

STONESOFT CORPORATION FINANCIAL STATEMENTS RELEASE FOR JANUARY-DECEMBER 2012

Product sales grew by almost 60%, positive operating result for full year

Stonesoft Corporation's operating result in the fourth quarter of 2012 grew by almost MEUR 1.2 compared to the corresponding period in the previous year and were MEUR 1.4. The company's product sales developed positively and were MEUR 9.6, growth 58%, whereby net sales were MEUR 13.5.

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

October-December 2012 (2011)

- Net sales MEUR 13.5 (9.5), growth 41%
- Product sales MEUR 9.6 (6.1), growth 58%
- Operating result MEUR 1.4 (0.3)
- Operating result as percentage of net sales 10 (3)%
- Earnings per share EUR 0.03 (0.01)
- Operative cash flow MEUR -0.0 (0.6)
- Liquid cash funds at the end of the reporting period MEUR 7.2 (7.7). The corporate had no interest-bearing debts.

January-December 2012 (2011)

- Net sales MEUR 40.1 (30.6), growth 31%
- Product sales MEUR 25.6 (17.7), growth 45%
- Operating result MEUR 0.5 (-1.1)
- Operating result as percentage of net sales 1 (-4)%
- Earnings per share EUR 0.01 (-0.01)
- Operative cash flow MEUR -0.5 (-0.3)

CEO ILKKA HIIDENHEIMO

The year 2012 was a turning point in Stonesoft's history. We succeeded in our long-term strategic goal to finance our business with operating cash flow, despite strong investments in growth, and made a positive result for the full year.

During the fourth quarter of the year 2012 Stonesoft's product sales grew by almost 60% and net sales by approximately 41%. Once again, our product sales made an all-time record. The net sales for the full year were also record-breaking MEUR 40.1.

We invested and will continue to invest in making the growth continue by adding resources in sales and marketing organization as well as product development. We will extend our operations into new markets. We are actively seeking distribution and OEM partnerships with internet solution providers. We will continue to raise the competitiveness of our products in vertical sectors such as teleoperator and defense industries and strengthen the suitability of our products for channel partnership business, managed security service providers (MSSPs) and securing cloud services.

There is a growing need on the market for our software based security technology which uses standard hardware. In addition to the commercial success of our products we continued to succeed extremely well in various tests by leading independent test laboratories: among others, the NSS Labs tests prove that Stonesoft has unique competence and our products are among the best of today's rapidly developing security industry.

Our Evader testing tool, which is based on a relatively limited number of evasions, is still capable of passing every next generation firewall, UTM and IPS solution on the market, except Stonesoft's own security solutions. We will introduce an updated version of the Evader tool at the RSA conference in the US at the end of February.

Cyber security has been strongly visible in the media around the globe and Stonesoft has received a lot of publicity in this respect. However, we are dealing with a strategic level problem, to which there are no easy answers on the operational level. The traditional approach where strategy is directed via technology does not work. Based

on Stonesoft's view, strategic level guidance is required to direct operations and technology choices.

The Winning Cyber Strategy 2013 top forum we arranged after the reporting period in January brought together leading cyber security experts from Finland and abroad. In the forum, cyber risks and threats were discussed, but also resilience, the opportunities brought by cyber security as well as cyber strategy insights. Cyber security concerns all of us and provides significant opportunities to both Stonesoft and the whole Finland. Our internationally unique cyber competence provides us with the possibility to become the world's leading experts in this demanding field. Numerous appearances and articles in the world's leading media such as the Economist, Frankfurter Allgemeine Zeitung and the New York Times have significantly strengthened the company's public recognition.

#### NET SALES AND RESULT

October-December 2012 (hereinafter 'reporting period')

The Group's net sales in the reporting period were MEUR 13.5 (9.5). Increase compared to the corresponding period in the previous year was MEUR 3.9, or 41%. The operating result (EBIT) was MEUR 1.4 (0.3) and the result after taxes was MEUR 1.7 (0.4).

