

STONESOFT CORPORATION FINANCIAL STATEMENT RELEASE FOR JANUARY-DECEMBER 2010

StoneGate product sales made all-time record

Stonesoft Corporation's operating result for the fourth quarter was, as previously announced, slightly negative and was MEUR -0.7, which is -0,8 MEUR weaker than during the corresponding period in the previous year. The company's product sales developed very positively and were MEUR 4.4, while total net sales were MEUR 7.5. This was the all-time record in the company's history.

The comparable figures from the corresponding period in the previous year are in brackets and refer to the figures of continuing operations.

October-December 2010

- Net sales MEUR 7.5 (6.5 and 6.9), growth 15%
- Product sales MEUR 4.4 (3.7 and 4.3), growth 19%
- Operating result MEUR -0.7 (0.1 and -0.2)
- Operating result as percentage of net sales -9 (1 and -3)%
- Earnings per share EUR -0.01 (0.00 and -0.00)
- Operative cash flow MEUR -2.5 (0.7 and -0.2)
- Liquid cash funds at the end of the reporting period MEUR 8.0 (6.2 and 7.0). The corporate had no interest-bearing debts.

January-December 2010

- Net sales MEUR 24.3 (23.6 and 24.4), growth 3%
- Product sales MEUR 12.7 (12.6 and 14.8), growth 0.4%
- Operating result MEUR -2.7 (-1.0 and -2.3)
- Operating result as percentage of net sales -11 (-4 and -9)%
- Earnings per share EUR -0.04 (-0.02 and -0.04)
- Operative cash flow MEUR -2.8 (-0.8 and -1.9)

CEO ILKKA HIIDENHEIMO

In the last quarter of the year 2010 Stonesoft's StoneGate product sales grew by 19% and reached the all time high in the company's history. The company's sales project pipeline has looked promising for already several quarters, and during the last quarter of the year the customers started making long postponed investments. The investments were made largely towards the end of the year, which is why cash flow remained still weak.

In October we announced the discovery of a significant new network security threat category, advanced evasion techniques (AET), which put the functionality of organization's data capital and systems at risk. The issue received a lot of publicity in international media and ICSA Labs, a recognized company specialized in independent testing and certification of security products has tested and verified the discovery. We had already earlier reported our discovery to the national computer security incident response team CERT-FI, based on whose process other network security vendors had six (6) months time to update their systems. By the end of this time period, in addition to Stonesoft only one, Cisco, had provided an official statement, in which it announced it will investigate the matter. After this a couple of other security vendors have announced they provide protection against advanced evasion techniques. In our tests we have seen that the protection offered by many vendors is not sufficient.

During the reporting period we published more information and technical details about the first 23 advanced evasion techniques. Also the research company Gartner has published the first detailed report about advanced evasion techniques. The report recommends companies to demand their network security vendors to provide proof that their products offer protection against advanced evasion techniques.

After the reporting period we have delivered CERT-FI 124 new recordings of advanced evasion techniques. We will continue to research the threat posed by them and aim to increase knowledge about traditional as well as advanced evasion techniques among the security players. Stonesoft has a unique advantage in the market in this respect, and we believe it will open new business opportunities and have a positive effect on the company's net sales and profitability during the year 2011.

## NET SALES AND RESULT

October-December 2010 (hereinafter 'reporting period')

The Group's net sales in the reporting period were MEUR 7.5 (6.5 and 6.9). Increase compared to the corresponding period in the previous year was MEUR 1.0, or 15%. The operating result (EBIT) was MEUR -0.7 (0.1 and -0.2) and the result after taxes was MEUR -0.9 (+0.0 and -0.2).

Product sales were MEUR 4.4 (3.7 and 4.3), growth by 19% compared to the corresponding quarter in the previous year.

The geographical distribution of net sales was as follows: Europe 60 (68 and 60) %, Emerging Markets (Russia, North Africa and Middle East) 20 (9 and 18) %, Americas (North and South America) 17 (20 and 18) % and APAC (Asia-Pacific) 3 (3 and 4) %.

January-December 2010 (hereinafter 'fiscal period')

The Group's net sales in the fiscal period were MEUR 24.3 (23.6 and 24.4). Increase compared to the corresponding period in the previous year was MEUR 0.7, or 3 %. The operating result (EBIT) was MEUR -2.7 (-1.0 and -2,3) and the result after taxes was MEUR -2.7 (-1.0 and -2.2).

