

STONESOFT CORPORATION FINANCIAL STATEMENT RELEASE FOR JANUARY-DECEMBER 2011

Product sales grew by 39% and made all-time record

Stonesoft Corporation's net sales in the fourth quarter of 2011 grew by almost a million Euros compared to the corresponding period in the previous year and were MEUR 0.3. The company's product sales developed positively and were MEUR 6.1, growth 39%, whereby net sales were MEUR 9.5.

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

October-December 2011 (2010, 2009)

- Net sales MEUR 9.5 (7.5 and 6.5), growth 27%
- Product sales MEUR 6.1 (4.4 and 3.7), growth 39%
- Operating result MEUR 0.3 (-0.7 and 0.1)
- Operating result as percentage of net sales 3 (-9 and 1)%
- Earnings per share EUR 0.01 (-0.01 and 0.00)
- Operative cash flow MEUR 0.6 (-2.5 and 0.7)
- Liquid cash funds at the end of the reporting period MEUR 7.7 (8.0 and 6.2). The corporate had no interest-bearing debts.

January-December 2011 (2010, 2009)

- Net sales MEUR 30.6 (24.3 and 23.6), growth 26%
- Product sales MEUR 17.7 (12.7 and 12.6), growth 39%
- Operating result MEUR -1.1 (-2.7 and -1.0)
- Operating result as percentage of net sales -4 (-11 and -4)%
- Earnings per share EUR -0.01 (-0.04 and -0.02)
- Operative cash flow MEUR -0.3 (-2.8 and -0.8)

CEO ILKKA HIIDENHEIMO

During the fourth quarter of the year 2011, Stonesoft product sales grew by approximately 40% and net sales by approximately 25%. Once again, our product sales reached an all time high compared to the previous corresponding period. The net sales for the whole year was over MEUR 30.

We are pleased with this strong growth and the fact that we have been able to increase our market share in spite of the general economic insecurity. We will continue to raise our investment in customer acquisition, marketing and sales promotion. The interest in Stonesoft and its solutions from customers and partners demonstrates there is a growing need for our technology in the market.

During the reporting period Stonesoft delivered 163 new samples of Advanced Evasion Techniques AETs) to CERT-FI. Our most recent test results have shown that network security solutions still do not offer protection against security breaches as the new evasion techniques were able to bypass all generally known security solutions on the market. As stated previously; Stonesoft is the only security vendor who is able to offer comprehensive protection against all known evasion techniques.

Based on these findings, we recommend all organizations who are not willing to risk their critical data capital and business assets to re-evaluate their network security.

Stonesoft offers dynamic security solutions to protect organizations against today's rapidly evolving security threats. We estimate strong organic growth in this area in the future.

NET SALES AND RESULT

October-December 2011 (hereinafter 'reporting period')

The Group's net sales in the reporting period were MEUR 9.5 (7.5 and 6.5). Increase compared to the corresponding period in the previous year was MEUR 2.0, or 27%. The operating result (EBIT) was MEUR 0.3 (-0.7 and 0.1) and the result after taxes was MEUR 0.4 (-0.9 and 0.0).

Product sales were MEUR 6.1 (4.4 and 3.7), growth by 39% compared to the corresponding quarter in the previous year.

The Group has changed its management reporting during the fiscal year 2011: in the North America segment, USA and Canada are reported. Additionally, Latin America, which has previously been reported under the North and South America segment, has been transferred to the Emerging Markets segment and Russia, which has previously been reported under the Emerging Markets segment, has been transferred to the Europe segment. The comparative figures of the operating segment report from the fiscal years 2010 and 2009 have been changed according to the changes in reporting.

The geographical distribution of net sales was as follows: Europe 72 (71 and 72) %, Emerging Markets (North Africa, Middle East and Latin America) 11 (15 and 7) %, North America) 13 (11 and 18) % and APAC (Asia-Pacific) 4 (3 and 3) %.