Product sales were MEUR 9.6 (6.1), growth by 58% compared to the corresponding quarter in the previous year.

The geographical distribution of net sales was as follows: Europe 67 (72) %, Emerging Markets (North Africa, Middle East and Latin America) 20 (11) %, North America 12 (13) % and APAC (Asia-Pacific) 1 (4)%.

January-December 2012 (hereinafter 'fiscal period')

The Group's net sales in the fiscal period were MEUR 40.1 (30.6). Increase compared to the corresponding period in the previous year was MEUR 9.5, or 31%. The operating result (EBIT) was MEUR 0.5 (-1.1) and the result after taxes was MEUR 0.7 (-0.9).

Product sales were MEUR 25.6 (17.7), growth by 45% compared to the corresponding period in the previous year.

The geographical distribution of net sales was as follows: Europe 71 (69)%, Emerging Markets (North Africa, Middle East and Latin America) 15 (13)%, North America 11 (15)% and APAC (Asia-Pacific) 2 (3)%.

#### FINANCE AND INVESTMENTS

At the end of the fiscal year, Stonesoft's total assets were MEUR 27.0 (21.2). The equity ratio was 39 (40) % and gearing (the ratio of net debt to shareholders' equity) was -1.48 (-1.99).

The comparable cash flow during the fiscal year was MEUR -0.5 (-0.3). The Group has no interest-bearing debt. The consolidated liquid assets at the end of the fiscal year totalled MEUR 7.2 (7.7).

The Group has in its 2012 financial statements temporary differences accumulated in taxation consisting of 44.5 MEUR (69.6) losses and 18.6 (0) MEUR internal goodwill deductible in taxation as well as deferred depreciation 25.9 MEUR in 2012 (19.3). 14.6 MEUR of the accumulated taxable losses will expire in 2013 and the rest in the years 2014-2017. In accordance with IAS 12.34-35, the Group has booked no tax receivables. It is in the company's interest to aim at utilizing the taxable losses.

Investments in tangible and intangible assets totalled MEUR 1.0 (0.6).

#### DEVELOPMENT OF BUSINESS OPERATIONS AND STRATEGY

In November 2012 Stonesoft published the company's updated strategy and goals for the years 2013-2014. The strategy is based on strong growth in the rapidly growing security market and divided into cyber security-, customer-, product-, channel-, and marketing strategies, each of which supports growth. After the reporting period the company

published clarifications to its updated strategy.

The company's budgeted net sales for 2013 are MEUR 60 and the net sales target set in the strategy for the year 2014 is approximately MEUR 90. To support this, the company will enter several new markets during 2013 and actively develop partner business.

## MAIN BUSINESS EVENTS

### Main business events in 2012

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.

In February Stonesoft 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.

In April Stonesoft announced its firewall solution has received the IPv6 certification of the US-based ICSA Labs as well as met the U.S. National Institute of Standards and Technology's USGv6 evaluation requirements.

In April Stonesoft announced it has joined the IBM company Q1 Labs' Security Intelligence Partner Program (SIPP).

In May Stonesoft appointed Jarno Limnéll, Doctor of Military Science, as Director, Cyber Security. Mr. Limnéll's main areas of responsibility are issues related to cyber security, including cyber security strategies and partnerships.

In July Stonesoft released the new Evasion Prevention System (EPS) and Evader, the world's first software-based testing tool that empowers organizations to test their network security solutions' ability to withstand advanced evasion techniques (AETs).

In August Stonesoft announced its IPS-1302 had received excellent results in the NSS Labs Intrusion Prevention Systems (IPS) Test.

In August Mr. Mika Yletyinen was appointed Vice President, Europe and Global Channel and a member of the Executive Management Team at Stonesoft Corporation.

In August Stonesoft announced the market research firm Gartner, Inc. had placed it in the Visionaries Quadrant of its report, "Magic Quadrant for Intrusion Prevention Systems (IPS)".

In September Stonesoft introduced the new software (version 5.4). The company's flagship product, the Stonesoft Security Engine 5.4, now offers improved security against Advanced Evasion Techniques (AETs).