Product sales were MEUR 12.7 (12.6 and 14.8), growth by 0.4 % compared to the corresponding period in the previous year.

The geographical distribution of net sales was as follows: Europe 60 (64 and 60) %, Emerging Markets (Russia, North Africa and Middle East) 17 (13 and 17) %, Americas (North and South America) 19 (20 and 19) % and APAC (Asia-Pacific) 4 (3 and 4) %.

## FINANCE AND INVESTMENTS

At the end of the fiscal year, Stonessoft's total assets were MEUR 19.9 (16.0 and 16.2). The equity ratio was 49 (40 and 46)% and gearing (the ratio of net debt to shareholders' equity) was EUR -1.75 (-2.31 and -1.99).

The comparable cash flow during the fiscal year was MEUR -2.8 (-0.8 and -1.9). The Group has no interest-bearing debt. The consolidated liquid assets at the end of the fiscal year totalled MEUR 8.0 (6.2 and 7.0).

At the end of the fiscal year the group had a considerable amount of fiscal losses, for which no deferred tax receivables have been entered into the balance sheet. The total amount of these deferred tax receivables is MEUR 20.5, of which MEUR 20.1 is accrued in Finland and MEUR 0.4 in the United States. The company activates part of its research and development expenses in the Finnish taxation (as of 1 January 2008), due to which the Finnish calculated tax receivables have decreased from the previous year. The company can deduct the activated research and development expenses in its taxation later.

In March 2010 Stonessoft Corporation conducted a directed share issue for a limited number of experienced and professional domestic investors. In the share issue, all 5.700.000 shares were subscribed for. The subscription price was EUR 0.80 per share. The company's own capital grew thereby by MEUR 4.4. The share issue had a strong financial reason, as its purpose was to strengthen the company's capital structure and to ensure the positive development according to the company's strategy and growth plan.

Investments in tangible and intangible assets totalled MEUR 0.6 (0.3 and 0.5).

## DEVELOPMENT OF BUSINESS OPERATIONS AND STRATEGY

During the past years Stonessoft has carried out a number of significant operational changes as well as intensely extended its product offering. Despite the global financial insecurity the company has demonstrated strong commitment in strengthening its product offering, competitiveness and customer base.

Stonesoft's organization and sales processes are at the level required by the targets set for the year 2011. Stonesoft aims to continue its decisive and persistent efforts according to its selected growth strategy to increase its net sales and result.

## MAIN BUSINESS EVENTS

### Main business events in 2010

In January, Stonesoft announced the StoneGate Firewall 5.1 and StoneGate Management Center 5.1 versions.

In January Stonesoft announced that its IPS (intrusion prevention system) appliances had performed well in the tests of the US-based a testing and certification company NSS Labs Inc.

In February, Stonesoft warned organizations about the use of heightened security risks associated with recent trends such as credit card payments, social media, cloud computing and mobility.

In March, Stonesoft introduced the new StoneGate SSL VPN Virtual Appliance, SSL VPN 1.4 and SSL-1060 for secure mobile and remote access.

In March, Stonesoft conducted a directed share issue to strengthen the company's capital structure and to ensure the positive development according to the company's strategy and growth plan. In the share issue, 5,700,000 new shares were subscribed and registered for experienced and professional domestic investors. The company's own capital grew thereby by MEUR 4.4.

In March, Stonesoft announced it had signed partnership agreements with four leading Saudi-Arabian system integrators and is in the process to establish a representative office in Riyadh, Kingdom of Saudi Arabia during spring 2010.

In March, Stonesoft announced it has entered a value added reseller agreement with Teamsun Technology, a leading integrated IT service provider in China.

In April, Stonesoft shared five tactics organizations can use to protect themselves against security threats and attacks related to cloud services and to improve their IT strategy.

In May, Stonesoft introduced StoneGate IPS-1205 for advanced gigabit network protection.

In June, Stonesoft announced its StoneGate IPS (Intrusion Prevention System) provides efficient protection against the latest critical vulnerability that exists in Adobe Flash Player, Adobe Reader and Acrobat as well as the Microsoft vulnerability.

