F-SECURE HALF YEAR REPORT 1 JANUARY – 30 JUNE 2018

F-SECURE ACQUIRED MWR INFOSECURITY TO ACCELERATE CORPORATE SECURITY GROWTH

CORPORATE SECURITY REVENUE INCREASED BY 8% IN Q2

F-Secure

HIGHLIGHTS OF APRIL–JUNE (Q2)

- Revenue was at previous year's level, and was EUR 43.4 million (43.3m)
- Revenue from corporate security increased by 8% to EUR 20.0 million (18.6m)
- Revenue from consumer security decreased by 5% to EUR 23.4 million (24.7m)
- Deferred revenue increased by 10% to EUR 66.7 million (60.4m) at the end of the quarter
- EBIT was EUR 0.5 million, representing 1% of revenue (2.2m, 5%), including 0.6 million of M&A related costs
- Earnings per share (EPS) was EUR –0.00 (EUR 0.03)
- Cash flow from operations was EUR 1.3 million (7.9m)
- On 18 June, F-Secure announced the acquisition of MWR InfoSecurity. The acquisition was completed after period-end, on 2 July.

HIGHLIGHTS OF JANUARY–JUNE (H1)

- Revenue increased by 3% year-on-year to EUR 86.5 million (84.2m)
- Revenue from corporate security increased by 12% to EUR 39.4 million (35.2m)
- Revenue from consumer security decreased by 4% to EUR 47.1 million (48.9m)
- EBIT was EUR 2.7 million, representing 3% of revenue (3.7m, 4%)
- Earnings per share (EPS) was EUR 0.00 (EUR 0.03)
- Cash flow from operations was EUR 1.0 million (13.4m)

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

OUTLOOK

New outlook for 2018

The company's new outlook for 2018 including the acquisition of MWR InfoSecurity is:

- Revenue from corporate security is expected to grow by over 35% compared to 2017
- Revenue from consumer security is expected to stay at the same level as in 2017
- Adjusted EBITDA is expected to be in the range of EUR 14–18 million (More information under Alternative performance measures)
- M&A related acquisition and integration costs in 2018 are expected to be 3.5–4.0 million

As previously communicated, F-Secure gives a new outlook for 2018. As of 2 July 2018, F-Secure includes the acquired MWR InfoSecurity in the Group's financials. Management remains confident in reaching the initial outlook for 2018 both in terms of revenue growth and profitability, excluding the impacts of the acquisition. New outlook for 2018 is given to include the impact of the acquired company.

Old outlook for 2018

The old outlook for 2018 was:

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

Outlook for 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.

KEY FIGURES

EUR m	4–6/2018	4–6/2017[4]	Change	1–6/2018	1–6/2017[4]	Change	1–12/2017[4]
Revenue	43.4	43.3	0%	86.5	84.2	3%	169.8
of which corporate security	20.0	18.6	8%	39.4	35.2	12%	72.2
of which consumer security	23.4	24.7	−5%	47.1	48.9	−4%	97.5
Adjusted EBITDA[1]	2.7	4.0	−33%	6.6	6.9	−5%	18.1
of revenue, %	6.3%	9.3%		7.6%	8.3%		10.7%
EBITDA	2.1	3.6	−42%	6.0	6.5	−9%	17.8
of revenue, %	4.9%	8.4%		6.9%	7.8%		10.5%
Adjusted EBIT[1]	1.1	2.5	−56%	3.4	4.1	−18%	11.9
of revenue, %	2.6%	5.9%		3.9%	4.8%		7.0%
EBIT	0.5	2.2	−77%	2.7	3.7	−26%	11.5
of revenue, %	1.1%	5.0%		3.2%	4.4%		6.7%
Earnings per share, (EUR) [2] [3]	−0.00	0.03	−103%	0.00	0.03	−92%	0,07
Deferred revenue				66.7	60.4	10%	65.7
Cash and financial assets at fair value through P&L				79.8	80.7	−1%	90.2
ROI, %	0.6%	18.9%		10.3%	14.2%		20.0%
Equity ratio, %				70.0%	62.0%		61.9%
Gearing, %				−112.7%	−125.1%		−127.8%
Personnel, end of period				1,201	1,091	10%	1,104

[1] 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.
[2] Based on the weighted average number of outstanding shares during the period 156,953,567 (1–6/2018)
[3] Earnings per share (EPS) excluding returned withholding taxes was EUR 0.05 for 1–12/2017.
[4] As of 1 January 2018 F-Secure has adopted the new guidance on revenue recognition, IFRS 15, and therefore restated 2017 financials

Restatement of comparative financials

As of 1 January 2018, F-Secure adopted the new guidance on revenue recognition, IFRS 15, and therefore restated 2017 financials. Together with analyzing the IFRS 15 impact F-Secure also revised the allocation of costs between Cost of Revenue (CoR) and Operating Expenses (OPEX). All comparative figures in this report have been adjusted according to the restatement.