January-December 2011 (hereinafter 'fiscal period')

The Group's net sales in the fiscal period were MEUR 30.6 (24.3 and 23.6). Increase compared to the corresponding period in the previous year was MEUR 6.3, or 26%. The operating result (EBIT) was MEUR -1.1 (-2.7 and -1.0) and the result after taxes was MEUR -0.9 (-2.7 and -1.0). The development of the company's net sales and operating result correspond to the future estimates and targets announced by the company during the fiscal year 2011.

Product sales were MEUR 17.7 (12.7 and 12.6), growth by 39% compared to the corresponding period in the previous year.

The geographical distribution of net sales was as follows: Europe 69 (65 and 67) %, Emerging Markets (North Africa, Middle East and Latin America) 13 (16 and 12) %, North America) 15 (15 and 18) % and APAC (Asia-Pacific) 3 (4 and 3) %.

#### FINANCE AND INVESTMENTS

At the end of the fiscal year, Stonessoft's total assets were MEUR 21.2 (19.9 and 16.0). The equity ratio was 40 (49 and 40) % and gearing (the ratio of net debt to shareholders' equity) was -1.99 (-1.75 and -2.31).

The comparable cash flow during the fiscal year was MEUR -0.3 (-2.8 and -0.8). The Group has no interest-bearing debt. The consolidated liquid assets at the end of the fiscal year totaled MEUR 7.7 (8.0 and 6.2).

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 18.1, of which MEUR 17.7 is accrued in Finland and MEUR 0.4 in the United States. MEUR 0.6 of the tax receivables expired in the tax year 2011. The tax receivables have been calculated based on the new tax rate 24.5 %. The company activates a part of its research and development expenses in the Finnish taxation (as of 1 January 2008). The company has not activated research and development expenses in bookkeeping. The company has tax receivables from the activation of its research and development expenses in total of MEUR 4.4, which it can deduct later in its taxation. As a result of these issues, the Finnish calculated tax receivables have decreased from the previous year.

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

#### DEVELOPMENT OF BUSINESS OPERATIONS AND STRATEGY

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

Stonessoft's organization and sales processes are at the level required by the targets set for the year 2012. Stonessoft 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 2011

In January, Stonesoft announced its predictions regarding the most significant security threats in 2011.

In January, Stonesoft announced its StoneGate™ IPS-1205 and IPS-3205 intrusion prevention system (IPS) appliances were rated excellent in quality-price ratio 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 has discovered 124 new advanced evasion techniques (AETs).

In March, Stonesoft published advice for organizations to protect themselves against Advanced Evasion Techniques.

In March, Stonesoft announced the availability of its new StoneGate Authentication solution for secure remote access to the cloud services. The solution combines multiple authentication methods, providing secure remote access to cloud services.

In April, Stonesoft announced it had expanded its partnered offering with Optimesys, a Finnish specialist company focused on producing information security services.

In May, Stonesoft introduced two new firewall appliances specifically designed to meet the security needs of high-capacity environments. The new StoneGate™ FW-5201 and FW-5205 appliances are the latest addition to Stonesoft's family of modular network security appliances.

In June, Stonesoft introduced the world's first Anti-Evasion Readiness Test™ service. This service tests how well an organization's critical digital assets are protected against advanced evasion techniques (AETs). The service will be provided by selected, independent IT service organizations around the world.

In June, Stonesoft made its public website [www.stonesoft.com](http://www.stonesoft.com) and corporate blog StoneBlog <http://stoneblog.stonesoft.com> available over IPv6 to demonstrate its readiness to help customers migrate securely into IPv6. Both web services are IPv6 enabled and protected by StoneGate Firewall/VPN.

In June, Stonesoft introduced a new solution for the mass deployment of network security. The StoneGate Mass Security solution has been designed to meet the security needs of small branch and remote offices such as retail and hotel chains as well as unattended locations, for example ATMs.

In June, Stonesoft announced its StoneGate network security solutions had received Common Event Format (CEF) Certification from ArcSight, Inc., an HP company and a leading global provider of security and compliance management solutions that protect enterprises and government agencies. Stonesoft is one of the first security vendors worldwide to offer full support for CEF.