In July, Stonesoft announced it expects the net sales for the second quarter of 2010 to decline by about 15% compared to the corresponding period in the previous year and expects the operating result to be negative.

In August, Stonesoft announced the extended availability of the StoneGate MobileID authentication software token for five additional platforms: Apple Mac OS, iPod, iPhone, iPad and Google Android.

In August, Stonesoft announced a selection of new modular network security appliances. The key benefits offered by the modular appliances are scalability, connectivity and ease of maintenance. Thanks to the modularity, the capacity of StoneGate 5.2 firewall and intrusion prevention system appliances can be raised flexibly to meet network connectivity needs.

In September, Stonesoft announced it estimates its net sales to grow from the previous year's level but the operating result for the full year 2010 to be negative.

In September, Stonesoft announced it has extended its strategic partnership with the US-based IT service provider Accuvant.

In September, Stonesoft announced its StoneGate Firewall/VPN and IPS network security solutions have received FSTEK certifications in Russia. FSTEK is one of the main government authorities regulating information security in the Russian Federation. As a result, Stonesoft's StoneGate solutions are now approved to secure highly critical information systems in state and commercial organizations as well as government authorities.

In October, Stonesoft announced its research and development unit has discovered a new and significant security threat category, Advanced Evasion Techniques, which enables intruding into organizations' data systems without leaving a trace. AETs can also transport already known malware or phishing programs, worms and viruses, which otherwise would be detectable and stoppable by network security systems.

In November, Stonesoft announced Hansel Ltd, the central procurement unit of the Finnish Government, has selected Atea as one of the suppliers of firewalls as well as equipment and services related to them in a new four- year framework agreement. Atea was selected as the distributor of Stonesoft's StoneGate products and services.

In November, Stonesoft published a new technical paper on advanced evasion techniques, "New Methods and Combinatorics for Bypassing Intrusion Prevention Technologies."

In December, the entire StoneGate Intrusion Prevention System (IPS) suite of appliances successfully attained the ICSA Labs Network Intrusion Prevention System (IPS) certification.

In December, Stonesoft announced Tekes, the Finnish Funding Agency for Technology and Innovation had decided to fund its research and development project "Dynamic network security" with more than one million Euros. The funding is distributed mainly during the years 2011 and 2012.

In December, Gartner, Inc. Positioned Stonesoft in the Niche Players quadrant in the Network Intrusion Prevention System (IPS) Magic Quadrant based on evaluation of its StoneGate IPS.

In December, Stonesoft published detailed technical descriptions of the first set Advanced Evasion Techniques (AETs). The first samples comprising of 23 evasion methods and their descriptions were delivered to CERT-FI in May, September and October 2010. Within the CERT-FI vulnerability coordination process, security vendors have had up to six months time to find a way to update their systems against these newly found threats.

In December, Stonesoft announced its year 2004 Option Plan subscription period of shares will expire December 31, 2010 for all the stock options.

Main business events after the reporting period

In January, Stonesoft published a list of security risks organizations should prepare for in 2011.

In January, Stonesoft announced its StoneGate™ IPS-1205 and IPS-3205 intrusion prevention system (IPS) appliances were rated excellent in value purchase according to the latest Network Intrusion Prevention System Comparative Test Report from NSS Labs, Inc. Both appliances ranked in the top three in their respective performance categories for best price per Mbps protected and total cost of ownership (TCO) per real world throughput.

In February, Stonesoft announced it had discovered 124 new advanced evasion techniques (AETs). Samples of these AETs have been delivered to the Computer Emergency Response Team (CERT-FI), who will continue to coordinate a global vulnerability coordination effort.

#### 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 2010, R&D employed altogether 75 (63 and 66) persons.

The company's R&D investments during the fiscal period for continuing operations totaled MEUR 5.6 (4.9 and 5.2). R&D costs represented 23 (22 and 21) % of all expenses for continuing operations.

The research operations of Stonesoft's R&D unit expanded during the year 2010. The most visible results were the discovery of Advanced Evasion Techniques (AET), reporting about them to other security vendors via the global vulnerability coordination process of CERT-FI, and developing efficient protection methods against AETs. Stonesoft participated in the Future Internet research program in Finland, developing the analysis and visualization of events related to network traffic as well as blocking unwanted traffic.

