

STONESOFT CORPORATION INTERIM REPORT FOR JANUARY-MARCH 2012

Product sales continues to grow strong, cash flow clearly positive

Stonesoft Corporation's product sales grew by 38 % and net sales by 27% compared to the corresponding period in the previous year. Operating result was MEUR -0.6, which is MEUR 0.3 better than in the corresponding period in the previous year. Net sales grew and the company invested more than before in accelerating future growth.

The comparable figures from the corresponding period in the previous year are in brackets.

January-March 2012

- Net sales MEUR 8.3 (6.5), growth 27%
- Product sales MEUR 4.9 (3.6), growth 38%
- Operating result MEUR -0.6 (-0.8)
- Operating result as percentage of net sales -7 (-13)%
- Earnings per share EUR -0.01 (-0.01)
- Operative cash flow MEUR 1.4 (1.8)
- Liquid cash funds at the end of the fiscal period MEUR 9.1 (9.8). The corporate had no interest-bearing debts.

CEO ILKKA HIIDENHEIMO

During the first quarter of the year 2012 Stonesoft's product sales grew by 38% and net sales by 27%. Cash flow was clearly positive. Companies have continued their investments in network security despite the current financial insecurity. During the fiscal period, Stonesoft was selected as the vendor to a project which is the largest in the company's history.

Our aim to develop increasingly flexible and secure solutions for demanding and critical environments was rewarded in the Next Generation Firewall (NGFW) Group test by NSS Labs. Stonesoft was selected in the best, so-called "Recommend" category. We delivered 100 percent protection against year 2011 exploits, and also full protection against evasions used in the test.

Stonesoft still provides the most efficient protection against advanced evasion techniques, which was also stated by NSS Labs in their evasion tests. However, the number of evasions covered by these tests is extremely small compared to the amount Stonesoft's products can currently offer protection against from the practically unlimited number of advanced evasions. For example, during the last two years Stonesoft has delivered 310 evasions to CERT-FI, of which NSS Labs tests only a part.

Consolidation in the market is still continuing. Dell acquired the security company SonicWall. We believe this will strengthen our competitive position, as security is not the core business of the entity created.

National security strategies have emerged even stronger to secure critical infrastructure also under emergency. We will continue strong investments also in this area.

At the RSA conference in San Francisco we announced the first transformable security engine. The Stonesoft Security Engine is capable of transforming itself into seven different products. This dramatically changes our ability to provide the customer with exactly the right product. Deliveries will begin in the third quarter of the year.

The development of the Security Engine is a part of our philosophy. We do not believe that network security is a static area. Organizations' business and functions evolve in a similar way as threats evolve. This means that without adaptivity the capability of solutions will keep decreasing.

NET SALES AND RESULT

January-March 2012

The Group's net sales in the fiscal period were MEUR 8.3 (6.5). Increase compared to the corresponding period in the previous year was MEUR 1.7, or 27%. The operating result (EBIT) was MEUR -0.6 (-0.8) and the result after taxes was MEUR -0.5 (-0.7). Additional investments compared to the corresponding period in the previous year were MEUR 1.3.

Product sales were MEUR 4.9 (3.6), growth 38% compared to the corresponding quarter in the previous year.

The geographical distribution of net sales was as follows: Europe 67 (67)%, Emerging Markets (North Africa, Middle East and Latin America) 18 (17)%, North America 14 (13)% and APAC (Asia-Pacific) 1 (3)%.

#### FINANCE AND INVESTMENTS

At the end of the fiscal period, Stonesoft's total assets were MEUR 21.9 (19.5). The equity ratio was 39 (46) % and gearing (the ratio of net debt to shareholders' equity) was -2.70 (-2.53).

The comparable cash flow during the fiscal period was MEUR 1.4 (1.8). The Group has no interest-bearing debt. The consolidated liquid assets at the end of the fiscal period totalled MEUR 9.1 (9.8).

Investments in tangible and intangible assets totalled MEUR 0.4 (0.3).

#### DEVELOPMENT OF BUSINESS OPERATIONS

Main business events in the fiscal period

In January Stonesoft announced it had, as the first non-French vendor, obtained the CSPN (Certification de Sécurité de Premier Niveau) certification delivered by ANSSI (French Network and Information Security Agency) in France.

In January the Board of Directors of Stonesoft Corporation decided on a new stock option plan.

