

Corporate Governance Statement

Stonesoft Corporation, the parent company of the Group is registered in Finland and domiciled in Helsinki, Finland. In the administration and management of the company, Stonesoft Corporation applies the laws of Finland, the company's Articles of Association, and the working order for the company's Board of Directors. Stonesoft also applies the Corporate Governance recommendations for listed companies prepared by NASDAQ OMX Helsinki Ltd, the Central Chamber of Commerce and the Confederation of Finnish Industries EK, as well as the insider guidelines of NASDAQ OMX Helsinki Ltd.

This Corporate Governance Statement is based on law as well as on the Finnish Corporate Governance Code, and it has been prepared pursuant to Recommendation 54 of the Code and Chapter 2, Section 6 of the Securities Markets Act. The Corporate Governance statement is issued separately from the Board of Director's Report.

Stonesoft Corporation conforms to the Finnish Corporate Governance Code with the following exemption:

Currently, both genders are not represented on the Board of Directors of Stonesoft Corporation, as is stated in recommendation 9. It has not been possible to find a female member with strong knowledge of the industry. However, the company aims to achieve equal gender representation on the Board.

The Finnish Corporate Governance Code is available on the Securities Market Association's website (www.cgfinland.fi).

General Meeting

The General Meeting of the Shareholders is the highest decision-making body of Stonesoft Corporation. The General Meeting decides upon matters such as amendments to the Articles of Association, the acceptance of the financial statement, the distribution of profits and the election and fees of Board members and auditors. The Annual General Meeting shall be held each year by the end of June in Helsinki.

The documents of the General Meeting shall be available in company's website at least 21 days before the General Meeting.

Board of Directors

The Board's duties and responsibilities

The Board is responsible for supervising the administration and proper organization of the Group in accordance with legislation, the Articles of Association and the instructions issued by General Meeting. The Board decides upon matters of major importance to the operations of the company. These include the acceptance of the main strategies, the approval of action plans, major capital expenditures and divestitures of assets. The Board also appoints the company's CEO and decides on his/her service terms. The main duties of the Board are outlined below. The Board of Directors annually assesses its operations and working manners to further develop its practices.

Election of the Board of Directors

The Annual General Meeting elects no fewer than three (3) and no more than seven (7) members to the Board of Directors of Stonesoft Corporation. The term of a Board member shall begin at the end of the General Meeting that elected the Board member and expire at the end of the next Annual General Meeting. The Board elects a Chairman and Vice Chairman from among its members. The Board currently comprises five (5) members, one (1) of whom is employed by the company. Having five board members is considered to be suitable for a company of this size.

In the 2011 Annual General Meeting the following members were elected to the Board:

- Mr. Hannu Turunen, Born: 1957, Education: MSc. in Electrical Engineering, MBA, Main duty: Managing Partner, Magnolia Ventures
- Mr. Ilkka Hiidenheimo, Born: 1960, Main duty: CEO of Stonesoft Corporation
- Mr. Harri Koponen, Born: 1962, Education: Phd. Econ h.c., EMBA, commercial college. Main duty: Oy Osaka Ltd, CEO and Chairman of the Board
- Mr. Jukka Manner, Born: 1972, Education: M.Sc. (1999), PhD (2004), University of Helsinki, Main duty: Professor, Department of Communications and Networking (Comnet), Aalto University
- Mr. Timo Syrjälä, Born: 1958, Education: MSc. in Economics and Business Administration, Main duty: Managing Director, Syrjälä & Co Oy

Additional information about the members of the Board is available at the corporate website www.stonesoft.com (Investor Relations).

Independence

The Board has evaluated the independence of its members on April 13, 2011 in compliance with the guidelines of the Corporate Governance Recommendation. It is required in the Recommendation that the majority of the Board members are independent of the company. In addition, at least two of the Board members representing this majority shall be independent of significant shareholders of the company. Significant shareholder means among others a shareholder who holds at least 10 % of all the shares or of the aggregate votes in the company.

Board members' independence from the company

Pursuant to the Finnish Corporate Governance Code recommendation 14, the Board has noted that based on the evaluation all other Board members, except Ilkka Hiidenheimo as CEO are independent from the company with the following remark: Jukka Manner, Harri Koponen and Timo Syrjälä have been granted stock option rights as part of their compensation as Board members, but such compensation is deemed not to have significant economic value for the above mentioned Board members.