In December, Tekes, the Finnish Funding Agency for Technology and Innovation, announced it will fund Stonesoft's research and development project "Dynamic network security" with more than a million Euros. The project will start in 2011, but it is partly a continuation of a previous project "The protection of fast networks of critical infrastructure" that was finalized at the end of 2010 and has reached its goals.

Stonesoft's newest R&D unit in Cracow, Poland started its operations successfully. At the end of the year the Cracow office employed 12 persons. The unit already plays a significant role especially in the development of the key features of the StoneGate firewall solution.

Stonesoft's StoneGate product offering was significantly renewed during the year 2010. With respect to the appliances, the most visible improvement was the introduction of the modular network security appliances. Also the performance of the appliances was significantly improved.

The visible improvements of the StoneGate firewall software included, among others, IPv6 support, improvements in the Multicast routing and support for 64-bit architecture, which facilitates more efficient use of resources. The last-mentioned improvement applies also to the intrusion prevention system (IPS), which now includes also the possibility of category-based web filtering.

Stonesoft's SSL VPN product was developed, in addition to remote use, a versatile authentication environment for shared user authentication services. Its authentication applications were complemented by support for several new mobile devices and operating systems.

During the year 2010, Stonesoft's network security solutions performed well in international tests and received several significant certifications. The most important of these included ICSA Labs Network Intrusion Prevention System (IPS) certification, the FSTEK certification in Russia and good results in the NSS Labs Network IPS Group Test.

Stonesoft was granted two patents during the year. The patents were related to safe remote updates of a network device and filtering tunneled data packets.

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

#### DEVELOPMENT OF SHARE PRICES AND TURNOVER

Stonesoft's share value at the beginning of the fiscal year on January 3, 2010 was EUR 0.70 (0.32 and 0.29). At the end of the fiscal year on December 31, 2010, the share price was EUR 0.58 (0.70 and 0.32). The highest share price was EUR 1.19 (0.78 and 0.50), and the lowest EUR 0.54 (0.31 and 0.24). During the year, the total turnover of Stonesoft shares amounted to MEUR 23.9 (5.8 and 5.2) and 29.1 (11.1 and 14.9) million shares, which is 46.0 (19.4 and 26.0)% of the total amount of the shares. Based on the share price on December 31, 2010, Stonesoft's market capitalization was MEUR 36.7 (40.1 and 18.3).

#### SHARE CAPITAL AND STOCK OPTION PROGRAMS

At the end of the fiscal year on December 31, 2010, Stonesoft's share capital recorded in the Trade Register totaled EUR 1,150,574.64 (1,146,054.64 and 1,146,054.64). The number of shares at the end of the fiscal year corrected by share issue was 64 283 238 (57 727 732 and 57 309 875). The weighted average value of the numbers of shares corrected by share issue was 61 855 279 (57 723 942 and 57 307 748). The share capital changed due the subscription of options. 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 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 under the information technology classification with the trade identification SFT1V in the NASDAQ OMX Helsinki Ltd.

The company had two valid stock option programs in 2010, Stock Option program 2004-2010 and Stock Option program 2008-2014. Under the Stock Option program 2004-2010, the subscription price is EUR 0.56, and the total number of stock options to be granted based on it is at the maximum 1 500 000. The subscription period of the shares were graded and ended for all stock options on December 31, 2010. At the end of the year 2010 in total 1 076 250 stock options had been granted under this program. Under the Stock Option program 2008-2014, the subscription price is EUR 0.30 and the total number of stock options to be granted based on this program is at the maximum of 3 000 000. The subscription period of the shares is graded and will end for all stock options on December 31, 2014. At the end of the year 2010 in total 1 208 750 stock options had been granted under this program. At the end of the fiscal year in total 1 352 750 shares could be subscribed based on these programs, which represents 2.13% of the present number of shares and votes in the company. During the fiscal year, 309 750 subscriptions were made on the basis of the stock option programs targeted for key persons in the company.

#### SHAREHOLDERS

At the end of 2010, the company had 6 646 (5 862 and 5 877) shareholders. Nominee registered holdings represented 6.1% of the share capital in 2010.

The company gave three (3) notices of change of ownership during the fiscal year.