In January Stonesoft announced the availability of the Stonesoft™ IPS-1302 intrusion prevention system appliance for protecting data center and modern corporate network environments. Designed for demanding Web and encrypted traffic inspection, the appliance provides efficient protection against Advanced Evasion Techniques (AETs) without compromising traffic speed or availability.

In February Stonesoft announced its Firewall/VPN product family had received the Common Criteria Evaluation Assurance Level 4+ (EAL4+) certification.

Stonesoft Corporation announced it had been chosen as a vendor in the network security part of a very significant public sector project. At this point, the company has estimated the total value of the delivery to be approximately EUR five (5) Million.

In February Stonesoft introduced the new Stonesoft Security Engine, which can be configured to act as seven different security solutions or as a combination of them. The Security Engine sets new criteria to network security and its cost efficiency.

In March Stonesoft announced it had received the respected 'Recommend' rating for the Stonesoft FW-1301 in NSS Labs' Next Generation Firewall (NGFW) Group Test.

In March Stonesoft announced it had entered a partnership agreement with Cygate, whereby Cygate will start providing Stonesoft's network security solutions to companies and public sector organizations.

Main business events after the fiscal period

No significant events have occurred after the end of the fiscal period under review.

## RESEARCH AND DEVELOPMENT

Stonesoft continued its strong investments in R&D. Investments during the fiscal period totalled MEUR 1.8 (1.5). This represented 24 (23)% of operating expenses.

R&D employed 96 (74) persons at the end of the fiscal period.

## SHARE CAPITAL AND STOCK OPTION PROGRAMS

Stonesoft has one class of shares and all shares have equal rights. At the end of the fiscal period, the share capital recorded in the Trade Register was 1 150 574.64 Euros. The number of shares was 63 492 482. Stonesoft or its daughter companies do not own its shares. There were no changes in the share capital.

### Stock Option Programs

The company had two valid stock option programs, Stock Option Program 2008, under which the subscription price is EUR 0.30 and the total number of stock options to be granted based on this program is 3 000 000 at the maximum and Stock Option Program 2012, under which the subscription price is EUR 1.42 and the total number of stock options to be granted based on this program is 4 500 000 at the maximum. The subscription period of the shares is graded and will end for all 2008 stock options on December 31, 2014 and for 2012 stock options in 2017-2019.

Additional information about both option programs is provided by the company's stock exchange releases and web pages.

During the fiscal period no company shares were registered on the basis of the stock option programs.

## DEVELOPMENT OF SHARE PRICES AND TURNOVER

In the beginning of the fiscal period on January 1, 2012, the price of Stonesoft share was EUR 0.86 (0.58). At the end of the fiscal period on 31 March 2012 the price was EUR 1.42 (0.56). The highest price was EUR 1.78 (0.64) and the lowest EUR 0.87 (0.51). During the fiscal period the total turnover of Stonesoft shares amounted to MEUR 14.7 (2.3) and 11.2 (3.8) million shares, which is 23.1 (6.1) % of the total amount of the shares. Based on the share price at the end of the fiscal period on March 31, 2012, Stonesoft's market value was MEUR 90.2 (35.5).

The company gave no notices in change of ownership during the fiscal period.

## ACQUISITIONS AND CHANGES IN GROUP STRUCTURE

No acquisitions were made during the fiscal period and there were no changes in the Group structure.

## PERSONNEL

At the end of the fiscal period, the Group's personnel totalled 232 (195).

## AUTHORIZATIONS OF THE BOARD OF DIRECTORS

The AGM decided on 13.4.2011 to authorize the Board of Directors of the company to decide about one or more share issues as well as the issuance of option and other special rights so that the total number of new shares may be 12 600 000 at the maximum.

Based on the authorization the Board of Directors may decide on issuance of shares to the shareholders according to the shareholders' pre-emptive subscription rights as well

as in a directed issuance of shares or stock options or other special rights in deviation from the shareholders' pre-emptive subscription rights in case the deviation is justified by a weighty financial reason for the company, such as financing of an acquisition, other arrangement concerning the business of the company or development of its capital structure, or incentive to the company's personnel.

The Board of Directors was authorized to decide on other terms and conditions related to the share issues and to the issuance of option or other special rights.

The Board of Directors used the authorization granted by the AGM held on 13 April 2011 as it decided on the new Stock Option Plan 2012. The stock options issued by the plan can be used to subscribe for a maximum total of 4,500,000 new or existing shares held by the company.

