

STONESOFT CORPORATION STOCK EXCHANGE RELEASE FEBRUARY 14, 2006

STONESOFT CORPORATION'S FINANCIAL STATEMENTS RELEASE FOR JANUARY-DECEMBER 2005

SUMMARY

January-December

- Net sales for the financial year totalled EUR 22.2 million, which was 1% less than in the previous year
- Sales of Stonesoft's core product, StoneGate™ were EUR 8.4 million, up by 24% on the previous year.
- Operating loss before amortization of goodwill was EUR 6.3 million. The previous year's comparable loss was EUR 9.0 million.
- Earnings per share were EUR -0.10, compared with EUR -0.23 for the previous year.
- Liquid assets totalled EUR 18,1 million at the end of the financial year, which was EUR 4.1 million less than in the end of the previous year.
- Cash flow was negative EUR 4.1 million. The previous year's cash flow was negative EUR 6.0 million.

"Stonesoft continued during the year adding new sales resources and implementing its go-to-market strategy. Sales cycles turned out to be longer than anticipated, especially concerning large customers", says Ilkka Hiidenheimo, CEO.

"Company saw positive development of its business operations during the year 2005. The annual sales growth of the company's main product StoneGate™ was 24% while the Firewall/VPN and Intrusion detection and protection market grew by roughly 10 % during the three first quarters according to an estimate given by Infonetics, a well-established industry analyst. The operating loss was significantly lower than previous year", continues Hiidenheimo.

October - December

- Net sales for the fourth quarter were EUR 5,8 million, which is a 9% decrease compared with the previous year's corresponding quarter. The decrease was mainly resulting from the decrease in the sales of the consulting daughter company
- StoneGate™ sales totalled EUR 2.4 million in the last quarter, a 2% increase compared with the corresponding quarter of 2004
- Operating loss before amortization of goodwill was EUR 2.0 million. The comparable loss for the corresponding quarter in previous year was EUR 1.4 million
- Cash flow in the fourth quarter was a negative EUR 2.0 million.

Stonesoft Corporation (HEX: SFT1V) is an innovative provider of integrated network security and business continuity. Stonesoft is a global company focused on enterprise level customers requiring advanced network security and always-on business connectivity with low TCO, best price-to-performance ratio, and highest ROI. StoneGate™ Security Platform unifies firewall, VPN and IPS, blending network security and end-to-end availability into a unified and centrally managed system for distributed enterprises. StoneGate™ incorporates the award-winning load balancing technology of StoneBeat®. Founded in 1990, Stonesoft Corporation has corporate headquarters in Helsinki, Finland. Additional information is available at www.stonesoft.com

BOARD OF DIRECTORS' REPORT

NET SALES AND PROFIT

(Previous year's figures in parenthesis).

January - December

Net sales in January-December were EUR 22.2 million (22.5 million). Compared with the previous year's corresponding period EUR -0.3 million or -1%. The earnings before interest, taxes & amortization for the financial year were EUR -6.3 million (-9.0 million).

The geographical distribution of net sales was as follows: Europe, Middle East and Africa 72% (74%), North and South America 20% (19%) and Asia-Pacific 8% (7%).

The loss for the year after taxes was EUR 6.0 million. The previous year's loss was EUR 13.0 million.

Finance and investments

At the end of the year under review, total assets were EUR 26.0 million (31.7 million). The equity ratio was 77% (81%) and gearing (the ratio of net debt to shareholders' equity) was -1.10 (-0.98). Consolidated liquid assets at the end of the year totaled 18.1 million (22.2 million). Investments in fixed assets totaled EUR 0.4 million (0.5 million).

DEVELOPMENT OF BUSINESS OPERATIONS

Markets and competitive environment

According to an estimate given by Infonetics, the Firewall/VPN and Intrusion detection and protection market grew by roughly 10 %, being 3 billion euros in 2005.