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

On December 31, 2010, the members of the Board of Directors, the CEO and the entities under their control held a total of 21 149 346 shares of the company, which represented 33.4% of the shares and the voting rights. The stock option rights held by the members of the Board of Directors on December 31, 2010 entitled them to a subscription of 108 750 shares.

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

The operating result of the parent company was MEUR -2.6. 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 loss be debited to the Profit/Loss account.

#### AUTHORIZATIONS OF THE BOARD OF DIRECTORS

The Annual General Meeting of Shareholders (AGM) held on April 22, 2010, decided to grant the Board of Directors a new authorization.

According to the new authorization, the Board of Directors is authorized to issue new shares and to grant stock option rights and other special rights, in one or several tranches, to the extent that the total number of new shares may be 11 450 000 at the maximum, which is 18.1% of the shares and voting rights registered to the Trade Register by 31.12.2010.

Based on the authorization, the Board of Directors may decide to issue new shares for subscription according to the shareholders' pre-emptive subscription rights or in deviation from the shareholders' pre-emptive subscription right, or in a directed issue of option rights or other special 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 other terms and conditions related to the share issues and to the issuance of stock option or other special rights.

The authorization is in force until the end of the AGM in 2011.

The company does not own its shares and the Board of Directors do not have an authorization to acquire its 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 22, 2010 elected five members to the Board of Directors. Ilkka Hiidenheimo, Jukka Manner, Matti Viljo, Hannu Turunen and Timo Syrjälä were elected to the Board. In its statutory meeting held on April 22, 2010, the Board elected Matti Viljo as Chairman of the Board and Hannu Turunen as Vice Chairman. Furthermore, the Board decided that there will be no separate Board committees because due to the size of the company's business operations and the size of the Board, there is no need to prepare issues in smaller groups than the entire Board.

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 2010, 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 and Ari Vanttinen. Saara Laine and Klaus Majewski left the Executive Management Group during the financial year 2010.

In 2010, 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 will not accept any compensation for his duties until the company is profitable. There is no specific retirement age set forth for the CEO, and the CEO's pension is the same as for all the company's employees, as defined in Finland's Employee Pension Act (TYEL). The contract of employment for the CEO provides for notice of six (6) months prior to termination, with compensation being equal to six 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. Both the pension right and the right to compensation in case of termination of contract are only theoretical as long as the CEO is not receiving any compensation.

#### ACQUISITIONS AND CHANGES IN GROUP STRUCTURE

No acquisitions were made during the fiscal year. The Brazilian subsidiary was closed in March 2010 and a subsidiary was established in Poland, mainly focusing to R&D. There were no other changes in the Group structure.

#### FOREIGN REPRESENTATIVE OFFICES

The group has a representative office in China.

#### PERSONNEL

At the end of the fiscal year, the Group's personnel totaled 201 (174 and 185) people, of which 174 (154 and 167) were employees and 27 (20 and 18) had contractual relationships as full-time sales representatives or consultants.

The geographical distribution of Stonesoft personnel was Europe 158 (135 and 144), Emerging markets (Russia, North Africa and Middle East) 17 (12 and 9), Americas (North and South America) 21 (22 and 28) and APAC (Asia and Pacific) 5 (5 and 4).

The salaries and other remuneration paid to the employees, including social security payments, were in total MEUR 14.7 (14.0 and 14.8).

The average number of personnel during the fiscal period was 191 (178 and 183).

#### 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 a subcontractor. 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

Stonesoft Corporation's Corporate Governance Statement will be issued separately from The Board of Director's report and published in the Annual Report. Stonesoft's Board of Directors has reviewed and approved the Corporate Governance Statement on 2.3.2011.

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, with the exemption of recommendations concerning the establishment of Board committees and on Board composition. 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.

#### SHORT-TERM RISKS AND BUSINESS UNCERTAINTIES

During the fiscal year 2011, 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. In addition, the recent political restlessness in North Africa and Middle East may have a negative impact on the company's business operations in these markets. The company has no risks related to the order book, because it can process all incoming orders within a couple of work days.

#### 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 Board of Directors is also ultimately responsible for risk management and internal control of Stonesoft, 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 is in charge of 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 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 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 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 reserves are all invested on interest bearing low risk instruments. 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 takes actively advantage of its own products in order to protect the network infrastructure of the company. 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 has been set up with the aim to prevent malpractice, 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 minor expenses.