In June, Stonesoft encouraged organizations to re-evaluate their existing risk management and security architecture. Recent phenomena such as Wikileaks, Stuxnet, Advanced Evasion Techniques and the latest security breaches have changed the security landscape permanently and acted as wake-up calls also in the strategic aspect.

In June, Stonesoft introduced new StoneGate Firewall/VPN 5.3 and StoneGate Management Center 5.3 versions. The new version offers enhanced access control, authentication and mass security as well as a broad range of additional features and improvements.

In August, Stonesoft announced it has entered a partnership with ECCT, a leading US-based managed security services provider (MSSP), whereby 50 regional and community banks and credit unions will deploy the StoneGate IPS by end of year.

In August, Stonesoft introduced the StoneGate FW-315 firewall/VPN appliance, which has been designed for small networks and branch offices.

In August, Stonesoft announced that Perket Technologies will begin to provide the Anti-Evasion Readiness Test service to its customers.

In September, Stonesoft announced it has joined Secured by RSA ® Certified Partner Program to allow the integration of StoneGate Firewall/VPN, IPS and SSL VPN with the RSA enVision® platform.

In September, Stonesoft announced the new Stonesoft a2Cloud solution for authentication and access management. The solution makes cloud services more secure and easier to use with minimized TCA (Total Cost of Administration) and TCO (Total Cost of Ownership).

In October, Stonesoft announced its partnership with the University of Glamorgan in United Kingdom to conduct research into AETs.

In October, Stonesoft announced the discovery that Advanced Evasion Techniques are deliverable across the port-80, HTTP protocol, making them a very real and credible threat to the security of organizations worldwide.

In October, Stonesoft announced that its StoneGate IPS device has received excellent results in a network intrusion prevention systems (IPS) test conducted by ICSA Labs.

In October, Stonesoft announced it has delivered 163 new advanced evasion technique (AET) samples for global vulnerability coordination. The new samples include AETs over a number of various protocols, including IPv4, IPv6, TCP and HTTP.

In November Stonesoft announced the availability of a new MSSP (Managed Security Service Provider) program, offering its network of resellers the opportunity to host and operate its network security solutions without risks.

In November Stonesoft announced that it has been nominated for the annual GOVTek awards in the following categories: Best Security Solution and Top Solution Providers to Watch For in 2012.

In December, Stonesoft summed up the incidents in of the past year and predicted some of the key security trends in 2012.

In December Stonesoft announced that its Firewall/VPN 5.3 solution had passed the VPN Consortium's (VPNC) Internet Protocol version 6 (IPv6) testing criteria.

#### Main events after the fiscal period

In January, Stonesoft's firewall solution obtained the CSPN certification delivered by the French security agency ANSSI.

In January, the Board of Directors of Stonesoft decided on a new stock option plan 2012.

In January, Stonesoft introduced the new Stonesoft™ IPS-1302 intrusion prevention system for protecting data centers and modern corporate network environments.

In February, Stonesoft announced its Firewall/VPN product family has received the Common Criteria Evaluation Assurance Level 4+ (EAL4+) certification, an international security standard for IT Security products.

#### 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 2011, R&D employed in total 85 (75 and 63) persons.

The company's R&D investments during the fiscal period totaled MEUR 6.1 (5.6 and 4.9). R&D costs represented 22 (23 and 22) % of all expenses. R&D costs represented 20 (23 and 21) % of net sales.

### Advanced Evasion Techniques

Stonesoft continued its research on Advanced Evasion Techniques (AETs) during 2011. In February, Stonesoft delivered the Finnish Computer Emergency Response Team (CERT-FI) 124 samples of new advanced evasion techniques and in October 163 more. Stonesoft also entered a partnership with the Computer Forensics team of the University of Glamorgan in the UK to carry out research into AETs.

In June, Stonesoft delivered the world's first Anti-Evasion Readiness Test™ service. Among others, the US-based service provider Perket Technologies started offering the service to its customers.