Main business events in 2005

- In March the company implemented new sales management system. The system helps to manage the sales resources and enables transparent monitoring on global level with higher granularity.
- In April the company invited M.Soc.Sc, Juha Kivikoski, Vice President, Global Marketing as a new member to the company Management team. Mr. Kivikoski joined Stonesoft in December 2004.
- In June the company promoted Mr. Mika Rautila as Chief Technology Officer and as a member of the company Management Team. Mr. Rautila has been with Stonesoft since 1999 and holds a PhD in Mathematics.
- In June, the company announced new versions of the StoneGate™ Management Center, StoneGate™ FW/VPN and StoneGate™ IPS products. The new versions further unify the security components of StoneGate™ offering and deliver new solutions to better and more advanced management functionalities to the complex security solutions.
- In June, the company announced SGI-20A IPS appliance that combines sensor and analyzer.
- In July Stonesoft was granted a US patent called "Data Transmission Control Method" (patent number 6,912,200) covering the VPN component of the Multi-Link functionality and the connection selection method when both ends of communication are protected by the StoneGate™ platform.
- In August IBM Global Services and Stonesoft renewed and expanded their partnership agreement in EMEA and USA to cover also Canada.

- In August Stonesoft was granted an European wide patent for a fail-safe remote upgrade called "a method of managing a network device, a management system, and a network device" (patent number EP 1259028) removes the risk that an error in a firewall configuration may lead to a situation making the network management center no longer able to connect to the firewall node in question, which could only be solved by making a costly visit to the site where the firewall node is located.
- In September Siemens Business Services and Stonesoft announced partnership agreement in Sweden, Denmark, Norway, Germany, Belgium and Luxemburg. Siemens Business Services is offering Stonesoft solutions as part of its wide service offering to its customers.
- In September Stonesoft announced its flagship SG-4000, a FW/VPN product for large enterprises and distributed networks the deliveries of which started in the last quarter.
- In October Stonesoft announced four new StoneGate™ appliances. StoneGate™ SG-250e, SG-500e50, SG-500e-100 and SG-570e appliances are targeted for medium sized organizations as well as for corporate remote and branch offices to answer to the future security requirements.
- In November, Stonesoft secured the UN World Summit on the Information Society in Tunis. The Summit had 20 000 participants and national delegations from 174 nations. The Summit was organized by ITU.
- In the last fiscal quarter, Stonesoft enforced its position in France. The company reorganized its sales operations and made further recruitments.

REVIEW OF MAJOR RESEARCH AND DEVELOPMENT ACTIVITIES

Stonesoft focuses on innovative research and development and the protection of its inventions. In the financial year, the focus was on developing both new and existing high availability network security solutions.

The investments in research and development during the fiscal year totaled EUR 4.6 million (5.1).

Research and development employed 67 (63) persons at the end of the financial year.

In line with the Corporation's accounting principles, R&D expenditure is booked as an expense at the moment it occurs.

ADOPTION OF IFRS

Stonesoft adopted IFRS-compliant reporting in 2005

SHARE CAPITAL

At the end of the financial year on 31 December 2005, Stonesoft's share capital entered in the Trade Register totaled EUR 1,146,054.64. The number of shares was 57,302,732 and the counter book value of each share was EUR 0.02. The share capital remained unchanged.

DEVELOPMENT OF SHARE PRICES AND TURNOVER

On January 3, 2005, Stonesoft's shares were valued at EUR 0.58. At the end of the year, the share price was EUR 0.51. The highest share price was EUR 0.69 and the lowest EUR 0.46. During the year, the total turnover of Stonesoft shares amounted to EUR 13.1 million. Stonesoft's share price decreased by 12 % during the fiscal year. Over the same period, the Helsinki Stock Exchange HEX index increased by 35 %, while the telecom & electronics sector index increased by 35

%. Based on the share price on December 30, 2005, Stonesoft's market capitalization was EUR 29.2 million.

PROPOSAL BY THE BOARD OF DIRECTORS FOR DISTRIBUTION OF PROFIT

The parent company's operating loss before amortization of goodwill (EBITA) was EUR 10.5 million. At the end of the period, neither the group nor the parent company had any distributable equity in its shareholders' equity. The Board of Directors proposes that the parent pay no dividend for 2005 and that the loss be debited to the retained earnings account.

