

STONESOFT CORPORATION INTERIM REPORT FOR JANUARY-JUNE 2012

Strong growth continues

Stonesoft Corporation's product sales grew by 62% and net sales by 40% compared to the corresponding period in the previous year. Operating result was MEUR -0.4, which is MEUR 0.3 better than in the corresponding period in the previous year. The company continued strong investments in accelerating future growth.

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

April-June 2012

- Net sales MEUR 9.1 (6.5), growth 40%
- Product sales MEUR 5.4 (3.3), growth 62%
- Operating result MEUR -0.4 (-0.7)
- Operating result as percentage of net sales -5 (-12)%
- Earnings per share -0.01 (-0.01) EUR
- Operative cash flow MEUR -0.1 (-0.5)
- Liquid cash funds at the end of the fiscal period MEUR 9.1 (9.3). The corporate had no interest-bearing debts.

January-June 2012

- Net sales MEUR 17.3 (13.0), growth 33%
- Product sales MEUR 10.4 (6.9), growth 50%
- Operating result MEUR -1.0 (-1.6)
- Operating result as percentage of net sales -6 (-12)%
- Earnings per share EUR -0.02 (-0.02) EUR
- Operative cash flow MEUR 1.4 (1.2)

CEO ILKKA HIIDENHEIMO

During the second quarter of the year 2012 Stonesoft's product sales grew by 62% and net sales by 40%. Turning the company's evasion competence into additional sales has required significant additional investments in sales, marketing and product development.

Our solutions were once again successful in international products tests and evaluations. In NSS Labs' latest Intrusion Prevention System tests, Stonesoft's solution provided full protection against evasions tested in the production environment with low TCO. The product was also praised for its reliability and stability. In addition, the research company Gartner positioned Stonesoft in the "visionaries" quadrant in its latest IPS Magic Quadrant.

We continued to invest strongly in our cyber security competence and appointed a leading expert, Mr. Jarno Limnéll, Doctor of Military Science to develop the strategy and business in this field. Cyber security has become one of the most important topics in public discussion and we wish to further reinforce our position as the leading cyber security expert in the world.

During the second quarter we developed the Evader and Evasion Prevention System products, which were introduced in July at the Black Hat event in the US. Evader is a testing tool for advanced evasion techniques and Evasion Prevention System (EPS) is the world's first evasion prevention product. Evader is a software-based tool that empowers organizations to test for themselves, whether advanced evasion techniques can bypass their security systems. Even though the testing tool is a limited version, it allows the customer to verify by himself that most competing solutions currently in use are incapable of providing protection against evasions. EPS, on the other hand, is a new, modular security product, which has been designed especially for protection against advanced evasion techniques. The solutions are a part of our philosophy, according to which network security is a dynamic area and security solutions must be able to adapt to new challenges and to keep ahead of the development.

The strong growth and wide international recognition prove that our solutions are working. To ensure success, we have also strengthened our sales organization. We are on the right track.

NET SALES AND RESULT

April-June 2012 (hereinafter 'reporting period')

The Group's net sales in the fiscal period were MEUR 9.1 (6.5). Increase compared to the corresponding period in the previous year was MEUR 2.6, or 40%. The operating result (EBIT) was MEUR -0.4 (-0.7) and the result after taxes was MEUR -0.4 (-0.8).

Product sales were MEUR 5.4 (3.3), growth by 62% compared to the corresponding quarter in the previous year.

The geographical distribution of net sales was as follows: Europe 76 (76)%, Emerging Markets (North Africa, Middle East and Latin America) 10 (9)%, North America 10 (12)% and APAC (Asia-Pacific) 4 (3)%.

January-June 2012 (hereinafter 'fiscal period')

The Group's net sales in the fiscal period were MEUR 17.3 (13.0). Increase compared to the corresponding period in the previous year was MEUR 4.3, or 33%. The operating result (EBIT) was MEUR -1.0 (-1.6) and the result after taxes was MEUR -1.0 (-1.4).

Product sales were MEUR 10.4 (6.9), growth by 50% compared to the corresponding quarter in the previous year.