#### FUTURE OUTLOOK

According to the research company Infonetics, the enterprise network equipment and software market is estimated to grow by 4% during 2011.

Stonesoft's products protect large and critical network environments that require advanced network security. The company has launched security solutions that meet the capacity needs of 10 Gbps networks. Large enterprises are currently making a transition to 10 Gbps networks, which will fulfill their needs today and in the near future. Large network environments are under constant change pressures, because companies strive for increasingly efficient operations and at the same time need to adapt to rapidly changing competitive situations. This sets special demands to the flexibility and manageability of security solutions. Many traditional security companies and products are too static to adapt to these changes fast enough. Stonesoft has always stood out as a company and with its product through its flexibility and ability to quickly meet dynamic security challenges and its customers' changing needs.

The strong growth of MSSP (Managed Security Service Provider)-, virtualization, SAAS (Software as a Service) and cloud services as well as the spreading of social media services have continued to create a need for ensuring network security and business continuity also in new environments. In addition, illicit acquisition of confidential data to obtain financial benefits has to a large extent surpassed non-professional operations. The management features of StoneGate, the scalability of the appliance based product family and the excellent suitability of the product for virtual environments offer an optimal system for these environments.

As security threats in the public sector increase, a growing number of government organizations have started improving their protection against network attacks and cyber espionage. The amount of confidential material that is handled in the net such as patient data and juridical documents is constantly growing. In addition, various interest groups, political extremist groups and governmental intelligence agencies are searching for information more and more from the net. StoneGate products offer a comprehensive, centrally managed protection and are ideally suited for the needs of the public sector. Currently Stonesoft's network security solutions are used by more than 50 government departments at five continents around the world.

The relative importance of the operability and availability of data networks to business is continuously increasing. This has led to the growth of the demands to network security design and to the need to achieve a comprehensive overview of the state of the network and data communications. This strengthens Stonesoft's competitive position. We are specialized in delivering comprehensive network security solutions, which meet also the exceptionally high demands of critical network environments and enable increased efficiency and flexibility.

#### Advanced evasion techniques

In the stock exchange release published on 4 October 2010 Stonesoft Corporation announced it has discovered a new network security threat category. More detailed information was given in the stock exchange release and press release published on 18 October, which announced the threat is about the so-called advanced evasion techniques (AET), which are capable of bypassing current network security systems without leaving a trace. Advanced Evasion Techniques can also transport to the IT systems already known malware or phishing programs, worms and viruses, which otherwise would be detectable and stoppable by network security systems.

Stonesoft has reported the threat posed by these advanced evasion techniques to the national computer security incident team of Finland, CERT-FI for vulnerability coordination, and ICSA Labs, a US-based security product testing and certification laboratory has confirmed the severity of the discovery. The subject has received a lot of coverage in global media.

In addition to testing their own network security solutions, Stonesoft has extended their research to cover also solutions by other leading vendors in the field. The test results show that most of current network security solutions do not detect attacks that utilize advanced evasion techniques.

The most efficient protection against the threat posed by advanced evasions techniques is provided by flexible software-based systems, which can detect advanced evasion

techniques and are remotely updated and centrally managed. Stonessoft's network security solutions fulfill these criteria.

More information about advanced evasion techniques and how to protect against them is available at [www.antievasion.com](http://www.antievasion.com).

Based on Stonessoft's view, the above mentioned issues will open new business opportunities for the company, have a positive effect on its net sales and profitability and strengthen its competitiveness and market position as general understanding and knowledge about advanced evasion techniques grow. In 2011, Stonessoft aims for faster-than-market growth of net sales and improved profitability.

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, a relatively big impact of individual deals, and the variation between the quarters in the previous year.