PERSONNEL

At the end of the fiscal period, Stonesoft's personnel numbered 252 (237). During the financial year the company increased mainly the number of people engaged in sales duties.

THE COMPANY'S BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

In the financial year, Ilkka Hiidenheimo was the CEO of the company. The Chairman of the Board of Directors was Alexis Sozonoff and other members were Ilkka Hiidenheimo, Pertti Ervi and Jyrki Ritvala.

In the beginning of the financial year, the members of the company's Management Team were Ilkka Hiidenheimo, Mikael Nyberg, Erkki Panula, Saara Laine and Tobias Christen. Juha Kivikoski started as a new member of the company's Management Team on April 12, 2005. Mika Rautila started as a new member of the company's Management Team on June 13, 2005 replacing Tobias Christen.

MAJOR EVENTS AFTER THE FINANCIAL YEAR

In February Finnish Defence Forces announced that they have chosen after a bidding process Stonesoft's firewall solution to their systems management network. Product deliveries are anticipated to begin in February. This project is strategically significant to Stonesoft.

In February Stonesoft Corp. received information that prosecutor has decided to press charges in the Helsinki District Court in a suspected securities market information offence related to the ongoing disclosure requirements for public companies and regarding the alleged delay of Stonesoft's profit warning issued in February 2001. The charges are pressed against Stonesoft Corp. and the Board members and CEO of the company in 2000. Stonesoft denies all charges and claims made.

FUTURE OUTLOOK

According to an estimate given by Infonetics, the Firewall/VPN and Intrusion detection and protection market is estimated to achieve an average growth of roughly 10% during 2006.

Stonesoft continues decisive work to increase turnover and to improve financial result. The structural changes, restructuring measures and added sales resources, the new products and the strategic partnerships concluded during the years 2004 and 2005, will create a lasting foundation for a positive development. With these changes, turnover, operating result and market position of the company, on the long term, is aimed to be equal to the competitiveness of the product offering.

The main goal for 2006 is to achieve faster growth than the market growth in the sales of StoneGate™ products, by utilizing the past investments. The company believes that as a result of this growth the right balance between the expenses and the sales will be achieved over time. The company will enforce the focus to the selected key markets, develop further the partner community to support sales efforts and to further sharpen the marketing and communications actions to the key interest groups.

Stonesoft anticipates the growth in the sales of StoneGate™ products to continue on a year-to-year basis. However, the development of the sales may fluctuate during the fiscal quarters.

Stonesoft Group Income Statement (1000 Euro)	1.1-31.12.2005	1.1-31.12.2004
Net Sales	22 237	22 490
Other operating income	585	545
Materials and services	1 937	1 859
Personnel expenses	16 620	17 214
Depreciation	1 113	1 603
Other operating expenses	9 410	11 348
Operating Profit / Loss	-6 258	-8 988
Financial income and expenses	539	456
Profit / Loss before taxes	-5 719	-8 532
Taxes	288	4 448
Profit / Loss for the accounting period	-6 008	-12 981
Basic earnings per share, EUR	-0.10	-0.23
Diluted earnings per share, EUR	-0.10	-0.23

Stonesoft Group Balance Sheet (1000 Euro)	31.12.2005	31.12.2004
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ASSETS

Non-Current Assets

Tangible assets	840	1 340
Goodwill	1 507	1 507
Intangible assets	228	404
Other investments	4	9
Receivables	18	38
Deferred tax assets	2	0
Total	2 599	3 299

Current assets

Inventories	519	194
Trade and other receivables	4 697	5 992
Prepayments	106	0
Marketable securities	17 378	20 815
Cash in hand and at bank	729	1 372
Assets	23 428	28 373
Total Assets	26 027	31 671

EQUITY AND LIABILITIES

Equity attributable to equity

Holders of the parent company

Share capital	1 146	1 146
Share premium account	76 845	76 821
Conversion differences	-849	-892
Retained earnings	-60 961	-55 012
Total	16 181	22 063