Board members' independence from the significant shareholders

Pursuant to the recommendation 14, it has been noted that Ilkka Hiidenheimo (holding 16.4 percent of the shares and the votes in the company) and Hannu Turunen (holding 11.6 percent of the shares and the votes in the company) are significant shareholders themselves, and that all other Board members are independent from significant shareholders of the company.

Board meetings and working order

The Board meets regularly at least 8 times a year and additionally when necessary. The Board met 14 times in 2011. The average attendance of the Board members at the Board meetings was 97 percent.

The Board has approved a written Working Order to govern its work. The working order has been summarized below:

The Board of Directors shall

- review and approve of the company's strategy and guidelines and the annual business plan
- decide on significant investments, acquisitions and divestitures as well financing arrangements
- elect a Chief Executive Officer (CEO) for the company and approve election of members to the Executive Management and supervise that the CEO leads the company's activities in compliance with the instructions and guidelines given by the Board of Directors
- decide on the remuneration and benefits for CEO and approve the remuneration level for Executive Management and other employees reporting to CEO
- review and approve financial statement and interim reports
- sign and present the financial statements for approval by the Annual General Meeting and present a proposal for profit disposal
- grant and revoke the right to represent the company
- approve the main values, policies and guidelines of the company steering the business operations
- establish and elect the members of Board committees, if needed
- evaluate the independence of the Board members

- annually assess the activities and the working manners of the Board
- be responsible for other duties or tasks set out in the Companies' Act or elsewhere

The Board's annual meeting schedule shall be confirmed by the end of previous year. For consideration and a decision on a matter that cannot be postponed until the next scheduled Board meeting, an extraordinary Board meeting shall be held. A Board meeting is convened by the chairman or, when the Chairman is prevented, by the Vice Chairman. The Chairman presides the meetings. The Board constitutes a quorum when more than half of its members are present.

The Chairman prepares the agenda together with the CEO. The meeting agenda is delivered to the Board members approximately five days before the meeting along with the minutes of the previous meeting and all proposals concerning issues to be brought up at the meeting. The secretary of the Board keeps minutes of the Board meetings. The minutes are signed and confirmed by the secretary and the Chairman of the Board and a member elected to scrutinize the minutes.

The CEO shall ensure that the Board members receive current information that is needed to evaluate the financial planning, liquidity and business development of the company.

Accordingly, the CEO shall ensure that the Board receives agreed reports about the development and operation of the company, including the development of sales, profit status and liquidity, as well as information about important events, e.g. important legal disputes, the cancellation of important agreements, the appearance of extensive liabilities or the insolvency of important clients. If necessary, the CEO should give reports directly to the Chairman and Board Members even in between the Board meetings.

A Board member, CEO or a company employee shall be disqualified from the consideration of a issue pertaining to a contract or matter between the said person or his/her close relative and the company or a contract or other transaction between the company and a third party, if the person or someone close to him/her might derive an essential benefit in the matter and that benefit may be contrary to the interests of the company. A disqualified Board Member, CEO or employee may not take part in any preparation or decision making concerning the matter at the Board meeting. However, a disqualified person may be heard in order to clarify the matter.

The Board committees

In April 2011, the Board of Directors decided to establish an Audit Committee. To the Audit Committee, three (3) to five (5) members are elected for one year at the time. The members must have the qualifications required for Audit Committee's duties. The Audit Committee's duty is to prepare and assist the Board of Directors in the company's financial reporting matters and ensure that the company has an adequate internal audit system with respect to its size. In addition, the Audit Committee assists the Board of Directors in ensuring that the company's accounting and asset management are organized in a reliable manner and that the company's activities are in compliance with laws and regulations. In particular, the Audit Committee shall:

- monitor the reporting process of financial statements
- supervise the financial reporting process

- monitor the efficiency of the company's internal control, internal audit, if applicable, and risk management systems
- review the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which is included in the company's Corporate Governance Statement
- monitor the statutory audit of financial statements and consolidated financial statements
- evaluate the independence of the statutory auditor or audit firm and in particular the provision of additional services to the company
- prepare the proposal for resolution on the election of the auditor
- monitor and control the company's financial situation and its development
- assess and address compliance with laws and regulations in the company
- manage communication with the auditor and review of reports prepared for the Audit Committee by the auditor.

The Audit Committee comprises of three (3) members, Harri Koponen (Chairman), Timo Syrjälä and Hannu Turunen. The Audit Committee convened three (3) times during the year 2011. The attendance in committee meetings was 100 percent.