The authorization is in force until the end of the 2012 AGM.

The Board of Directors is not authorized to purchase the company's own shares.

#### SHORT-TERM RISKS AND BUSINESS UNCERTAINTIES

During the fiscal year 2012, Stonesoft's main risks and business uncertainties relate to the realization timetable of the sales projects and possible production disruption of our subcontractors and suppliers. Insecurities related to public economies may have a negative effect on the public sector projects. Stonesoft has no risks related to the order book, because it normally can process incoming orders within a couple of work days.

Risks and uncertainties as well as the principles of Stonesoft's risk management are discussed more extensively at the company website and in the Annual Report 2011.

#### FUTURE OUTLOOK

Based on Stonesoft's estimate the growth of the total market will continue to grow by 5% also during the year 2012.

In 2011, a development started whereby Stonesoft and other companies specialized in network security grew strongly. Stonesoft assumes security threats to become increasingly worrying, which will create new business opportunities for the company.

Stonesoft's comprehensive product offering meets the rapidly developing and changing security challenges, including the demands brought by cloud services, virtualization and outsourcing of security.

#### Advanced Evasion Techniques

Stonesoft continued the research and commercial utilization of Advanced Evasion Techniques (AETs).

Due to their own technology choices, many competitors still seem to have great difficulties in amending their solutions to provide protection against AETs.

Leading research institutes such as Gartner have confirmed that the best protection against new, advanced evasion techniques is provided by flexible, software based systems. The threat posed by advanced evasion techniques does not concern only intrusion prevention system (IPS) appliances, but also UTM (Unified Threat Management) and next generation firewall appliances.

The above mentioned issues have opened new business opportunities for Stonesoft and had a strong impact on the growth of the company's product sales. The improved awareness of the threat posed by advanced evasion techniques has brought the company new customers and made contacting target customers significantly easier. In addition, the average size of both the customer companies and the projects in the sales pipeline has grown compared to previous.

Based on Stonesoft's view, these issues will continue to have a positive impact on the company's net sales and profitability and will strengthen its competitiveness and market position as the general understanding and knowledge about advanced evasions techniques grow.

Stonesoft aims for at least 30% growth of net sales and a positive result for the year 2012.

With regard to the development of the turnover and the operating result, variation is expected between the quarters in comparison to the corresponding quarter during the previous year as well as to the previous quarter as a consequence of, among others, long sales cycles and the relatively big impact of individual deals on the development of net sales and operating result.

## SUMMARY OF FINANCIAL STATEMENTS AND NOTES JANUARY 1 - MARCH 31, 2012

### Basis of preparation

The Interim Report has been prepared in accordance with the IAS 34 Interim Reports standard.

The company has adopted certain new or revised IFRS standards and IFRIC interpretations at the beginning of the financial period as described in the Financial Statements for 2011. However, the adoption of these new and amended standards has not yet had an effect on the reported figures in practice. In other respects, the same accounting policies have been followed as in the Financial Statements for 2011. Key indicator calculations remain unchanged.

The figures presented in this release are unaudited.

Stonesoft Group Income Statement (1000 Euros)	1-3/2012	1-3/2011	1-12/2011
Net sales	8 254	6 509	30 604
Other operating income	269	118	904
Materials and services	-1 458	-1 078	-5 240
Personnel expenses	-4 787	-4 031	-16 665
Depreciation	-142	-124	-479
Other operating expenses	-2 710	-2 222	-10 262
Operating result	-574	-827	-1 137
Financial income and expenses	97	183	358
Result before taxes	-477	-644	-779
Taxes	-60	-32	-138
Result for the accounting period	-537	-676	-917
Other comprehensive income			
Exchange differences on translating foreign operations	5	-13	-3
Total other comprehensive income	5	-13	-3
Total comprehensive income	-532	-689	-920
Basic earnings per share (EUR), continuing operations	-0,01	-0,01	-0,01
Diluted earnings per share (EUR), continuing operations	-0,01	-0,01	-0,01
Stonesoft Group Balance Sheet (1000 Euros)	31.3.2012	31.3.2011	31.12.2011
<b>ASSETS</b>			
Non-Current Assets			
Tangible assets	985	804	700
Intangible assets	159	163	162
Other investments	10	10	10
Total	1 154	977	872
Current assets			
Inventories	1 746	908	1 508
Trade and other receivables	9 669	7 792	10 847