In November, Stonesoft published its updated strategy for the years 2013-2014. Aiming at rapid growth, the strategy is divided into cyber security-, customer-, product-, channel-, and marketing strategies, each of which supports growth.

In December Stonesoft launched the new next generation Stonesoft MIL-320 firewall/VPN appliance, which provides military-grade security also in extreme conditions.

In December Stonesoft signed a cooperation agreement with the Algerian Ministry of Post and Information & Communication Technologies (MPTIC) to raise awareness and knowledge about cybercrime and to provide academic security training in Algeria.

In December Stonesoft segregated its post sales technical support by selling it to its newly founded, fully owned subsidiary Stonesoft Global Support Ltd. The new company will from now on perform the technical support services offered to Stonesoft's customers as a subcontractor.

Main events after the fiscal period

In January Stonesoft published advance information on the Q4 and full year 2012 product sales and net sales as well as clarifications to its updated strategy.

In February Stonesoft introduced two new appliance models, the Stonesoft 1035 and 1065 appliances.

In February Stonesoft received the highest "Recommended" rating for the Stonesoft FW-1301 in NSS Labs' Network Firewall Group test.

Estimate

Stonesoft estimates the above-mentioned operations and achievements to secure the company's competitiveness in the future.

RESALES CHANNEL

The company sales are mainly conducted through an international resales channel.

RESEARCH AND DEVELOPMENT

Stonesoft's R&D operations are located in Finland, France and Poland. At the end of the year 2012, R&D employed in total 104 (85) persons. The company's R&D investments during the fiscal period totalled MEUR 7.5 (6.1).

R&D costs represented 23 (22) % of all expenses. R&D costs represented 19 (20) % of net sales.

Product tests, certifications and patents

In January Stonesoft Firewall network security solution obtained the CSPN (Certification de Sécurité de Premier Niveau) certification delivered by ANSSI (French Network and Information Security Agency) in France.

In February Stonesoft Firewall/VPN product family received the Common Criteria Evaluation Assurance Level 4+ (EAL4+) certification, an independent international security standard for IT Security products. The EAL 4+ is the highest assurance level existing commercial products can achieve.

In March Stonesoft received the highest (Recommend) rating for the Stonesoft FW-1301 in NSS Labs' Next Generation Firewall (NGFW) Group test.

In April Stonesoft Firewall solution met the U.S. National Institute of Standards and Technology's USGv6 evaluation requirements. And Stonesoft was certified by Q1 Labs, an IBM company and global provider of security intelligence solutions, for its Security Intelligence Partner Program (SIPP). The integration of Stonesoft solutions with IBM's

QRadar Security Intelligence Platform open protocols allows for more powerful correlation of security and application layer event data, facilitating customer solution deployments.

In August NSS Labs confirmed that the Stonesoft IPS-1302 provides 100 % protection against all tested evasion techniques and low total cost of ownership (TCO) during real-world traffic and threat scenarios. In NSS Labs' Intrusion Prevention Systems (IPS) Test, Stonesoft also demonstrated excellent stability and reliability. Stonesoft was positioned in the "Visionaries" Quadrant of Gartner's Magic Quadrant for Intrusion Prevention Systems.

Stonesoft was granted one (1) patent during the year. The patent was related to firewall personalization.

Most significant product launches

In January Stonesoft introduced IPS-1302 for demanding Web and encrypted traffic inspection.

In February Stonesoft introduced its transformable Security Engine concept. Stonesoft Security Engine is the first security solution where the customers can choose the platform, capacity and product configuration based on their needs. Security Engine can act as a traditional and/or next generation firewall (NGFW), traditional and/or next generation intrusion prevention systems (IPS/NGIPS), layer-2 firewall, VPN or UTM product.

The Security Engine's configuration or protection level can be changed according to changes in the network or business environment. For example, the security solution can be changed from the Next Generation Firewall (NGFW) role to Next Generation IPS (NGIPS) role fast and without additional costs.