The compensation paid for the Board members

The fees paid to members of the Board in 2011 were confirmed by the Annual General meeting in April 2011 as follows:

The Chairman's fee is EUR 4,000 per month and a member's fee is EUR 2,000 per month. In addition, Stonesoft Corporation's Annual General Meeting has granted stock options to the Board members to engage them to the company. No compensation shall be paid to the main shareholders of the company (the shareholders who have made the compensation and nomination proposals) for acting as Board Members.

Chief Executive Officer

The Board appoints and dismisses the CEO of the company. The CEO is in charge of the day-to-day management of the Group in accordance with the Companies' Act and the instructions and orders given by the Board. The CEO may undertake acts which, considering the scope and nature of the operations of the company, are unusual or extensive, only with the authorization of the Board. The Group's Executive Management assists the CEO in his duties.

Since August, 2004, the President and CEO of Stonesoft Corporation is Mr. Ilkka Hiidenheimo, the founder and biggest shareholder (16.4% of the shares and votes) of the company.

The CEO's compensation

Stonesoft's President and CEO Ilkka Hiidenheimo did not to receive any compensation for his duties during the year 2011. There is no specific retirement age set forth for the CEO. The CEO's pension is the same as Finland's Employee Pension Act (TYEL) enacts and that is compulsory for all Stonesoft employees. The service contract for

the CEO provides for notice of six (6) months prior to termination with compensation being six (6) months' salary and a further optional six (6) months fixed salary in case the company terminates the contract without essential breach of contract by the CEO.

Executive Management

The CEO of the company is responsible for the operative management with the assistance of Executive Management. Executive Management convenes regularly and all issues addressed in the meetings and related decisions are recorded in the meeting minutes.

The responsibilities of the Executive Management include, among others:

- Business operations management and financial performance review globally
- Annual strategic planning and implementation of the strategy
- Preparation and processing of adjustment plans that are crucial for the Group's business operations
- Preparation of global guidelines and standards of activity applicable in the Group as well as supervision of compliance with them

The members of the Executive Management were December 31, 2011 as follows:

- Ilkka Hiidenheimo, Chief Executive Officer
- Kim Fagnäs, Vice President of Sales
- Mika Jalava, Chief Technology Officer
- Juha Kivikoski, Chief Operating Officer
- Mikael Nyberg, Chief Financial Officer
- Ari Vanttinen, Vice President of Marketing

Additional information about the members of the Executive Management is available at the corporate website www.stonesoft.com (Investor Relations).

Risk management, internal control and internal audit

The Board of Directors of Stonesoft Corporation has primary responsibility for accounting and monitoring of financial administration of the company. The Audit Committee prepares and assists the Board in matters related to financial reporting and ensures that the company has an adequate internal audit system with respect to its size. In addition, the Audit Committee assists the Board of Directors in ensuring that the company's accounting and asset management has been organized in a reliable manner and that the company's activities are in compliance with laws and regulations also in other respects.

The Board of Directors is also ultimately responsible for risk management and internal control of Stonesoft Corporation, and the CEO is in charge of arranging the risk management and internal control in practice as well as of monitoring their functioning. Co-ordination of risk management and internal control is the responsibility of the Chief Financial Officer (CFO). The Executive Management of the Group supports the risk management processes by considering the risks and management thereof in its meetings.

Risk management and internal control aim at ensuring that

- (i) the operation of the company is effective and suited to its purpose,
- (ii) financial information is reliable and
- (iii) authority regulation and internal policies are complied with.

CFO, as the coordinator of corporate risk management, creates corporate-level risk management principles, develops risk management tools and establishes global insurance policies. Business units must adhere to the corporate level policies and proactively contribute to the development of corporate risk management. Risk management function concentrates on

- (i) evaluation and management of operational risks
- (ii) management of financial risk and
- (iii) management and safeguard of critical business-related information and assets.

Operational risks

The company sets financial targets annually in connection with the budgeting and the realization of the targets is monitored on a monthly basis. The guidance and supervision of the business operations takes place with the means of a reporting and forecasting system covering the entire group that the company strives to develop on a continuous basis. The product sales and related services sales are made mainly through a global channel partners, using standardized Stonesoft agreements. The sales operations are supported by the company's legal unit seeking to reduce the risks related to the global business operations through continuous management and development of contracts. The company also uses insurance to cover the property, operational and liability risks.