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

Alternative performance measures

F-Secure has included certain non-IFRS based alternative performance measures (APM) as of the second quarter of 2018. 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.

Reconciliations are presented on page 27 of this report.

CEO SAMU KONTTINEN

In June, we announced the acquisition of MWR InfoSecurity. As a result, we now expect corporate security revenue to grow by over 35% in 2018. The successful completion of this deal was a major milestone for us, as we had been looking for a suitable target company to support our strategy to drive corporate security growth for some time. MWR InfoSecurity is a globally operating cyber security company and well known in the industry for delivering both high-quality professional services and industry-leading solutions for threat hunting and detection. It is a great fit for F-Secure.

Our financial performance in the second quarter was soft. The 5% revenue decline in consumer security was expected for the quarter, but 8% revenue growth in corporate security was below our expectations. In total, F-Secure's revenue remained at previous year's level, and was EUR 43.4 million. While I was not satisfied with our topline performance during the quarter, we were able to meet our profitability goals. Overall, we remain confident with our initial guidance for the year both in terms of growth and profitability. That said, following the acquisition we are now issuing a new guidance that includes the financials of the acquired company.

In corporate security, our endpoint protection business was stable during the quarter, and we could see clear positive development with renewals at all-time high levels. New customer acquisition was impacted by the increased focus IT departments had to put into the implementation of the new General Data Protection Regulation (GDPR). Also, some corporate customers are weighing the potential benefits of integrating new features for endpoint detection and response in their existing solutions, and are delaying purchase decisions in the endpoint protection market.

Overall, we continue to see significant business opportunities with detection and response solutions. The pipeline for F-Secure Rapid Detection Service (RDS) has steadily gotten stronger in several countries, customer satisfaction is very high, and so are the renewal rates for existing RDS implementations. Going forward, our position in this market will be further enhanced with the addition of MWR InfoSecurity's threat hunting solution, Countercept, into our portfolio. Combining the technology and know-how of our two companies we can develop a truly industry-leading product offering for detection and response.

The demand for cyber security services remained high, and we continued to successfully recruit new cyber security experts to grow our services organization. With the acquisition of MWR InfoSecurity we have significantly improved our position in the cyber security services market. F-Secure is now one of the few truly global technical cyber security advisors, with hundreds of world-class consultants on four continents.

Overall, I am confident that we are targeting the right growth markets with our corporate security business. F-Secure is in a very competitive position to support the corporate mid-market and enterprises globally with both products and services. This is a strong platform to build our future growth on. In consumer security, the operator channel continues to be a strategic differentiator for us. With our broad offering of security and privacy solutions for all connected devices, we are poised to take advantage of the emerging opportunities in this market.

CEO Samu Konttinen

"MWR INFOSECURITY IS A GREAT FIT FOR F-SECURE."

F-Secure products and services

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

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

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

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

New products in 2018:

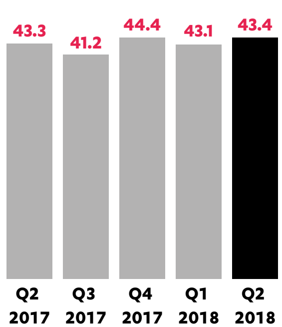
- In May, F-Secure started customer pilots with the Rapid Detection and Response solution, a new fully automated endpoint detection and response (EDR) solution. The full commercial launch of the product is done gradually during 2018. The new solution builds on capabilities already utilized in our Rapid Detection Service solution offered for enterprises. Rapid Detection and Response will enable more scalable sales for mid-market corporate customers and small businesses. The new solution is integrated with F-Secure's existing endpoint protection solutions, and can be deployed on top of third-party security solutions. This allows customers to add an additional layer of security to their existing security infrastructure.