In July Stonesoft released the new Evasion Prevention System (EPS) and Evader, the world's first software-based testing tool that empowers organizations to test their network security solutions' ability to withstand advanced evasion techniques (AETs).

In September Stonesoft introduced the new software (version 5.4) as well as the 3206 and 5206 high performance appliances with real-world application traffic throughput over 100Gbps.

In December Stonesoft announced the new Stonesoft MIL-320 Next Generation Firewall/VPN appliance that provides military-grade network security in a rugged go-anywhere unit.

#### DEVELOPMENT OF SHARE PRICES AND TURNOVER

Stonesoft's share value at the beginning of the fiscal year on January 1, 2012 was EUR 0.86 (0.58). At the end of the fiscal year on December 31, 2012, the share price was EUR 1.39 (0.86). The highest share price was EUR 1.78 (0.97), and the lowest EUR 0.87 (0.41). The total annual turnover of Stonesoft shares amounted to MEUR 28.8 (11.1) and 21.4 (16.8) million shares, which is 33.5 (26.5) % of the total amount of shares. Based on the share price on December 31, 2012, Stonesoft's market capitalization was MEUR 88.7 (54.6).

#### SHARE CAPITAL AND STOCK OPTION PROGRAMS

At the end of the fiscal year on December 31, 2012, Stonesoft's share capital recorded in the Trade Register totalled EUR 1,150,574.64 (1,150,574.64). The number of shares at the end of the fiscal year corrected by share issue was 65 052 195 (64 328 315). The weighted average value of the numbers of shares corrected by share issue was 63 617 591 (63 316 427). There is one class of shares and every share has one vote. The shares have no limitations on voting rights. The shares have no nominal value and no bookkeeping equivalent value. There are no redemption or approval clauses related to the shares, or securities entitling to the shares, and no other limitations of transfer. Furthermore, the shares and securities entitling to the shares have no special rights related to the decision making of the company. The number of shares recorded in the Trade Register on 31 December 2012 totalled 63.801.732.

The shares of the company have been connected to the book-entry securities system

maintained by Euroclear Finland Ltd, which maintains the official shareholder register of the company. The shares of the company are rated on the small company list with the trade identification SFT1V in the NASDAQ OMX Helsinki Ltd.

The company has 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 the Stock Option Program 2012, under which the total number of stock options is 4 500 000 at the maximum. The subscription price for the 2012A option rights based on Option Program 2012 is 1.42 euros per share. The subscription price for the stock options 2012B and 2012C will be determined based on the conditions of the Option Program 2012 later. At the end of the year 2012, in total 2 251 250 option rights had been granted from the Stock Option Program 2008, of which 573 000 had been registered as shares. 785 000 option rights had been granted from the Option Program 2012, of which according to the option conditions none have been registered as shares yet. 748 750 option rights have still not been granted from the program 2008 and 3 715 000 from the program 2012. At the end of the fiscal period, in total 1 057 000 shares could be subscribed based on Option Program 2008-2014, which is 1.7% of the company's current number of shares and voting rights. No subscriptions were possible in 2012 based on the program 2012. Based on the option programs directed to the company's key personnel, 309 250 subscriptions were made based on the 2008 program.

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.

#### SHAREHOLDERS

At the end of 2012, the company had 6 272 (6 091) shareholders. Nominee registered holdings represented 6.1 (6.0)% of the share capital at the end of 2012.

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

#### SHAREHOLDINGS OF THE BOARD OF DIRECTORS AND THE CEO

On December 31, 2012, the members of the Board of Directors, the CEO and the entities under their control held a total of 22,277,657 shares of the company. These represented 34.9% of the shares and the voting rights. The stock option rights held by the members of the Board of Directors on December 31, 2012 entitled them to a subscription of 77,500 shares.

#### PROPOSAL BY THE BOARD OF DIRECTORS FOR DISTRIBUTION OF PROFIT

The operating result of the parent company was MEUR 18.8. At the end of the fiscal year the parent company had no distributable equity in its shareholders' equity. The Board of Directors proposes that the company pay no dividend and that the profit be credited to the Profit/Loss account.