Stonessoft Group  
Income Statement  
(1000 Euros)

Continuing operations

	10-12/2010	10-12/2009	1-12/2010	1-12/2009
Net sales	7 510	6 510	24 341	23 597
Other operating income	227	276	847	969
Materials and services	-1 310	-854	-3 640	-3 539
Personnel expenses	-4 098	-3 660	-14 744	-14 004
Depreciation	-112	-113	-437	-454
Other operating expenses	-2 905	-2 068	-9 052	-7 616
Operating result	-688	90	-2 685	-1 048
Financial income and expenses	-106	36	217	316
Result before taxes	-794	126	-2 468	-731
Taxes	-111	-125	-221	-240
Result for the accounting period	-905	1	-2 689	-971
Other comprehensive income				
Exchange differences on translating foreign operations	0	-3	-15	15
Total other comprehensive income	0	-3	-15	15
Total comprehensive income	-905	-2	-2 704	-956
Basic earnings per share (EUR), continuing operations	-0,01	0,00	-0,04	-0,02
Diluted earnings per share (EUR), continuing operations	-0,01	0,00	-0,04	-0,02

Stonessoft Group  
Balance Sheet (1000 Euros)

ASSETS

Non-Current Assets

Tangible assets	649	494
Intangible assets	112	176
Other investments	10	10
Total	771	680

Current assets

Inventories	953	673
Trade and other receivables	10 106	8 383
Prepayments	69	67
Marketable securities	0	5 240
Cash and cash equivalents	8 016	970
Total	19 144	15 333
Total assets	19 915	16 013

EQUITY AND LIABILITIES

Equity attributable to equity holders of the parent company

Share capital	1 151	1 146
Issue of shares	0	0

Share premium account	76 603	76 821
Conversion differences	-951	-936
Reserve for invested unrestricted equity fund	4 751	0
Retained earnings	-76 986	-74 346
Total	4 567	2 685
Long-term liabilities		
Provisions	0	0
Prepayments *)	2 976	2 606
Total	2 976	2 606
Short-term liabilities		
Trade and other payables	4 571	3 943
Prepayments *)	7 687	6 660
Tax liability	76	81
Provisions	37	37
Short-term interest bearing liabilities	0	0
Total	12 372	10 722
Total liabilities	15 348	13 328
Total equity and liabilities	19 915	16 013
*) Prepayments contain customers advance payment of support and maintenance contracts	10 663	9 267

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 1.1.2009	1 146	0	76 821	-951	0	-73 473	3 543
Comprehensive income	0	0	0	15	0	-971	-956
Share premium termination	0	0	0	0	0	0	0
Directed share issue	0	0	0	0	0	0	0
Transaction costs from equity	0	0	0	0	0	0	0
Stock options exercised	0	0	0	0	0	0	0
Stock option expenses	0	0	0	0	0	98	98
Shareholders' equity at 31.12.2009	1 146	0	76 821	-936	0	-74 346	2 685

	Share capital	Issue of shares	Share premium	Conversion differences	Reserve for invested unrestricted equity fund	Retained earnings	Total
Shareholders' equity at 1.1.2010	1 146	0	76 821	-936	0	-74 346	2 685
Comprehensive income	0	0	0	-15	0	-2 689	-2 704
Share premium termination	0	0	-338	0	338	0	0
Directed share issue	0	0	0	0	4 560	0	4 560
Transaction costs from equity	0	0	-3	0	-172	0	-175
Stock options exercised	5	0	122	0	25	0	152
Stock option expenses	0	0	0	0	0	49	49
Shareholders' equity at 31.12.2010	1 151	0	76 603	-951	4 751	-76 986	4 567

Stonesoft Group  
Cash flow statement (1000 Euros)

	1.1.-31.12.2010	1.1.-31.12.2009
Cash flow from operating activities		
Operating Result	-2 685	-1 048
Adjustments		
Non-cash transactions	58	644
Financial expenses	-96	-129
Financial incomes	464	336
Change in net working capital	481	-226
Taxes paid	-221	-210
Total cash flow from operating activities	-1 999	-632
Cash flow from investing activities		
Investments in tangible assets	-537	-202

Investments in intangible assets	-30	-126
Investments in other shares	0	0
Total cash flow investing activities	-566	-328
Cash flow from financing activities		
Proceeds from issue of share capital	4 391	0
Stock options exercised	146	0
Payments of financial leasing liabilities	0	-2
Total cash flow from financing activities	4 537	-2
Change in cash and cash equivalents		
Cash and cash equivalents at beginning of period	6 210	7 048
Conversion differences	-17	15
Changes in the market value of investments	-148	109
Total cash and cash equivalents at end of period *)	8 016	6 210
*) Total cash and cash equivalents at end of the period contains pledged securities	477	452