FINANCIAL HIGHLIGHTS

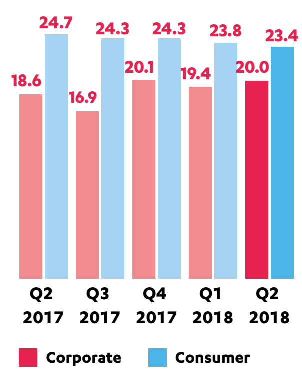
EUR m	4–6/2018	4–6/2017[2]	Change	1–6/2018	1–6/2017[2]	Change	1–12/2017[2]
Revenue	43.4	43.3	0%	86.5	84.2	3%	169.8
of which corporate security	20.0	18.6	8%	39.4	35.2	12%	72.2
of which consumer security	23.4	24.7	–5%	47.1	48.9	–4%	97.5
Cost of Revenue[1]	–7.8	–5.8	35%	–15.1	–11.4	33%	–25.0
Gross Margin	35.6	37.5	–5%	71.4	72.8	–2%	144.8
Operating expenses[1]	–35.6	–35.9	–1%	–70.0	–70.3	0%	–135.1
of which Sales & Marketing	–23.9	–23.3	3%	–44.9	–45.3	–1%	–86.7
of which Research & Development	–8.2	–8.7	–5%	–17.8	–17.3	3%	–34.1
of which Administration	–3.4	–3.9	–13%	–7.2	–7.7	–6%	–14.3
Adjusted EBITDA[3]	2.7	4.0	–33%	6.6	6.9	–5%	18.1
EBITDA	2.1	3.6	–42%	6.0	6.5	–9%	17.8
Depreciation & amortization	–1.6	–1.5	8%	–3.2	–2.9	12%	–6.3
Adjusted EBIT[3]	1.1	2.5	–56%	3.4	4.1	–18%	11.9
EBIT	0.5	2.2	–77%	2.7	3.7	–26%	11.5
Deferred revenue				66.7	60.4	10%	65.7
Cash flow from operations	1.3	7.9	–84%	1.0	13.4	–93%	26.0

1) As of 1 January 2018, F-Secure has revised the allocation of costs between Cost of Revenue (CoR) and Operating Expenses (OPEX). For more information, see Table section, Changes in Accounting Principles – Revision of Cost of Revenue or the separate restatement of 2017 financials (3 May 2018).
2) As of 1 January 2018 F-Secure has adopted the new guidance on revenue recognition, IFRS 15, and therefore restated 2017 financials.
3) 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.

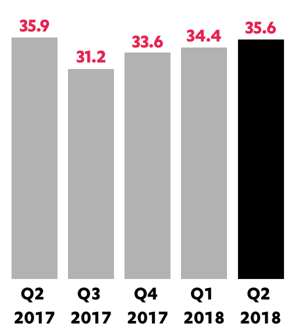
Revenue, MEUR



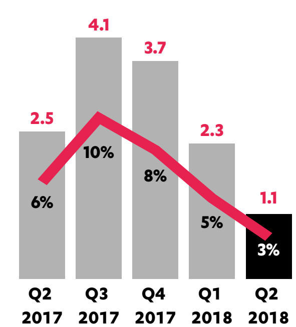
Revenue per business, MEUR



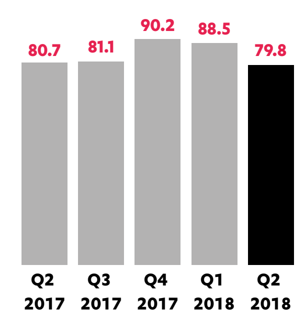
Operating expenses, MEUR



Adjusted EBIT, MEUR and % of revenue



Cash and financial assets, MEUR



Second quarter

In April–June, total revenue was at previous year's level, and was EUR 43.4 million (43.3 m) Corporate security represented 46% (43%) of all revenue, and consumer security 54% (57%) of all revenue.

Corporate security

Revenue from corporate security increased by 8% year-on-year to EUR 20.0 million (18.6m).