### Product tests, certifications and patents

During the year 2011 Stonesoft products passed several tests with excellent results and received many significant certifications. Stonesoft products excelled in the tests of the US-based research companies NSS Labs and ICSA Labs. In addition, Stonesoft's Firewall/VPN solution passed VPN Consortium's (VPNC) Internet Protocol version 6 (IPv6) testing criteria and received the IPv6 certificate. Stonesoft solutions were also granted the HP Arcsight CEF certificate. Stonesoft is one of the first security vendors in the world to offer full CEF support. Stonesoft joined the Secured by RSA Certified Partner Program by the US-based security company RSA to allow the integration of Stonesoft Firewall/VPN, IPS and SSL VPN with the RSA enVision® platform.

Stonesoft was granted three (3) patents during the year. The patents were related to security policy updates, management of centralized VPN and management of remote connections.

### Most significant product launches

In March Stonesoft launched the new Stonesoft Authentication solution. Unlike RSA's SecurID and other static solutions, Stonesoft Authentication is dynamic. In September, Stonesoft introduced the a2Cloud solution, which comprises of the Authentication Server and SSL VPN solution. Both are centrally managed by the Management Center tool.

In May Stonesoft introduced the new FW-5201 and FW-5205 solutions for data centers, large network central sites and managed service provider environments. The solutions are the latest addition to Stonesoft's product family of modular network security solutions.

In June, Stonesoft introduced the Mass Security solution with new features including Plug & Play installation. This makes the solution very easy to use for distributed organizations with several small locations. As part of the Mass Security solution Stonesoft introduced also the new Express Firewall FW-105 product family.

In July Stonesoft introduced the new 5.3 version of the Stonesoft product family, which features new dynamic methods for firewall access control, among others. The network administrator can allow or deny access directly based on users, user groups, domain names, applications, TLS matches, URL categories and security zone data.

In August, Stonesoft introduced the new firewall appliance FW-315 for efficient protection of branch office networks.

## DEVELOPMENT OF SHARE PRICES AND TURNOVER

Stonesoft's share value at the beginning of the fiscal year on January 1, 2011 was EUR 0.58 (0.70 and 0.32). At the end of the fiscal year on December 31, 2011, the share price was EUR 0.86 (0.58 and 0.70). The highest share price was EUR 0.97 (1.19 and 0.78), and the lowest EUR 0.41 (0.54 and 0.31). During the year, the total turnover of Stonesoft shares amounted to MEUR 11.1 (23.9 and 5.8) and 16.8 (29.1 and 11.1) million shares, which is 26.5 (46.0 and 19.4) % of the total amount of shares. Based on the share price on December 31, 2011, Stonesoft's market capitalization was MEUR 54.6 (36.7 and 40.1).

Stonesoft has evaluated the possibility to establish an ADR (American Depository Receipt) program to make ADR-trading possible in the OTC-markets in the USA. Based on the evaluations, the company does currently not plan to begin trading in these markets.

#### SHARE CAPITAL AND STOCK OPTION PROGRAMS

At the end of the fiscal year on December 31, 2011, Stonesoft's share capital recorded in the Trade Register totaled EUR 1,150,574.64 (1,150,574.64 and 1,146,054.64). The number of shares at the end of the fiscal year corrected by share issue was 64 328 315 (64 283 238 and 57 727 732). The weighted average value of the numbers of shares corrected by share issue was 63 316 427 (61 855 279 and 57 723 942). 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 with the trade identification SFT1V in the NASDAQ OMX Helsinki Ltd.

The company has one valid stock option program, Stock Option Program 2008-2014, 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. 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 2011 in total 2 086 250 stock options had been granted under this program, of which in total 263 750 have been subscribed as shares. In total 913 750 stock option rights have not been granted yet. At the end of the fiscal year in total 797 500 shares could be subscribed based on that program, which represents 1.26% of the current number of shares and votes in the company. During the fiscal year, 180 000 subscriptions were made on the basis of the stock option programs targeted for key persons in the company.