The geographical distribution of net sales was as follows: Europe 72 (71)%, Emerging Markets (North Africa, Middle East and Latin America) 14 (13)%, North America 11 (13)% and APAC (Asia-Pacific) 3 (3)%.

FINANCE AND INVESTMENTS

At the end of the fiscal period, the Group's total assets were MEUR 21.7 (18.8). The equity ratio was 36 (40)% and gearing (the ratio of net debt to shareholders' equity) was -3.02 (-2.89).

The operative cash flow during the fiscal period was MEUR 1.4 (1.2). The Group has no interest-bearing debt. The consolidated liquid assets at the end of the fiscal period totalled MEUR 9.1 (9.3).

Investments in tangible and intangible assets totalled MEUR 0.6 (0.4).

DEVELOPMENT OF BUSINESS OPERATIONS

Main business events in the fiscal period

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

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

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

Main business events after the fiscal period

In July Stonesoft published the new Evasion Prevention System (EPS) security solution. EPS provides organizations with an easy and effective way to identify advanced evasion

techniques (AETs) and to protect themselves against them. In addition, Stonesoft released the world's first Advanced Evasion Technique testing tool, which allows organizations to test whether AETs can bypass their security systems.

In August, Stonesoft announced its IPS-1302 intrusion prevention system had received excellent results in NSS Labs' 2012 Intrusion Prevention Systems (IPS) Test. product tests. NSS Labs confirmed that the Stonesoft IPS-1302 provides 100 % protection against all tested evasion techniques and low total cost of ownership (TCO) during real-world traffic and threat scenarios.

In August, Stonesoft announced Mika Yletyinen has been appointed as Vice President, European Sales and the Global Channel, and a member of the Executive Management Team.

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

RESEARCH AND DEVELOPMENT

Stonesoft continued its strong investments in R&D. Investments during the fiscal period totalled MEUR 3.8 (3.0). This represented 24 (23)% of operating expenses.

R&D employed 98 (76) persons at the end of the fiscal period.

SHARE CAPITAL AND STOCK OPTION PROGRAMS

Stonesoft has one class of shares and all shares have equal rights. At the end of the fiscal period, the share capital recorded in the Trade Register was 1 150 574.64 Euros. The number of shares was 63 645 482. Stonesoft or its daughter companies do not own its shares. There were no changes in the share capital during the fiscal period.

Stock Option Programs

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

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

During the fiscal period 153 000 shares were registered on the basis of the stock option program 2008.

DEVELOPMENT OF SHARE PRICES AND TURNOVER

In the beginning of the fiscal period on January 1, 2012, the price of Stonesoft share was EUR 0.86 (0.58). At the end of the fiscal period on 30 June 2012 the price was EUR 1.09 (0.60). The highest price was EUR 1.78 (0.65) and the lowest EUR 0.87 (0.51). During the fiscal period the total turnover of Stonesoft shares amounted to MEUR 17.6 (3.8) and 13.5 (6.5) million shares, which is 21.2 (10.3)% of the total amount of the shares. Based on the share price at the end of the fiscal period, Stonesoft's market value was MEUR 69.4 (38.0).

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

ACQUISITIONS AND CHANGES IN GROUP STRUCTURE

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

PERSONNEL

At the end of the reporting period, the Group's personnel totalled 234 (203).

ANNUAL GENERAL MEETING AND THE AUTHORIZATIONS OF THE BOARD OF DIRECTORS

The Annual General Meeting of Stonesoft Corporation held on 25 April 2012 confirmed the financial statements from the fiscal year 1.1.-31.12.2011 and granted release from liability for the members of the Board of Directors and the Chief Executive Officer. The AGM decided, according to the proposal of the Board of Directors, not to pay any dividends for the fiscal year 2011.

The AGM confirmed the number of Board members to be six (6). The AGM re-elected Ilkka Hiidenheimo, Harri Koponen, Jukka Manner, Timo Syrjälä and Hannu Turunen as a Board member and Satu Yrjänen as a new Board member. In its organizing meeting held after the Annual General Meeting the Board of Directors of Stonesoft Corporation elected Hannu Turunen as Chairman and Harri Koponen as Vice Chairman.