The majority of product order intake came from endpoint protection (Protection Service for Business, Business Suite). Order intake[1)] from endpoint protection was at the previous year's level. Renewal rates were at their highest level, but new customer acquisition was below expectations. Corporate customers are currently weighing the potential benefits of integrating new detection and response features into their existing solutions. Also, during the quarter IT resources in many companies were distracted by the implementation of General Data Protection Regulation (GDPR). As a result, purchasing decisions with endpoint protection solutions were postponed.

F-Secure continued to focus on increasing the sales of new solutions to mid-market customers and enterprises. The company signed several new deals with managed detection and response solutions (Rapid Detection Service, or RDS), and the sales pipeline continued to develop positively. While customer satisfaction and renewal rates with existing installations were high, total order intake was slightly lower than during the comparison period reflecting seasonality typical with new solutions. Order intake from vulnerability management solutions (F-Secure Radar) continued to show good growth. Overall, F-Secure continued to expand sales of new corporate cyber security solutions to new geographies and countries with current and new partners.

Regionally, product order intake growth was driven by Europe, with Finland and France showing the strongest performance.

Strong demand for cyber security services continued, and F-Secure successfully recruited new consultants to meet that demand. Order intake slightly declined compared to the previous year, driven by the reorganization of services sales, whereas revenue continued to grow. The majority of cyber security services order intake came from Finland, Denmark and the United Kingdom.

In May, F-Secure started customer pilots with Rapid Detection and Response solution, a new fully automated endpoint detection and response (EDR) solution. The full commercial launch of the product will take place gradually during the second half of 2018.

Consumer security

Revenue from consumer security decreased by 5% year-on-year to EUR 23.4 million (24.7 m) in the second quarter, driven by the previously communicated loss of a single operator customer in Latin America. The customer loss will continue to be partially visible in operator revenue during the third quarter.

In other regions operator revenue remained at previous year's level, and F-Secure worked closely with its broad global network of partners to increase product activation rates. The company continued negotiations on F-Secure SENSE (an innovative security solution for connected home devices) with partners, both as a standalone hardware solution and, increasingly, as software integrated into operator's routers.

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

[1)] *Order intake is recognized as revenue according to IFRS 15. See table section, Changes in Accounting Principles.*

direct sales was more moderate during the last three months, because in 2017 direct sales were positively impacted by the WannaCry malware outbreak and changes to privacy regulation concerning US-based Internet Service Providers.

Deferred revenue

Deferred revenue increased by 10% (year-on-year) to EUR 66.7 million (60.4m), driven by the increased order intake of corporate security products and services with long-term contracts.

Gross margin

Gross margin decreased by EUR 1.9 million to 35.6 million (37.5m), or 82% of revenue (87%). Relative gross margin decreased as revenue from cyber security services grew and revenue from consumer security was lower than during the comparison period.

Operating expenses

Operating expenses were at previous years' level (year-on-year) to 35.6 million (35.9m). Expenses in corporate security R&D, sales and marketing continued to grow while costs declined in other units.

Profitability

EBIT was EUR 0.5 million and 1% of revenue (2.2m, 5%), including EUR 0.6 million of costs related to the acquisition of MWR InfoSecurity. Adjusted EBIT was EUR 1.1 million (2.5m).

Cash flow

Cash flow from operating activities before financial items and taxes was 3.2m (6.2m). Cash flow decreased due to decline in EBIT and a change in net working capital. Cash flow from operations was EUR 1.3 million (7.9m), as income taxes had negative impact on cash flow with advances being paid during the second quarter of 2018 whereas refunds were received during the comparison period.

January–June (H1)

In January–June, total revenue increased by 3% year-on-year to EUR 86.5 million (84.2 m), driven by corporate security. Corporate security represented 46% (42%) of all revenue, and consumer security 54% (58%) of all revenue.

Corporate security

Revenue from corporate security increased by 12% year-on-year to EUR 39.4 million (35.2m). The growth throughout the first half of the year stemmed both from increasing product sales and growth in the cyber security services business.

Consumer security

Revenue from consumer security decreased by 4% year-on-year to 47.1 million (48.9). The direct consumer sales continued to show good growth, while sales through the operator channel decreased.

Deferred revenue

Deferred revenue increased by 10% (year-on-year) to EUR 66.7 million (60.4m), driven by the increased order intake of corporate security products and services with long-term contracts.

Gross margin

Gross margin decreased by EUR 1.4 million to EUR 71.4 million (72.8m), or 82% of revenue (86%). Relative gross margin decreased as revenue from cyber security services grew and revenue from consumer security was slightly lower than during the comparison period.