#### SHAREHOLDERS

At the end of 2011, the company had 6 091 (6 646 and 5 862) shareholders. Nominee registered holdings represented 6.0% of the share capital in 2011.

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, 2011, the members of the Board of Directors, the CEO and the entities under their control held a total of 22 135 608 shares of the company, which 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, 2011 entitled them to a subscription of 45 000 shares.

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

The operating result of the parent company was MEUR -0.7. 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 13, 2011 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, which corresponds to 19.8% of the shares and votes recorded in the Trade Register.

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 2012 AGM.

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 13, 2011 elected five members to the Board of Directors. Ilkka Hiidenheimo, Harri Koponen, Jukka Manner, Timo Syrjälä and Hannu Turunen were elected as Board members. In its statutory meeting held on April 13, 2011, the Board elected Hannu Turunen as Chairman of the Board and Timo Syrjälä as Vice Chairman. In addition, the Board of Directors established an Audit Committee and Hannu Turunen, Harri Koponen and Timo Syrjälä were elected as its members.

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 2011, 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.

In 2011, 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 did not accept any salary or other compensation for his services during 2011. 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 service contract for the CEO provides for notice period 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.

#### ACQUISITIONS AND CHANGES IN GROUP STRUCTURE

No acquisitions were made during the fiscal year. A representative office was opened in the Kingdom of Saudi Arabia in February. There were no other changes in the group structure.

#### 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 totaled 222 (201 and 174) people, of which 189 (174 and 154) were employees and 33 (27 and 20) 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, 176 (164 and 138), Emerging markets (North Africa, Middle East and Latin America) 16 (14 and 12), North America 21 (18 and 19) and APAC (Asia and Pacific) 9 (5 and 5).

The salaries and other remuneration paid to the employees, including social security payments, were in total MEUR 16.7 (14.7 and 14.0).

The average number of personnel during the fiscal period was 207 (191 and 178).

#### 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 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 recommendation concerning 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.

#### RISKS AND BUSINESS UNCERTAINTIES

The biggest risk factors of the company's operations are related to operational and financial risks and to 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 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 low risk instruments. In addition, the company's profits and related costs are continuously controlled.

Management and safeguard of critical business related information and assets

Stonesoft manages and safeguards its critical business information by stringent internal policies and processes. The company constantly reviews and updates its network infrastructure and actively utilizes its own products in order to protect 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 2012, Stonesoft's main risks and business uncertainties relate to the realization timetable of the sales projects and possible production disruption of our subcontractors and suppliers. 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. Also insecurities related to public economies in the United States as well as in the European Union may have a negative effect on the public sector projects in these areas. A further scenario is that the Southern European crisis will spread to cover the whole of Europe or become a global financing and bank crisis, in which case it can be assumed that it would have a negative impact on Stonesoft's growth and profitability. 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 2011, the network security market grew by approximately 5%, and based on Stonesoft's estimate the growth of the total market will continue on the same level also during the year 2012.

In 2011, a development started whereby Stonesoft and other companies specialized in network security grew by 15-30%, whereas the growth of the network security business of those companies for which network security is not core business was significantly lower or even negative. Stonesoft assumes this development to be the result of the rapid change into a more worrying direction of the threat pictures linked to information security which companies have taken into consideration in their decision making. This development is expected to continue also during the year 2012.

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

In 2011 Stonesoft continued to research Advanced Evasion Techniques (AETs) and published additional findings to CERT-FI in charge of international vulnerability coordination.

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

Leading research institutes such as Gartner have confirmed that the best protection against the threat posed by new, advanced evasion techniques is provided by flexible, software based systems. Compared with the solutions provided by most leading network security vendors such as Cisco, Juniper and Fortinet, Stonesoft's software based systems are capable of detecting advanced evasion techniques. The threat posed by advanced evasion techniques does not concern only intrusion prevention system (IPS) appliances, but also UTM (Unified Threat Management) and next generation firewall appliances.

The above mentioned issues have opened new business opportunities for Stonesoft and had a strong impact on the growth of the company's product sales. The improved awareness of the threat posed by advanced evasion techniques has brought the company new customers and made contacting target customers significantly easier.