#### AUTHORIZATIONS OF THE BOARD OF DIRECTORS

The Annual General Meeting of Shareholders (AGM) held on April 25, 2012 decided 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 authorization is in force until the end of the 2013 AGM. This authorization supersedes the authorization given by the AGM in the previous year.

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

#### THE COMPANY'S BOARD OF DIRECTORS, EXECUTIVE MANAGEMENT AND AUDITORS

According to the Articles of Association of the company, the Board of Directors is comprised of three to seven (3-7) ordinary members. The term of the member of the Board of Directors starts at the end of the Annual General Meeting that elects him/her and continues until the end of the next Annual General Meeting. The Annual General Meeting held on April 25, 2012 elected six (6) members to the Board of Directors. Ilkka Hiidenheimo, Harri Koponen, Jukka Manner, Timo Syrjälä and Hannu Turunen were re-elected as a Board member and Satu Yrjänä was elected as a new Board Member. In its statutory meeting held on April 25, 2012, the Board elected Hannu Turunen as Chairman of the Board and Harri Koponen as Vice Chairman. In addition, Hannu Turunen, Harri Koponen and Timo Syrjälä were elected as members of the Audit Committee.

According to the Articles of Association, the company has a Chief Executive Officer (CEO), who is appointed and discharged by the Board of Directors. In 2012, Ilkka Hiidenheimo was the CEO of the company. The CEO is in charge of the day-to-day management of the company in accordance with the instructions and orders given by the Board of Directors as well as the Companies Act.

The members of the company's Executive Management were Ilkka Hiidenheimo, Juha Kivikoski, Kim Fagernäs, Mikael Nyberg, Mika Jalava, Ari Vanttinen and as of August Mika Yletyinen.

In 2012, authorized public accountants Ernst & Young Oy acted as Stonesoft's auditor and authorized public accountant Bengt Nyholm as the auditor in charge.

#### The compensation of the CEO

CEO Ilkka Hiidenheimo has not accepted any compensation for his services during 2012, The CEO's pension is the same as for all the company's employees, as defined in Finland's Employee Pension Act (TYEL). The service contract for the CEO provides for notice period of six (6) months prior to termination, with compensation being equal to six (6) months' salary and a further optional six (6) months' fixed salary if the company terminates the contract without essential breach of contract by the CEO.

The CEO has been granted option rights, in total 70 000 pcs from Option Program 2008 and 140 000 pcs from Option Program 2012.

#### ACQUISITIONS AND CHANGES IN GROUP STRUCTURE

In December Stonesoft segregated its post sales technical support by selling it to its newly founded, fully owned subsidiary Stonesoft Global Support Ltd.

No external acquisitions were made during the fiscal year.

#### FOREIGN REPRESENTATIVE OFFICES

The Group has at the end of the fiscal year representative offices in Algeria, China, Saudi Arabia and UAE.

#### PERSONNEL

At the end of the fiscal year, the Group's personnel totalled 251 (222) people, of which 221 (189) were employees and 30 (33) had contractual relationships as full-time sales representatives or consultants.

The geographical distribution of Stonesoft personnel based on the new segment reporting at the end of the fiscal period was Europe, 205 (176), Emerging markets (North Africa,

Middle East and Latin America) 15 (16), North America 25 (21) and APAC (Asia and Pacific) 6 (9).

The salaries and other remuneration paid to the employees, including social security payments, were in total MEUR 19.9 (16.7).

The average number of personnel during the fiscal period was 237 (207).

## ENVIRONMENT

Due to the nature of the company's business, the direct environmental impacts of its business operations are fairly limited. The activities of the company include internal software development and purchasing of external hardware assembly services and related installation services from subcontractors. Stonesoft is a member of PYR (The International Register of Packaging PYR ltd). Stonesoft's products are compliant with RoHS and WEEE directives (directives for restrictions of hazardous substances in electric appliances and recycling of electric appliances).