Operating expenses

Operating expenses decreased slightly (year-on-year) to 70.0 million (70.3m).

Profitability

EBIT was EUR 2.7 million and 3% of revenue (3.7m, 4%).

Cash flow

Cash flow from operations was EUR 1.0 million (13.4m). Cash flow decreased due to decline in EBIT and a change in net working capital. Income taxes had negative impact on cash flow with advances being paid whereas refunds were received during comparison period. Also, a long term incentive plan related cash-settlement (–2.3m) during the first quarter impacted cash flow negatively.

Financing and Capital structure

EUR m	4–6/2018	4–6/2017[1)]	Change	1–6/2018	1–6/2017[1)]	Change	1–12/2017[1)]
Cash and financial assets at fair value through P&L				79.8[2)]	80.7	–1%	90.2
Capital expenditure, EUR m	2.3	3.8	–39%	3.3	6.5	–49%	9.3
Capitalized development expenses, EUR m	1.5	1.1	43%	2.0	1.7	15%	3.9
ROI, %	0.6%	18.9%		10.3%	14.2%		20.0%
Equity ratio, %				70.0%	62.0%		61.9%
Gearing, %				–112.7%	–125.1%		–127.8%

[1)] As of 1 January 2018 F-Secure has adopted the new guidance on revenue recognition, IFRS 15, and therefore restated 2017 financials
[2)] In June 2018 F-Secure sold it's financial assets at fair value through profit and loss to finance the acquisition of MRW InfoSecurity during third quarter. The sales of the assets generated a cash flow of EUR 53.5 million. At the end of the quarter, the cash was still held by F-Secure.

F-Secure's financial position remained solid.

Organization and leadership

Personnel

At the end of the quarter, F-Secure had 1,201 employees (1,104 on 31 December 2017), which shows a net increase of 9% since the beginning of the year, and an increase of 10% compared with end of June in 2017 (1,091). F-Secure continues to actively recruit security professionals, cyber security consultants and sales personnel especially in corporate security.

Leadership team

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

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

On 18 June, 2018, it was announced that Ian Shaw, the CEO of the acquired MWR InfoSecurity, would join the Leadership Team as of 2 July as Executive Vice President, Cyber security.

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 1,308,444 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 several share-based incentive programs for key employees: performance-based long-term share-based programs and a restricted program (Stock exchange release, 16 February 2017). Additionally, F-Secure has established a matching share plan available for all employees (Stock exchange release about the creation of the plan was published on 15 December 2017 and the release about the finalizing of purchases on 31 May 2018). In total, an external administrator for the plan acquired 401,637 shares on a period commencing on 19 March 2018, and ending on 29 May, 2018. Shares were distributed to employees participating in the program on 29 May, 2018, based on their individual commitments.

Risks and uncertainties

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

The most significant risks for F-Secure are related to the following factors:

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

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

- Intellectual property (IPR) claims against F-Secure
- Risk exposure from contractual liability requirements
- Failure of new product launches
- Potential security threats related to F-Secure's products and services
- Credit risk due to regional political or financial climate and regulation
- Tax risk relating to changing laws and regulations and interpretations of said regulations by the relevant authorities

MARKET OVERVIEW

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

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

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

STRATEGY 2018–2021

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

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

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

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

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

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

Annual General Meeting

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

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

Board Committees:

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

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

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

Events after period-end

Acquisition of MWR InfoSecurity

On 2 July, F-Securecompleted the acquisition of MWR InfoSecurity, a privately held cyber security company operating globally from its main offices in the UK, the US, South Africa and Singapore. As a result F-Secure holds 100% of the share capital of MWR InfoSecurity. Total purchase price is estimated to be GBP 107.6 million of which the initial consideration of GBP 82.6 million was paid on 2 July. Deferred considerations at maximum GBP 25 million will be paid after 18 months from completion subject to the achievement of agreed business targets for the period from 2 July, 2018, until 31 December, 2019.

To finance the transaction F-Secure entered into bilateral EUR 60 million five-year financing arrangement with Nordea Bank. The financing arrangement comprises a term loan of EUR 37 million which was withdrawn on 2 July as well as a revolving credit limit.