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

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

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

#### SUMMARY OF FINANCIAL STATEMENTS AND NOTES JANUARY 1 - DECEMBER 31, 2011

##### ACCOUNTING PRINCIPLES

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 2010. 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 2010. Key indicator calculations remain unchanged.

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

Stonesoft Group Income Statement (1000 Euros)	10-12/2011	10-12/2010	1-12/2011	1-12/2010
Net sales	9 540	7 510	30 604	24 341
Other operating income	281	227	904	847
Materials and services	-1 946	-1 310	-5 240	-3 640
Personnel expenses	-4 598	-4 098	-16 665	-14 744
Depreciation	-115	-112	-479	-437
Other operating expenses	-2 910	-2 905	-10 262	-9 052
Operating result	251	-688	-1 137	-2 685
Financial income and expenses	97	-106	358	217
Result before taxes	348	-794	-779	-2 468
Taxes	16	-111	-138	-221
Result for the accounting period	364	-905	-917	-2 689
Other comprehensive income				
Exchange differences on translating foreign operations	7	0	-3	-15
Total other comprehensive income	7	0	-3	-15
Total comprehensive income	371	-905	-920	-2 704
Basic earnings per share (EUR), continuing operations	0,01	-0,01	-0,01	-0,04
Diluted earnings per share (EUR), continuing operations	0,01	-0,01	-0,01	-0,04

Stonesoft Group  
Balance Sheet (1000 Euros)

31.12.2011

31.12.2010

ASSETS

Non-Current Assets

Tangible assets	700	649
Intangible assets	162	112
Other investments	10	10
Total	872	771

Current assets

Inventories	1 508	953
Trade and other receivables	10 847	10 106
Prepayments	220	69
Marketable securities	0	0
Cash and cash equivalents	7 710	8 016
Total	20 285	19 144

Total assets	21 157	19 915
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EQUITY AND LIABILITIES

Equity attributable to equity holders of the parent company

Share capital	1 151	1 151
Issue of shares	0	0
Share premium account	76 602	76 603
Conversion differences	-954	-951
Reserve for invested unrestricted equity fund	4 732	4 751
Retained earnings	-77 659	-76 986
Total	3 873	4 567

Long-term liabilities

Prepayments *)	3 157	2 976
Total	3 157	2 976

Short-term liabilities

Trade and other payables	5 563	4 571
Prepayments *)	8 381	7 687
Tax liability	126	76
Provisions	58	37
Total	14 127	12 372

Total liabilities	17 285	15 348
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Total equity and liabilities	21 157	19 915
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\*) Prepayments contain customers advance payment of support and maintenance contracts

11 538

10 663

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 1.1.2010	1 146	0	76 821	-936	0	-74 346	2 685
Comprehensive income	0	0	0	-15	0	-2 689	-2 704
Reserve for invested unrestricted equity fund reduction	0	0	0	0	0	0	0
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

	Share capital	Issue of shares	Share premium	Conversion differences	Reserve for invested unrestricted equity fund	Retained earnings	Total
Shareholders' equity at 1.1.2011	1 151	0	76 603	-951	4 751	-76 986	4 567
Comprehensive income	0	0	0	-3	0	-917	-920
Reserve for invested unrestricted equity fund reduction	0	0	0	0	-71	71	0
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	-1	0	-1
Stock options exercised	0	0	0	0	54	0	54
Stock option expenses	0	0	0	0	0	173	173
Shareholders' equity at 31.12.2011	1 151	0	76 602	-954	4 732	-77 659	3 873