Long-term liabilities

Deferred tax liability	0	59
Provisions	124	0
Interest bearing liabilities	152	268
Other long-term liabilities	789	762
Total	1 065	1 089

Short-term liabilities

Trade and other payables	8 504	8 172
Tax liability	55	109
Provisions	38	23
Short-term interest bearing liabilities	184	217
Total	8 780	8 520

Total liabilities	9 846	9 609
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Total equity and liabilities	26 027	31 671
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Stonesoft Group

Statement of changes in equity
(1000 Euro)

	Share capital	Share premium	Conversion difference	Retained earnings account	Total
Shareholders' equity at 31.12.2003	1 146	76 821	-1 078	-41 768	35 121
Change in IFRS conversion			98	-264	-166
Shareholders' equity at 1.1.2004	1 146	76 821	-980	-42 032	34 955
Conversion differences			88		88
Net income recognised directly in equity			88		88
Profit/loss for the period			-12 981		-12 981
Total recognised income and expense for the period			88	-12 981	-12 892
Shareholders' equity at 31.12.2004	1 146	76 821	-892	-55 012	22 063

	Share capital	Share premium	Conversion difference	Retained earnings account	Total
Shareholders' equity at 31.12.2004	1 146	76 821	-892	-55 012	22 063
Changes to equity				59	59
Conversion differences			44		44
Net income recognised directly in equity			44	59	102
Profit/loss for the period				-6 008	-6 008
Total recognised income and expense for the period			44	-5 949	-5 905
Stock options exercised		24			24
Shareholders' equity at 31.12.2005	1 146	76 845	-849	-60 961	16 181

Stonesoft Group
Cash flow statement 1.1.-31.12.2005 1.1.-31.12.2004
(1000 Euro)

Cash flow from operating activities		
Operating Profit / Loss	-6 258	-8 988
Adjustments	1 810	1 868
Change in net working capital	1 180	1 654
Taxes paid	-290	-292
Total cash flow from operating activities	-3 558	-5 757
Cash flow from investing activities		
Investments in tangible assets	-185	-177
Investments in intangible assets	-22	-33
Investments in affiliated company	48	0
Investments in other shares	5	-3
Received dividends	0	3
Total cash flow investing activities	-154	-210
Cash flow from financing activities		
Payments of financial leasing Liabilities	-230	-290
Total cash flow from financing activities		
Change in cash and cash equivalents		
Cash and cash equivalents at beginning of period	22 187	28 169
Conversion differences	44	88
Changes in the market value of investments	-183	188
Total cash and cash equivalents at end of period	18 107	22 187

Stonesoft Group
Geographical segments 1.1.-31.12.2005 1.1.-31.12.2004
(1000 Euro)

Net Sales		
EMEA	16 072	16 664
AMER	4 325	4 299
APAC	1 839	1 527
Total net sales	22 237	22 490
Operating profit		
EMEA	-3 605	-5 793
AMER	-2 117	-2 403
APAC	-538	-792
Total operating profit	-6 258	-8 988

Stonesoft Group
Contingent liabilities 1.1.-31.12.2005 1.1.-31.12.2004
(1000 Euro)

Contingent off-balance sheet		
Non-cancellable other leases	7 305	8 163
Contingent liabilities for the Company	131	146

Stonesoft Group
Quarterly Development Q4 / Q3 / Q2 / Q1 /
(Euro Millions) 2005 2005 2005 2005 2005

Security software and appliances	2.5	1.7	2.6	1.9	9
Services	3.4	3.0	3.5	3.5	13
Other products	-0.1	0.0	0.1	0.1	0
Net sales	5.8	4.7	6.2	5.6	22
Net sales change-% from previous year	-9	-11	7	10	-1
Sales Margin	5.2	4.4	5.5	5.2	20.3
Sales Margin %	90	93	89	93	91
Operative expenses	7.3	6.0	7.1	6.5	27.0
Operating profit (EBITA) before restructuring costs	-2.0	-1.5	-1.5	-1.3	-6.3
% of net sales	-34	-33	-24	-23	-28
Operating profit (EBITA) % of net sales	-2.0	-1.5	-1.5	-1.3	-6.3
Profit / loss before taxes	-1.8	-1.4	-1.3	-1.2	-5.7
% of net sales	-31	-30	-22	-21	-26