The acquisition is a significant milestone in the execution of F-Secure’s growth strategy, and makes it the largest European single source of cyber security services and detection and response solutions. With close to 400 employees, MWR InfoSecurity is among the largest cyber security service providers serving enterprises globally, and their threat hunting platform (Countercept) is one of the most advanced in the market and an excellent complement to F-Secure’s existing technologies.

More information of the acquisition is available in the stock exchange release published on 18 June, 2018.

ADDITIONAL INFORMATION

Contact information

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Financial calendar

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

- Q3/2018: 2 November 2018

CHANGES IN THE ACCOUNTING PRINCIPLES

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

IFRS 15 Revenue from Customer Contracts

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

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

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

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

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

IFRS 9 Financial Instruments and subsequent amendments

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

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

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

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

Amendment to IFRS 2 Share-based payments

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

Revision of Cost of Revenue (CoR)

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

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

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

The Half-Year Report has been prepared in accordance with IAS 34 standard Interim Financial Reporting. Apart from the changes in accounting principles stated below, the accounting principles applied in the half-year report are the same as in the annual report 2017.

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

INCOME STATEMENT

	4–6/2018	Restated 4–6/2017	Change %	1–6/2018	Restated 1–6/2017	Change %	Restated 1–12/2017
Revenue	43.4	43.3	0	86.5	84.2	3	169.8
Cost of revenue	–7.8	–5.8	35	–15.1	–11.4	33	–25.0
Gross margin	**35.6**	**37.5**	**–5**	**71.4**	**72.8**	**–2**	**144.8**
Other operating income	0.5	0.5	1	1.4	1.2	13	1.9
Sales and marketing	–23.9	–23.3	3	–44.9	–45.3	–1	–86.7
Research and development	–8.2	–8.7	–5	–17.8	–17.3	3	–34.1
Administration	–3.4	–3.9	–13	–7.2	–7.7	–6	–14.3
EBIT	**0.5**	**2.2**	**–77**	**2.7**	**3.7**	**–26**	**11.5**
Financial net	–0.7	1.1	–163	–1.6	1.0	–265	0.8
Result before taxes	**–0.2**	**3.2**	**–106**	**1.1**	**4.7**	**–77**	**12.3**
Income taxes	0.0	1.1	–96	–0.7	0.6	–213	–1.3
Result for the period total	**–0.2**	**4.4**	**–103**	**0.4**	**5.3**	**–92**	**11.1**
Other comprehensive income							
Exchange differences on translating foreign operations	0.2	–0.4	–156	0.2	–0.5	–144	–0.8
Deferred costs of hedging	–0.5			–0.5			
Available-for-sale financial assets		–0.6			–0.2		0.1
Income tax relating to components of other comprehensive income	0.1	0.1	–3	0.1	0.0		0.0
Total comprehensive income (parent company owners)	**–0.3**	**3.5**	–109	**0.3**	**4.6**	–94	**10.2**

Earnings per share	4–6/2018	Restated 4–6/2017	Change %	1–6/2018	Restated 1–6/2017	Change %	Restated 1–12/2017
Earnings per share, basic and diluted, EUR	–0.00	0.03	–103	0.00	0.03	–92	0.07

BALANCE SHEET

Assets	30 Jun 2018	Restated 30 Jun 2017	Restated 31 Dec 2017
Tangible assets	3.5	3.3	3.2
Intangible assets	14.4	15.3	14.7
Goodwill	10.1	10.1	10.1
Deferred tax assets	3.6	3.6	4.1
Other receivables	0.8	0.1	0.7
Total non-current assets	**32.4**	**32.4**	**32.8**
Inventories	0.8	0.4	0.6
Trade and other receivables	47.8	45.9	50.1
Income tax receivables	3.1	0.2	1.4
Available-for-sale financial assets	0.0	54.6	53.9
Cash and bank accounts	79.8	26.1	36.3
Total current assets	**131.5**	**127.2**	**142.3**
Total assets	**163.8**	**159.7**	**175.1**