Stonesoft Group  
Geographical segments      1.1.-31.12.2010      1.1.-31.12.2009  
(1000 Euros)

Net sales		
Europe	14 599	15 182
Emerging Markets	4 255	3 162
Americas	4 525	4 605
APAC	961	648
Total net sales	24 341	23 597
Operating profit		
Europe	-661	546
Emerging Markets	-169	-327
Americas	-1 479	-1 180
APAC	-375	-87
Total operating profit	-2 685	-1 048

Stonesoft Group  
Contingent liabilities      1.1.-31.12.2010      1.1.-31.12.2009  
(1000 Euros)

Contingent off-balance sheet		
Non-cancellable other leases	2 327	2 541
Contingent liabilities for the Company	94	117

Stonesoft Group Quarterly development (Euro Millions)	Q4 / 2010	Q3 / 2010	Q2 / 2010	Q1 / 2010	2010	Q4 / 2009	Q3 / 2009	Q2 / 2009	Q1 / 2009	2009
Software	0,5	0,4	0,3	0,3	1,5	0,6	0,4	0,3	0,4	1,6
Security appliances	3,9	2,5	1,9	2,9	11,2	3,1	2,9	3,1	2,0	11,0
Services	3,1	2,8	2,8	2,8	11,6	2,8	2,7	2,7	2,6	10,9
Other products	0,0	-0,1	0,1	0,1	0,0	0,0	0,0	0,0	0,1	0,1
Net sales continuing operations	7,5	5,6	5,1	6,2	24,3	6,5	6,0	6,0	5,1	23,6
Change-% from previous year	15	-6	-16	21	3	-6	2	-5	-3	-3
Sales margin	6,2	4,7	4,4	5,3	20,7	5,7	5,1	4,9	4,4	20,1
Sales margin %	83	84	88	86	85	87	85	81	86	85
Operative expenses	7,1	5,4	5,9	5,7	24,2	5,8	4,7	5,8	5,7	22,0
Operating profit (EBITA)	-0,7	-0,6	-1,2	-0,2	-2,7	0,1	0,5	-0,6	-1,1	-1,0
% of net sales	-9	-10	-25	-3	-11	1	9	-9	-22	-4
Result before taxes	-0,8	-0,4	-1,2	0,0	-2,5	0,1	0,7	-0,5	-1,0	-0,7
% of net sales	-11	-7	-24	-1	-10	2	11	-8	-20	-3

Stonesoft Group  
Key ratios      1.1.-31.12.2010      1.1.-31.12.2009  
(1000 Euros)

Net sales, continuing operations	24 341	23 597
Net sales change-%	3	-3
Operating result, continuing operations	-2 685	-1 048
% of net sales	-11	-4
Operating result before taxes	-2 468	-731
% of net sales	-10	-3
ROE - %, annualized, continuing operations	-74	-31
ROI - %, annualized	-65	-19
Equity ratio-%	49	40
Net gearing	-1,75	-2,31
Total Assets	19 915	16 013
Capital expenditure	566	328
Capital disposals	0	19
R&D costs	5 639	4 918
% of net sales	23	21
Number of employees (weighted average)	191	178
Number of employees (end of the period)	201	174
Share Specific Ratios		
Earnings per share, continuing operations	-0,04	-0,02
Equity per share	0,07	0,05
Dividend	0,00	0,00
Dividend per share (EUR)	0,00	0,00
Dividend / Profit-%	0	0

#### Calculation of indicators

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

#### ACCOUNTING PRINCIPLES

The Group has on the 1.1.2010 separated prepayments related to its customers' support and maintenance contracts from other items in the balance sheet. Previously the support and maintenance payments were included in other liabilities. Previous data has been corrected to correspond to this new booking procedure. The impact of the change on long term prepayments in the balance sheet 31.12.2009 is MEUR 2.6 and on short term prepayments MEUR 6.7. With this change the Group's balance sheet gives a more accurate picture of the long and short term liabilities as well as the prepayments.

This Financial Statements Release has been prepared in accordance with IAS 34 standard. The figures presented in this release are audited.

#### 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 3 March, 2011 at 10.30 am at the Stonesoft headquarters, street address Itälahdenkatu 22 A, 00210 Helsinki.

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 Corporation  
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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