Stonesoft Group					
Quarterly Development (Euro Millions)	Q4 / 2004	Q3 / 2004	Q2 / 2004	Q1 / 2004	2004
Security software and appliances	2.6	1.8	1.8	1.5	7.7
Services	3.8	3.3	3.8	3.5	14.5
Other products	0.0	0.1	0.1	0.1	0.3
Net sales	6.4	5.3	5.8	5.0	22.5
Net sales change-% from previous year	-4	7	3	-16	-3
Sales Margin	5.9	4.8	5.3	4.6	20.6
Sales Margin %	93	91	92	92	92
Operative expenses	7.4	7.2	7.7	7.7	30.0
Operating profit (EBITA) before restructuring costs	-1.4	-1.9	-2.0	-2.8	-8.1
% of net sales	-22	-35	-34	-56	-36
Operating profit (EBITA) % of net sales	-1.4	-2.4	-2.2	-3.0	-9.0
Profit / loss before taxes	-1.4	-2.3	-2.1	-2.8	-8.5
% of net sales	-21	-43	-37	-55	-38

Stonesoft Group		
Key Ratios (1000 Euro)	1.1.-31.12.2005	1.1.-31.12.2004
Net Sales	22 237	22 490
Net Sales Change-%	-1	-3
Operating profit / loss	-6 258	-8 988
% of Net Sales	-28	-40
Operating result before taxes	-5 719	-8 532
% of Net Sales	-26	-38
ROE - %, annualized	-31	-46
ROI - %, annualized	-29	-27
Equity Ratio-%	77	81
Net Gearing	-1.10	-0.98
Total Assets	26 027	31 671
Capital Investments	437	501
% of Net Sales	2	2
R&D Costs	4 612	5 075
% of Net Sales	21	23
Number of Employees (Weighted Average)	247	258
Number of Employees(end of the period)	252	237

Share Specific Ratios

Earnings per Share (EUR)	-0.10	-0.23
Equity per Share (EUR)	0.28	0.38
Dividend	0.00	0.00

Dividend per Share (EUR)	0.00	0.00
Dividend / Profit-%	0	0

Stonesoft Group		
Reconciliation of equity	31.12.2003	31.12.2004
(1000 Euro)		
Equity according to FAS	35 121	20 690
Goodwill	0	1 206
Unrealized change in value	38	226
Deferred tax effect	-212	-59
Other adjustments	8	0
Equity according to IFRS	34 955	22 063

Stonesoft Group		
Reconciliation of net profit		31.12.2004
(1000 Euro)		
Net profit according to FAS		-14 519
Goodwill amortization		1 208
Unrealized change in value		188
Deferred tax effect		153
Other adjustments		-11
Net profit according to IFRS		-12 981

FORWARD-LOOKING STATEMENTS

This report contains statements concerning among others Stonesoft's financial condition and 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 others (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.

The figures in this financial statements release are unaudited.

For additional information, please contact:
 Ilkka Hiidenheimo, CEO, Stonesoft Corporation,
 Tel. +358 9 476 711
 E-mail: ilkka.hiidenheimo@stonesoft.com

Mikael Nyberg, CFO, Stonesoft Corporation
 Tel. +358 9 476 711
 E-mail: mikael.nyberg@stonesoft.com

Stonesoft Corp.
Ilkka Hiidenheimo
CEO

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This release and the presentation material related to this report are also available on Stonesoft's web site at <http://www.stonesoft.com>.

A press conference will take place on February 14, 2006 at 10.30 a.m. at the Stonesoft headquarters, street address Itälahdenkatu 22A, 00210 Helsinki.