Shareholders' equity and liabilities	30 Jun 2018	Restated 30 Jun 2017	Restated 31 Dec 2017
Equity	**66.8**	**64.6**	**70.6**
Deferred tax liability	1.1	1.3	1.4
Deferred revenue, non-current	20.0	18.7	17.4
Other non-current liabilities	1.6	0.2	2.5
Provisions	1.2	1.2	1.2
Total non-current liabilities	**23.9**	**21.4**	**22.4**
Trade and other payables	25.3	30.8	31.8
Income tax liabilities	1.1	1.3	1.9
Deferred revenue, current	46.8	41.7	48.3
Total current liabilities	**73.2**	**73.7**	**82.1**
Total equity and liabilities	**163.8**	**159.7**	**175.1**

CASH FLOW STATEMENT

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

	4–6/2018	4–6/2017	1–6/2018	1–6/2017	1–12/2017
CASH FLOW FROM OPERATIONS					
Result for the financial year	–0.2	4.3	0.4	5.3	11.1
Adjustments	3.3	1.1	7.9	4.3	8.6
Cash flow from operations before change in working capital	**3.1**	**5.5**	**8.4**	**9.7**	**19.7**
Change in net working capital [1]	0.1	0.7	–4.0	3.0	9.6
Cash flow from operating activities before financial items and taxes	**3.2**	**6.2**	**4.3**	**12.7**	**29.5**
Net financial items and taxes	–1.9	1.8	–3.3	0.8	–3.5
Cash flows from operating activities	**1.3**	**7.9**	**1.0**	**13.4**	**26.0**
CASH FLOW FROM INVESTMENTS					
Net investments in tangible and intangible assets	–2.2	–2.7	–3.1	–4.3	–7.1
Investments in subsidiary shares, net of cash acquired	–1.0	–1.5	–1.0	–2.2	–2.2
Other investments, net [2]	53.8	9.7	53.5	9.7	10.7
Cash flow from investments	**50.6**	**5.5**	**49.4**	**3.2**	**1.4**
CASH FLOW FROM FINANCING ACTIVITIES					
Own shares	–0.1	0.0	–0.1	0.0	0.0
Dividends paid	–6.3	–18.8	–6.3	–18.8	–18.8
Cash flow from financing activities	**–6.4**	**–18.8**	**–6.4**	**–18.8**	**–18.8**
Change in cash	**45.6**	**–5.3**	**44.0**	**–2.1**	**8.7**
Cash and bank at the beginning of the period	34.6	32.3	36.3	29.0	29.0
Effect of exchange rate changes on cash	–0.4	–0.9	–0.6	–0.8	–1.4
Cash and bank at period end	79.8	26.1	79.8	26.1	36.3

[1] F-Secure's long term incentive plan related cash-settlement had a EUR 2.3 million negative impact on change in net working capital.
[2] Financial assets at fair value through P&L were sold during June 2018

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium fund	Unrestricted equity reserve	Treasury shares	Retained earnings	Fair value and other reserves	Translation difference	Total
Equity 31 Dec 2016	**1.6**	**0.2**	**5.2**	**−5.7**	**73.4**	**1.1**	**0.3**	**75.9**
Impact of IFRS 15 restatement					0.8		0.0	0.9
Equity 1 Jan 2017 (restated)	**1.6**	**0.2**	**5.2**	**−5.7**	**74.2**	**1.1**	**0.3**	**76.8**
Total comprehensive income for the year					5.3	−0.2	−0.5	4.6
Dividend					−18.8			−18.8
Cost of share based payments			0.2	1.1	0.6			1.9
Equity 30 Jun 2017 (restated)	**1.6**	**0.2**	**5.4**	**−4.6**	**61.4**	**0.9**	**−0.2**	**64.6**

	Share capital	Share premium fund	Unrestricted equity reserve	Treasury shares	Retained earnings	Fair value and other reserves	Translation difference	Total
Equity 31 Dec 2017 (restated)	**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					1.1	−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					0.4	−0.4	0.2	0.3
Dividend					−6.3			−6.3
Cost of share based payments			0.7	1.8	−0.4			2.1
Equity 30 Jun 2018	**1.6**	**0.2**	**6.1**	**−2.8**	**62.5**	**−0.4**	**−0.3**	**66.8**

1 SEGMENT INFORMATION

The Group has one segment (security).