Financial risks

Stonesoft does not normally provide financing, other than generally accepted terms of payment, to its customers. The company invoices mainly in Euros, the US dollar being the other invoicing currency. The company's costs occur mostly in Euros. Exchange rate fluctuations can affect the company's financial results. The company uses matching as a main tool for offsetting the exchange rate risks.

The task of Stonesoft's Corporate Treasury is to manage financial risks in accordance with the Treasury Policy approved by Stonesoft's Board of Directors. The main principles of the policy are:

- (i) to ensure the short-term liquidity of the company
- (ii) to guarantee efficient circulation and short-term investments of the operational cash flows and
- (iii) to follow prudent and transparent investment policy for the cash reserves, aiming at guaranteeing competitive return on a selected risk level.

The company's cash reserves have generally been invested in low risk interest bearing instruments, but during the year 2011 they have been kept on bank accounts for long periods of time while funds have been unprofitable.

The company's operations and related costs are continuously controlled.

Management and safeguard of critical business related information and assets

Stonesoft manages and safeguards its critical business information by stringent internal policies and processes. The company constantly reviews and updates its network infrastructure and actively utilizes its own products in order to protect its data infrastructure. The company has back-up systems to ensure business continuity during the unexpected.

Internal audit

Due to the small size of the company and the scope of the business operations Stonesoft does not have a separate organization for the internal audit function or a separate internal audit committee. The regular audits conducted by the audit firm in relation to the interim reports aim also for their part at evaluating the efficiency of and constant developing of risk management, internal audit and administrative processes.

The structure of the group and the financial administration have been set up with the aim to prevent misuse, among others, through clear internal guidelines and definition of authorizations. In addition, all sales are made in the name of the parent company and local payment transactions of subsidiary companies and sales offices concern generally only local salaries and other local costs.

Auditors

The auditors' task is to conduct an annual statutory audit in order to examine whether the financial statements present fairly the financial position, results of operations and cash flows of the company in conformity with generally accepted accounting principles in Finland, and that the company's internal control functions are in place and support the company's activities.

At the Annual General Meeting, the shareholders appoint one audit firm of public accountants certified by the Central Chamber of Commerce, to operate as company's Auditor, as stated in Articles of Association. The auditor's term shall begin at the end of the General Meeting that elected the Auditor and expire at the end of the next Annual General meeting. Furthermore Board's working order adds that;

(i) the Board members shall discuss the auditor's report once a year in a meeting held during the first quarter and

(ii) one of the Company's auditors should be present at the Board meeting, where the auditor's report is discussed. The Board shall review the auditors' performance annually. Prior to the Annual General Meeting, the Board shall based on the Audit Committee's proposal discuss who is to be proposed as auditors for the next financial year.

The auditor of Stonesoft is an authorized public accountant, Ernst & Young Oy, with authorized public accountant Bengt Nyholm as responsible auditor. The Stonesoft Group auditor fees were EUR 120 435.40 in year 2011.

Additionally, the auditor was paid EUR 3 734.00 for the services not related to auditing as well as EUR 2 983.00 for other statements and reports.

Insiders

The Stonesoft Group complies with the Guidelines of NASDAQ OMX Helsinki Ltd for Insiders, which are complemented by the company's own insider regulations.

Under the Finnish Securities Market Act, the permanent insiders of Stonesoft, based on their positions, are the members of the Board of Directors, the CEO and the auditors. Additionally, based on the company's own insider regulations, the individuals of the Executive Management are qualified as public permanent Insiders. Furthermore, the individuals holding the following positions are regarded as company-specific Insiders: Regional Directors, Lawyers, Marketing and Communications Managers, Order Team and Product Managers, Controllers, the Chief Accountant and all other positions entitled to global access to the company's sales management system, Salesforce.com.

The Company's own insider regulations regulate trading with the company's shares as follows. Permanent insiders must schedule their trading within four (4) weeks' time after publication of the company's financial statements release or the publication of an interim review (the so-called open window).

In addition, the Board of Directors has given the following recommendation to all Stonesoft employees:

- (1) Stonesoft's shares and/or other securities should be acquired only as long-term investments; and
- (2) Acquisitions and disposals of Stonesoft's shares and other securities should be scheduled for times when the markets have as detailed and accurate information as possible on factors affecting the value of the company's securities (e.g. after the disclosure of results).