#### Stonesoft Group

Cash flow statement (1000 Euros) 1.1.-31.12.2011 1.1.-31.12.2010

Cash flow from operating activities		
Operating Result	-1 137	-2 685
Adjustments		
Non-cash transactions	334	58
Financial expenses	-106	-96
Financial incomes	445	464
Change in net working capital	904	481
Taxes paid	-218	-221
Total cash flow from operating activities	221	-1 999
Cash flow from investing activities		
Investments in tangible assets	-460	-537
Investments in intangible assets	-120	-30
Total cash flow investing activities	-581	-566
Cash flow from financing activities		
Proceeds from issue of share capital	0	4 391
Stock options exercised	53	146
Total cash flow from financing activities	53	4 537
Change in cash and cash equivalents		
Cash and cash equivalents at beginning of period	8 016	6 210
Conversion differences	1	-17
Changes in the market value of investments	0	-148
Total cash and cash equivalents at end of period *)	7 710	8 016
*) Total cash and cash equivalents at end of the period contains pledged securities	496	477

#### Stonesoft Group

Geographical segments 1.1.-31.12.2011 1.1.-31.12.2010  
(1000 Euros)

Net sales		
Europe	20 979	14 599
Emerging Markets	3 926	4 255
Americas	4 656	4 525
APAC	1 043	961
Total net sales	30 604	24 341
Operating profit		
Europe	150	-661
Emerging Markets	-352	-169
Americas	-650	-1 479
APAC	-286	-375
Total operating profit	-1 137	-2 685

#### Stonesoft Group

Contingent liabilities 1.1.-31.12.2011 1.1.-31.12.2010  
(1000 Euros)

Contingent off-balance sheet		
Non-cancellable other leases	1 970	2 327
Contingent liabilities for the Company	223	94

#### Stonesoft Group

Quarterly development (Euro Millions)	Q4 / 2011	Q3 / 2011	Q2 / 2011	Q1 / 2011	2011	Q4 / 2010	Q3 / 2010	Q2 / 2010	Q1 / 2010	2010
Software	0,8	0,4	0,4	0,4	2,1	0,5	0,4	0,3	0,3	1,5
Security appliances	5,3	4,2	2,9	3,2	15,6	3,9	2,5	1,9	2,9	11,2
Services	3,4	3,3	3,2	3,0	12,8	3,1	2,8	2,8	2,8	11,6
Other products	0,1	0,1	0,0	-0,1	0,1	0,0	-0,1	0,1	0,1	0,0
Net sales continuing operations	9,5	8,0	6,5	6,5	30,6	7,5	5,6	5,1	6,2	24,3
Change-% from previous year	27	43	29	6	26	15	-6	-16	21	3

Sales margin	7,6	6,7	5,6	5,4	25,4	6,2	4,7	4,4	5,3	20,7
Sales margin %	80	83	87	83	83	83	84	88	86	85
Operative expenses	7,6	6,7	6,7	6,4	27,3	7,1	5,4	5,9	5,7	24,2
Operating profit (EBITA)	0,3	0,2	-0,7	-0,8	-1,1	-0,7	-0,6	-1,2	-0,2	-2,7
% of net sales	3	2	-12	-13	-4	-9	-10	-25	-3	-11
Result before taxes	0,3	0,2	-0,7	-0,6	-0,8	-0,8	-0,4	-1,2	0,0	-2,5
% of net sales	4	3	-11	-10	-3	-11	-7	-24	-1	-10

#### Stonesoft Group

Key ratios  
(1000 Euros)

1.1.-31.12.2011

1.1.-31.12.2010

Net sales	30 604	24 341
Net sales change-%	26	3
Operating result	-1 137	-2 685
% of net sales	-4	-11
Operating result before taxes	-779	-2 468
% of net sales	-3	-10
ROE - %, annualized	-22	-74
ROI - %, annualized	-16	-65
Equity ratio-%	40	49
Net gearing	-1,99	-1,75
Total Assets	21 157	19 915
Capital expenditure	581	566
Capital disposals	0	0
R&D costs	6 131	5 639
% of net sales	20	23
Number of employees (weighted average)	207	191
Number of employees (end of the period)	222	201
Share Specific Ratios		
Earnings per share	-0,01	-0,04
Equity per share	0,06	0,07
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 16 February, 2012 at 10.30 am at the Stonesoft headquarters, street address Itälahdenkatu 22 A, 00210 Helsinki.

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

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