Quarterly development	4–6/2018	4–6/2017	1–6/2018	1–6/2017	1–12/2017
Revenue	43.4	43.3	86.5	84.2	169.8
Cost of revenue	–7.8	–5.8	–15.1	–11.4	–25.0
Gross margin	**35.6**	**37.5**	**71.4**	**72.8**	**144.8**
Other operating income	0.5	0.5	1.4	1.2	1.9
Sales and marketing	–23.9	–23.3	–44.9	–45.3	–86.7
Research and development	–8.2	–8.7	–17.8	–17.3	–34.1
Administration	–3.4	–3.9	–7.2	–7.7	–14.3
EBIT	**0.5**	**2.2**	**2.7**	**3.7**	**11.5**
Financial net	–0.7	1.1	–1.6	1.0	0.8
Result before taxes	**–0.2**	**3.2**	**1.1**	**4.7**	**12.3**

Disaggregation of revenue

By sales channels	4–6/2018	4–6/2017	1–6/2018	1–6/2017	1–12/2017
Consumer security	23.4	24.7	47.1	48.9	97.1
Corporate security	20.0	18.6	39.4	35.2	72.6
Total revenue	**43.4**	**43.3**	**86.5**	**84.2**	**169.8**

By geographical area	4–6/2018	4–6/2017	1–6/2018	1–6/2017	1–12/2017
Nordic countries	16.7	15.8	33.1	30.8	63.0
Rest of Europe	18.7	17.6	37.3	33.7	69.4
North America	3.6	4.2	7.7	8.1	16.4
Rest of the world	4.4	5.7	8.5	11.5	21.0
Total revenue	**43.4**	**43.3**	**86.5**	**84.2**	**169.8**

2 CLASSIFICATION OF FINANCIAL ASSETS UNDER IFRS 9

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

As a result the Group reclassified its available-for-sale investments to be presented at fair value through profit and loss. The impacts of this reclassification remained immaterial as the Group sold the assets during June 2018 to finance the acquisition of MWR InfoSecurity.

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

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

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

3 KEY RATIOS AND OTHER KEY FIGURES

	4–6/2018	Restated 4–6/2017	1–6/2018	Restated 1–6/2017	Restated 1–12/2017
Adjusted EBITDA, % of revenue	6.3	9.3	7.6	8.3	10.7
EBITDA, % of revenue	4.9	8.4	6.9	7.8	10.5
Adjusted EBIT, % of revenue	2.6	5.9	3.9	4.8	7.0
EBIT, % of revenue	1.1	5.0	3.2	4.4	6.7
ROI, %	0.6	18.9	10.3	14.2	20.0
ROE, %	–0.9	24.3	1.2	15.0	15.0
Equity ratio, %			70.0	62.0	61.9
Gearing, %			–112.7	–125.1	–127.8
Earnings per share, basic and diluted			0.00	0.03	0.07
Shareholders' equity per share, EUR			0.45	0.41	0.45
Capitalized expenditure, MEUR	2.3	3.8	3.3	6.5	9.3
Contingent liabilities, MEUR			12.3	15.4	13.8
Depreciation and amortization, MEUR	–1.6	–1.5	–3.2	–2.9	–6.3
Personnel, average	1,183	1,071	1,157	1,056	1,067
Personnel, period end			1,201	1,091	1,104

4 CALCULATION OF KEY FIGURES

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

5 RECONCILIATION BETWEEN ADJUSTED EBITDA, EBITDA, ADJUSTED EBIT AND EBIT

	4–6/2018	Restated 4–6/2017	1–6/2018	Restated 1–6/2017	Restated 1–12/2017
Adjusted EBITDA	**2.7**	**4.0**	**6.6**	**6.9**	**18.1**
Adjustments to EBITDA					
Costs related to business acquisitions	–0.6	–0.4	–0.6	–0.4	–0.4
EBITDA	**2.1**	**3.6**	**6.0**	**6.5**	**17.8**
Depreciation, amortization and impairment losses	–1.6	–1.5	–3.2	–2.9	–6.3
EBIT	**0.5**	**2.2**	**2.7**	**3.7**	**11.5**

	4–6/2018	Restated 4–6/2017	1–6/2018	Restated 1–6/2017	Restated 1–12/2017
Adjusted EBIT	**1.1**	**2.5**	**3.4**	**4.1**	**11.9**
Adjustments to EBIT					
Costs related to business acquisitions	–0.6	–0.4	–0.6	–0.4	–0.4
EBIT	**0.5**	**2.2**	**2.7**	**3.7**	**11.5**

CYBER SECURITY LIVES HERE

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