6
Cash flow from financing activities ²⁾	-18.8	-17.7	-18.8	-17.7	-18.7
Change in cash	-5.3	-7.0	-2.1	-8.8	-1.4
Cash and bank beginning of period	32.3	28.3	29.0	29.9	29.9
Translation difference	-0.9	0.6	-0.8	0.7	0.6
Cash and bank at end of period	26.1	21.8	26.1	21.8	29.0

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

²⁾ Cash flow from financing

Dividend paid in 2017 totaled EUR 18,750,984.00.

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium fund	Unrestricted equity reserve	Treasury shares	Retained earnings	Available-for-sale assets	Translation difference	Total
Equity 31 Dec 2015	1.6	0.2	5.1	-7.0	76.2	0.4	0.6	77.1
Total comprehensive income for the year					6.8	0.5	-0.1	7.2
Dividend					-18.7			-18.7
Cost of share based payments			0.1	1.0	0.4			1.4
Equity 30 Jun 2016	1.6	0.2	5.2	-6.0	64.7	0.9	0.5	67.0
	Share capital	Share premium fund	Unrestricted equity reserve	Treasury shares	Retained earnings	Available-for-sale assets	Translation difference	Total
Equity 31 Dec 2016	1.6	0.2	5.2	-5.7	73.4	1.1	0.3	75.9
Total comprehensive income for the year					5.5	-0.2	-0.5	4.8
Dividend					-18.8			-18.8
Cost of share based payments			0.2	1.1	0.6			1.9
Equity 30 Jun 2017	1.6	0.2	5.4	-4.6	60.6	0.9	-0.2	63.9

1 SEGMENT INFORMATION

The Group has one segment (security).

Quarterly development	4-6/2017	1-3/2017	10-12/2016	7-9/2016	4-6/2016	1-3/2016
Revenue	43.2	41.0	42.4	38.8	39.3	37.8
Cost of revenue	-1.5	-1.5	-1.4	-1.3	-1.5	-1.6
Gross margin	41.7	39.6	41.0	37.5	37.8	36.2
Other operating income	0.5	0.6	1.6	0.8	1.1	0.9
Sales and marketing	-27.3	-26.1	-23.8	-23.8	-24.4	-23.5
Research and development	-8.8	-8.7	-7.8	-6.6	-6.6	-7.4
Administration	-3.9	-3.8	-4.1	-3.4	-3.3	-3.0
EBIT	2.3	1.6	6.9	4.5	4.6	3.2
Financial net	1.1	-0.1	0.7	0.0	1.1	-0.3
Result before taxes	3.3	1.5	7.6	4.5	5.7	2.9

Geographical information

Revenue, continuing operations	4-6/2017	4-6/2016	1-6/2017	1-6/2016	1-12/2016
Nordic countries	15.8	14.1	30.8	27.9	57.4
Rest of Europe	17.6	16.3	33.8	31.7	65.0
North America	4.2	3.7	8.2	7.3	14.6
Rest of the world	5.7	5.3	11.5	10.2	21.2
Total Revenue	43.2	39.3	84.3	77.1	158.3

2 DISCONTINUED OPERATIONS

F-Secure Corporation sold its personal cloud storage business to Synchronoss Technologies Inc in 2015. The personal cloud storage business was classified as discontinued operations 2015–2016.

Result for the period for discontinued operations	1-6/2017	1-6/2016	1-12/2016
Revenue		2.2	3.3
Expenses		-2.2	-3.9
Result before taxes		0.0	-0.6
Taxes		0.0	0.1
Result for the period		0.0	-0.5
Earnings per share	1-6/2017	1-6/2016	1-12/2016
Earnings per share, discontinued operations, basic and diluted, EUR		0.00	0.00
Cash flow statement	1-6/2017	1-6/2016	1-12/2016
Cash flow from operations		-1.8	2.7
Change in cash		-1.8	2.7

3 ACQUISITIONS

On 15 February 2017, F-Secure acquired 100% of the shares of Inverse Path S.r.l., a small privately held company based in Italy providing security services to the avionics, automotive, and industrial control sectors. Goodwill arising on the acquisition is attributable to the know-how and expertise in the company, and it is not tax deductible.

On 10 May 2017, F-Secure acquired 100% of the shares of Digital Assurance Consulting Limited, a privately held UK based security consultancy firm offering information security assessment services to governments and companies in financial, petrochemical, retail, communication, and defense industries. The acquired intangible assets relate to existing customer relationships. Goodwill arising on the acquisition is attributable to the know-how and expertise in the company, and it is not tax deductible.

The acquisitions are individually immaterial to the consolidated financial statements.

Total consideration paid, aggregate value of intangible assets, other net assets acquired and resulting goodwill as of each acquisition date:

	1-6/2017
Other intangible assets	0.6
Other net assets	0.4
Total identifiable net assets	1.0
Goodwill	2.5
Total purchase consideration	3.5

4 FAIR VALUES

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

Assets measured at fair value	Total	Level 1	Level 2	Level 3
Available-for-sale financial assets 30 Jun 2017	54.6		54.6	0.0
Available-for-sale financial assets 30 Jun 2016	59.2	0.1	59.0	0.1
Available-for-sale financial assets 31 Dec 2016	63.7	0.2	63.5	0.0

5 NEW REVENUE RECOGNITION STANDARD IFRS 15

The standard will be effective from 1 January 2018. IFRS 15 requires that revenue is recognized when an entity satisfies performance obligations towards its customers. The analysis of contracts and product offerings has been completed. It has been concluded that the revenue from customer contracts shall mainly be recognized over time, which in some cases delays revenue recognition compared to the current accounting policy. The recognition of sales commissions as expenses will be deferred accordingly. During the second half of 2017, F-Secure will evaluate and decide the transition method and quantify the impact of the change.

6 KEY RATIOS AND OTHER KEY FIGURES

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

	4-6/2017	4-6/2016	1-6/2017	1-6/2016	1-12/2016
Operating result, % of revenue, continuing operations	5.3	11.7	4.6	10.1	12.1
ROI, %	17.5	31.8	13.1	26.4	28.6
ROE, %	25.2	23.2	15.6	18.8	19.9
Equity ratio, %			61.7	69.7	66.7
Gearing, %			-126.4	-120.9	-122.1
Earnings per share, basic and diluted	0.03	0.03	0.03	0.04	0.10
Earnings per share, continuing operations, basic and diluted	0.03	0.03	0.03	0.04	0.10
Shareholders' equity per share, EUR			0.41	0.42	0.49
P/E ratio	36.6	24.4	59.8	30.7	35.6
Capitalized expenditure, MEUR	3.8	2.0	6.5	2.6	6.9
Contingent liabilities, MEUR			15.4	16.5	17.7
Depreciation and amortization, continuing operations, MEUR	-1.5	-1.3	-2.9	-2.7	-5.3
Personnel, average	1,071	963	1,056	948	981
Personnel, period end			1,091	982	1,026

7 CALCULATION OF KEY FIGURES

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

CYBER SECURITY LIVES HERE

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