## CORPORATE GOVERNANCE STATEMENT

The Audit Committee of Stonesoft Corporation's Board of Directors will review and approve the Corporate Governance Statement. Stonesoft Corporation's Corporate Governance Statement will be issued separately from The Board of Director's report and published in the Annual Report 2012.

Stonesoft Corporation applies the Corporate Governance Code recommendations for listed companies prepared by the NASDAQ OMX Helsinki Ltd, the Central Chamber of Commerce and the Confederation of Finnish Industries EK and published in June 2010. A more detailed description of the Corporate Governance principles of Stonesoft Corporation is available at the corporate website ([www.stonesoft.com](http://www.stonesoft.com)).

The Corporate Governance Statement contains the main features of internal control and risk management in relation to the financial reporting systems as well as information about the composition and duties of the Board of Directors and information about the Chief Executive Officer.

## RISKS AND BUSINESS UNCERTAINTIES

There have been no significant changes in the risk scenario with respect to Stonesoft. The need of companies and authorities to protect themselves against network attacks and cyber threats will increase significantly. The global economical crisis has negative impact on total demand.

The biggest risk factors of the company's operations are related to operational and financial risks as well as securing and managing critical data and infrastructure.

### 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 are made mainly through global channel partners, using standardized Stonesoft agreements. The company keeps a buffer stock for sales to ensure rapid delivery and to be able to meet unexpected peak demands. 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 property, operational and liability risks.

### Financial risks

Stonesoft does not normally provide financing to its customers, other than generally accepted terms of payment. 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 goals of the policy are

- (i) to ensure the short-term liquidity of the company,
- (ii) to guarantee efficient circulation of cash funds 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 are invested in interest bearing instruments. The company's profits and related costs are under continuous control.

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 the network infrastructure of the company. The company has back-up systems to ensure business continuity also in a state of emergency.

During the fiscal year 2013, 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. Stonesoft has no risks related to the order book, because it normally can process incoming orders within a couple of work days.

Stonesoft's risk management and its principles are discussed more extensively at the company website and in the Annual Report.

#### FUTURE OUTLOOK

In 2012, the network security market grew by approximately 10%, and based on estimates by various sources the growth level of the total market will remain at 5-15% during the year 2013. For example, Gartner has estimated that the network security market, without any support or other services, will reach USD 9 Billion in 2013.

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's freely downloadable Evader testing tool provides organizations with the possibility to see in their own environment that advanced evasion techniques are able to bypass all except Stonesoft's security systems.

Due to incorrect technology choices, many competitors have great difficulties in amending their solutions to provide protection against AETs now and in the future.

Stonesoft has received the highest possible status in the Next Generation Firewall, Intrusion Prevention System as well as the latest Network Firewall Group tests of the independent research company NSS Labs. In addition, the research company Gartner had positioned Stonesoft as a visionary in both its IPS and Firewall Magic Quadrants. In the IPS Magic Quadrant Stonesoft is the only company who has received the visionary status.

Cyber security

Stonesoft's active participation in the current discussion about cyber security has brought the topic also to the awareness of the larger audience. Stonesoft is a pioneer in cyber security and will maintain its thought leadership in the market according to its strategy.

Estimate

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.

The company's budgeted net sales for 2013 is MEUR 60 and the net sales target set in the strategy for the year 2014 is approximately MEUR 90. To support this, the company will enter several new markets during 2013 and actively develop partner business.

While the company is aiming for strong growth, the operating profit (EBIT) for the first quarter of the year is expected to be negative and the operating profit for the full year to improve compared to the previous year.

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 - DECEMBER 31, 2012

### ACCOUNTING PRINCIPLES

This Financial Statement Release has been prepared in accordance with the IAS 34 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 2012. Key indicator calculations remain unchanged.

The figures presented in this release are audited.