Prepayments	163	53	220
Marketable securities	5 503	8 432	0
Cash and cash equivalents	3 625	1 384	7 710
Total	20 706	18 569	20 285
Total assets	21 860	19 546	21 157

#### EQUITY AND LIABILITIES

##### Equity attributable to equity holders of the parent company

Share capital	1 151	1 151	1 151
Issue of shares	18	0	0
Share premium account	76 602	76 602	76 602
Conversion differences	-949	-964	-954
Reserve for invested unrestricted equity fund	4 732	4 751	4 732
Retained earnings	-78 169	-77 654	-77 659
Total	3 385	3 886	3 873
Long-term liabilities			
Prepayments *)	3 724	2 946	3 157
Total	3 724	2 946	3 157
Short-term liabilities			
Trade and other payables	5 063	4 338	5 563
Prepayments *)	9 484	8 214	8 381
Tax liability	139	123	126
Provisions	64	40	58
Total	14 751	12 714	14 127
Total liabilities	18 475	15 660	17 285
Total equity and liabilities	21 860	19 546	21 157

\*) Prepayments contain customers advance payment of support and maintenance contracts

13 209	11 160	11 538
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#### Stonesoft Group Statement of changes in equity (1000 Euros)

	Share capital	Issue of shares	Share premium	Conversion differences	Reserve for invested unrestricted equity fund	Retained earnings	Total
Shareholders' equity at 1.1.2011	1 151	0	76 603	-951	4 751	-76 986	4 567
Comprehensive income	0	0	0	-13	0	-676	-689
Reserve for invested unrestricted equity fund reduction	0	0	0	0	0	0	0
Transaction costs from equity	0	0	0	0	0	0	-1
Stock options exercised	0	0	0	0	0	0	0
Stock option expenses	0	0	0	0	0	9	9
Shareholders' equity at 31.3.2011	1 151	0	76 602	-964	4 751	-77 654	3 886

	Share capital	Issue of shares	Share premium	Conversion differences	Reserve for invested unrestricted equity fund	Retained earnings	Total
Shareholders' equity at 1.1.2012	1 151	0	76 602	-954	4 732	-77 659	3 873
Comprehensive income	0	0	0	5	0	-537	-532
Reserve for invested unrestricted equity fund reduction	0	0	0	0	0	0	0
Transaction costs from equity	0	0	0	0	0	0	0
Stock options exercised	0	18	0	0	0	0	18
Stock option expenses	0	0	0	0	0	27	27
Shareholders' equity at 31.3.2012	1 151	18	76 602	-949	4 732	-78 169	3 385

#### Stonesoft Group

Cash flow statement (1000 Euros)

1.1.-31.3.2012	1.1.-31.3.2011	1.1.-31.12.2011
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##### Cash flow from operating activities

Operating Result	-574	-827	-1 137
Adjustments			
Non-cash transactions	-431	64	334
Financial expenses	-25	-51	-106
Financial incomes	19	9	445
Change in net working capital	2 771	2 777	904
Taxes paid	-40	-53	-218
Total cash flow from operating activities	1 720	1 918	221
Cash flow from investing activities			
Investments in tangible assets	-411	-261	-460

Investments in intangible assets	-13	-68	-120
Total cash flow investing activities	-424	-330	-581
Cash flow from financing activities			
Stock options exercised	18	-1	53
Total cash flow from financing activities	18	-1	53
Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period	7 710	8 016	8 016
Conversion differences	0	-14	1
Changes in the market value of investments	103	226	0
Total cash and cash equivalents at end of period *)	9 128	9 816	7 710

\*) Total cash and cash equivalents at end of the period  
contains pledged securities

	492	467	496
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Stonesoft Group  
Geographical segments      1.1.-31.3.2012      1.1.-31.3.2011      1.1.-31.12.2011  
(1000 Euros)

Net sales			
Europe	5 514	4 328	20 979
Emerging Markets	1 495	1 137	3 926
Americas	1 154	875	4 656
APAC	92	170	1 043
Total net sales	8 254	6 509	30 604

Operating profit			
Europe	99	-381	150
Emerging Markets	-183	-48	-352
Americas	-377	-320	-650
APAC	-114	-79	-286
Total operating profit	-574	-827	-1 137

Stonesoft Group  
Contingent liabilities      1.1.-31.3.2012      1.1.-31.3.2011      1.1.-31.12.2011  
(1000 Euros)

Contingent off-balance sheet			
Non-cancellable other leases	1 807	2 238	1 970
Contingent liabilities for the Company	223	123	223