Stonesoft Group Income Statement (1000 Euros)	10-12/2012	10-12/2011	1-12/2012	1-12/2011
Net sales	13 458	9 540	40 127	30 604
Other operating income	231	281	950	904
Materials and services	-2 834	-1 946	-7 658	-5 240
Personnel expenses	-5 620	-4 598	-19 885	-16 665
Depreciation	-171	-115	-624	-479
Other operating expenses	-3 662	-2 910	-12 459	-10 262
Operating result	1 402	251	451	-1 137
Financial income and expenses	117	97	257	358
Result before taxes	1 519	348	709	-779
Taxes	178	16	-23	-138
Result for the accounting period	1 697	364	685	-917
Other comprehensive income				
Exchange differences on translating foreign operations	-3	7	5	-3
Total other comprehensive income	-3	7	5	-3
Total comprehensive income	1 693	371	691	-920
Basic earnings per share (EUR), continuing operations	0,03	0,01	0,01	-0,01
Diluted earnings per share (EUR), continuing operations	0,03	0,01	0,01	-0,01

Stonesoft Group Balance Sheet (1000 Euros)	31.12.2012	31.12.2011
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### ASSETS

Non-Current Assets		
Tangible assets	1 008	700
Intangible assets	233	162
Other investments	10	10

Total	1 251	872
Current assets		
Inventories	2 282	1 508
Trade and other receivables	16 187	10 847
Prepayments	102	220
Marketable securities	4 343	0
Cash and cash equivalents	2 848	7 710
Total	25 761	20 285
Total assets	27 012	21 157

#### EQUITY AND LIABILITIES

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

Share capital	1 151	1 151
Issue of shares	12	0
Share premium account	76 602	76 602
Conversion differences	-949	-954
Reserve for invested unrestricted equity fund	4 751	4 732
Retained earnings	-76 696	-77 659
Total	4 871	3 873

##### Long-term liabilities

Prepayments *)	5 025	3 157
Total	5 025	3 157

##### Short-term liabilities

Trade and other payables	7 466	5 563
Prepayments *)	9 526	8 381
Tax liability	68	126
Provisions	56	58
Total	17 116	14 127

Total liabilities	22 141	17 285
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Total equity and liabilities	27 012	21 157
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\*) Prepayments contain customers advance payment of support and maintenance contracts

	14 551	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	567
Comprehensive income	0	0	0	-3	0	-917	-920
Reserve for invested unrestricted equity fund reduction	0	0	0	0	-71	71	0
Transaction costs from equity	0	0	0	0	-1	0	-1
Stock options exercised	0	0	0	0	54	0	54
Stock option expenses	0	0	0	0	0	173	173
							3
Shareholders' equity at 31.12.2011	1 151	0	76 602	-954	4 732	-77 659	873

	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	873
Comprehensive income	0	0	0	5	0	685	691
Reserve for invested unrestricted equity fund reduction	0	0	0	0	-70	70	0
Transaction costs from equity	0	0	0	0	-4	0	-4
Stock options exercised	0	12	0	0	93	0	105
Stock option expenses	0	0	0	0	0	208	208
							4
Shareholders' equity at 31.12.2012	1 151	12	76 602	-949	4 751	-76 696	871

Stonesoft Group		
Cash flow statement (1000 Euros)	1.1.-31.12.2012	1.1.-31.12.2011
Cash flow from operating activities		
Operating Result	451	-1 137
Adjustments		
Non-cash transactions	172	334
Financial expenses	-77	-106
Financial incomes	245	445
Change in net working capital	-264	904
Taxes paid	-234	-218
Total cash flow from operating activities	294	221
Cash flow from investing activities		
Investments in tangible assets	-868	-460
Investments in intangible assets	-135	-120
Total cash flow investing activities	-1 003	-581
Cash flow from financing activities		
Stock options exercised	101	53
Total cash flow from financing activities	101	53
Change in cash and cash equivalents		
Cash and cash equivalents at beginning of period	7 710	8 016
Conversion differences	0	1
Changes in the market value of investments	89	0
Total cash and cash equivalents at end of period *)	7 191	7 710
*) Total cash and cash equivalents at end of the period		
contains pledged securities	711	496