Stonesoft Group Quarterly development (Euro Millions)	Q1 / 2012	Q4 / 2011	Q3 / 2011	Q2 / 2011	Q1 / 2011	2011
Software	0,6	0,8	0,4	0,4	0,4	2,1
Security appliances	4,3	5,3	4,2	2,9	3,2	15,6
Services	3,4	3,4	3,3	3,2	3,0	12,8
Other products	0,0	0,1	0,1	0,0	-0,1	0,1
Net sales continuing operations	8,3	9,5	8,0	6,5	6,5	30,6
Change-% from previous year	27	27	43	29	6	26
Sales margin	6,8	7,6	6,7	5,6	5,4	25,4
Sales margin %	82	80	83	87	83	83
Operative expenses	7,6	7,6	6,7	6,7	6,4	27,3
Operating profit (EBITA)	-0,6	0,3	0,2	-0,7	-0,8	-1,1
% of net sales	-7	3	2	-12	-13	-4
Result before taxes	-0,5	0,3	0,2	-0,7	-0,6	-0,8
% of net sales	-6	4	3	-11	-10	-3

Stonesoft Group  
Key ratios      1.1.-31.3.2012      1.1.-31.3.2011      1.1.-31.12.2011  
(1000 Euros)

Net sales	8 254	6 509	30 604
Net sales change-%	27	6	26
Operating result	-574	-827	-1 137
% of net sales	-7	-13	-4
Operating result before taxes	-477	-644	-779
% of net sales	-6	-10	-3
ROE - %, annualized	-59	-64	-22
ROI - %, annualized	-49	-56	-16
Equity ratio-%	39	46	40
Net gearing	-2,70	-2,53	-1,99

Total Assets	21 860	19 546	21 157
Capital expenditure	424	330	581
Capital disposals	0	0	0
R&D costs	1 832	1 497	6 131
% of net sales	22	23	20
Number of employees (weighted average)	229	197	207
Number of employees (end of the period)	232	195	222

Share Specific Ratios			
Earnings per share	-0,01	-0,01	-0,01
Equity per share	0,05	0,06	0,06
Dividend	0,00	0,00	0,00
Dividend per share (EUR)	0,00	0,00	0,00
Dividend / Profit-%	0	0	0

#### Calculation of indicators

Return on equity (ROE) % =	(Profit before taxes - income taxes) x 100 / Shareholders' equity + minority interest (average)
Return on invested capital (ROI)% =	(Profit before extraordinary items+interest and other financial expenses) x100 / Balance sheet total - non-interest bearing debt (average)
Equity ratio % =	(Equity + minority interest) x 100 / Balance sheet total - advances received
Net gearing =	Interest bearing net debt - cash in hand and on deposit - marketable securities / Equity + minority interest
Earning per share (EPS) =	Profit before taxes - minority interest - income taxes / Average number of shares adjusted for dilutive effect of options
Equity per share =	Equity / Number of shares at end of period

#### FORWARD-LOOKING STATEMENTS

This report contains statements concerning, among other things, Stonesoft's financial condition and the results of operations that are forward-looking in nature. Such statements are not historical facts, but rather represent Stonesoft's future expectations. The company believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions. However, these forward-looking statements involve inherent risks and uncertainties, which could cause actual results or outcomes to differ materially from those anticipated in the statements. These risks and uncertainties may include, among other things, (1) changes in our market position or in the Firewall/VPN and Intrusion detection and protection market in general; (2) the effects of competition; (3) the success, financial condition, and performance of our collaboration partners, suppliers and customers; (4) our ability to source quality components without interruption and at acceptable prices; (5) our ability to recruit, retain and develop appropriately skilled employees; (6) exchange rate fluctuations, including, in particular, fluctuations between the Euro, which is our reporting currency, and the US dollar; (7) other factors related to sale of products, economic situation, business, competition or legislation affecting the business of Stonesoft or the industry in general and (8) our ability to control the variety of factors affecting our ability to reach our targets and give accurate forecasts.

#### PRESS CONFERENCE

A press conference for analysts and investors will be held on 20 April, 2012 at 10.30 am at the Stonesoft headquarters, street address Itälahdenkatu 22 A, 00210 Helsinki.

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This stock exchange release and the presentation material related to this report are also available at the Stonesoft web site [www.stonesoft.com](http://www.stonesoft.com).

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