Stonesoft Group		
Geographical segments	1.1.-31.12.2012	1.1.-31.12.2011
(1000 Euros)		
Net sales		
Europe	28 588	20 979
Emerging Markets	6 073	3 926
Americas	4 517	4 656
APAC	949	1 043
Total net sales	40 127	30 604
Operating profit		
Europe	1 612	150
Emerging Markets	573	-352
Americas	-1 544	-650
APAC	-190	-286
Total operating profit	451	-1 137

Stonesoft Group		
Contingent liabilities	1.1.-31.12.2012	1.1.-31.12.2011
(1000 Euros)		
Contingent off-balance sheet		
Non-cancellable other leases	1 428	1 970
Contingent liabilities for the Company	339	223

Stonesoft Group										
Quarterly development	Q4 /	Q3 /	Q2 /	Q1 /		Q4 /	Q3 /	Q2 /	Q1 /	
(Euro Millions)	2012	2012	2012	2012	2012	2011	2011	2011	2011	2011
Software	1,0	0,5	0,5	0,6	2,6	0,8	0,4	0,4	0,4	2,1
Security appliances	8,7	5,1	4,9	4,3	23,0	5,3	4,2	2,9	3,2	15,6
Services	3,9	3,7	3,6	3,4	14,5	3,4	3,3	3,2	3,0	12,8
Other products	0,0	0,0	0,1	0,0	0,0	0,1	0,1	0,0	-0,1	0,1
Net sales continuing operations	13,5	9,3	9,1	8,3	40,1	9,5	8,0	6,5	6,5	30,6
Change-% from previous year	41	16	40	27	31	27	43	29	6	26

Sales margin	10,6	7,6	7,4	6,8	32,5	7,6	6,7	5,6	5,4	25,4
Sales margin %	79	82	81	82	81	80	83	87	83	83
Operative expenses	9,4	7,8	8,0	7,6	32,9	7,6	6,7	6,7	6,4	27,3
Operating profit (EBITA)	1,4	0,1	-0,4	-0,6	0,5	0,3	0,2	-0,7	-0,8	-1,1
% of net sales	10	1	-5	-7	1	3	2	-12	-13	-4
Result before taxes	1,5	0,0	-0,4	-0,5	0,7	0,3	0,2	-0,7	-0,6	-0,8
% of net sales	11	0	-6	-6	2	4	3	-11	-10	-3

#### Stonesoft Group

Key ratios  
(1000 Euros)

1.1.-31.12.2012    1.1.-31.12.2011

Net sales	40 127	30 604
Net sales change-%	31	26
Operating result	451	-1 137
% of net sales	1	-4
Operating result before taxes	709	-779
% of net sales	2	-3
ROE - %, annualized	16	-22
ROI - %, annualized	18	-16
Equity ratio-%	39	40
Net gearing	-1,48	-1,99
Total Assets	27 012	21 157
Capital expenditure	1 003	581
Capital disposals	0	0
R&D costs	7 476	6 131
% of net sales	19	20
Number of employees (weighted average)	237	207
Number of employees (end of the period)	251	222

#### Share Specific Ratios

Earnings per share	0,01	-0,01
Equity per share	0,07	0,06
Dividend	0,00	0,00
Dividend per share (EUR)	0,00	0,00
Dividend / Profit-%	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 for the upcoming development. 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 8 February, 2013 at 10.30 am at the Stonesoft headquarters, street address Itälahdenkatu 22 A, 00210 Helsinki.

#### ANNUAL REPORT 2012 AND ANNUAL GENERAL MEETING 2013

Stonesoft's Annual Report 2012, which includes the audited Financial Statements, will be published at the company's website [www.stonesoft.com](http://www.stonesoft.com) on week 12.

Stonesoft's General Meeting of the Shareholders will be held on Wednesday 10 April 2013 at 3.00 pm.

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Ilkka Hiidenheimo  
CEO

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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