The AGM decided on 25.4.2012 to authorize the Board of Directors to decide on the issuance of shares, options and other special rights, in one or several issues, so that the total number of new shares may be 12,600,000 at the maximum.

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

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

The authorization is in force until the end of the 2013 AGM.

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

SHORT-TERM RISKS AND BUSINESS UNCERTAINTIES

There have been no significant changes in the risk scenario with respect to Stonesoft. The global economical crisis may, however, have a negative impact on the total demand. However, there is currently no effect on Stonesoft's sales in sight with regard to the company's sales pipeline.

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.

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

FUTURE OUTLOOK

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

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

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

Advanced Evasion Techniques

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

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

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

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

In July Stonesoft introduced the new Advanced Evasion Testing tool Evader as well as the world's first Evasion Prevention System (EPS). With the testing tool, organizations can test the level of their protection and with the evasion prevention system they can protect themselves against advanced evasion techniques.

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 - JUNE 30, 2012

Basis of preparation

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

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

The figures presented in this release are unaudited.

Stonesoft Group Income Statement (1000 Euros)	4-6/2012	4-6/2011	1-6/2012	1-6/2011	1-12/2011
Net sales	9 095	6 506	17 350	13 015	30 604
Other operating income	231	279	500	398	904
Materials and services	-1 696	-862	-3 155	-1 941	-5 240

Personnel expenses	-4 769	-4 007	-9 556	-8 038	-16 665
Depreciation	-151	-124	-293	-248	-479
Other operating expenses	-3 137	-2 540	-5 847	-4 762	-10 262
Operating result	-427	-748	-1 001	-1 576	-1 137
Financial income and expenses	51	53	148	236	358
Result before taxes	-376	-695	-853	-1 340	-779
Taxes	-59	-62	-120	-93	-138
Result for the accounting period	-436	-757	-973	-1 433	-917
Other comprehensive income					
Exchange differences on translating foreign operations	1	-3	6	-16	-3
Total other comprehensive income	1	-3	6	-16	-3
Total comprehensive income	-434	-760	-966	-1 449	-920
Basic earnings per share (EUR), continuing operations	-0,01	-0,01	-0,02	-0,02	-0,01
Diluted earnings per share (EUR), continuing operations	-0,01	-0,01	-0,02	-0,02	-0,01

Stonesoft Group
Balance Sheet (1000 Euros)

30.6.2012 30.6.2011 31.12.2011

ASSETS

Non-Current Assets

Tangible assets	995	762	700
Intangible assets	151	186	162
Other investments	10	10	10
Total	1 156	958	872

Current assets

Inventories	1 345	1 361	1 508
Trade and other receivables	9 973	7 169	10 847
Prepayments	125	64	220
Marketable securities	0	0	0
Cash and cash equivalents	9 075	9 260	7 710
Total	20 518	17 853	20 285
Total assets	21 674	18 811	21 157

EQUITY AND LIABILITIES

Equity attributable to equity holders of the parent company

Share capital	1 151	1 151	1 151
Issue of shares	0	0	0
Share premium account	76 602	76 602	76 602
Conversion differences	-948	-967	-954
Reserve for invested unrestricted equity fund	4 708	4 751	4 732
Retained earnings	-78 509	-78 334	-77 659
Total	3 004	3 202	3 873

Long-term liabilities

Prepayments *)	4 029	3 022	3 157
Total	4 029	3 022	3 157

Short-term liabilities

Trade and other payables	5 197	4 729	5 563
Prepayments *)	9 229	7 685	8 381
Tax liability	138	122	126
Provisions	77	52	58
Total	14 640	12 587	14 127
Total liabilities	18 670	15 609	17 285
Total equity and liabilities	21 674	18 811	21 157

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

13 258 10 707 11 538

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
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Shareholders' equity at 1.1.2011	1 151	0	76 603	-951	4 751	-76 986	4 567
Comprehensive income	0	0	0	-16	0	-1 433	-1 449
Reserve for invested unrestricted equity fund reduction	0	0	0	0	0	0	0
Transaction costs from equity	0	0	0	0	0	0	-1
Stock options exercised	0	0	0	0	0	0	0
Stock option expenses	0	0	0	0	0	85	85
Shareholders' equity at 30.6.2011	1 151	0	76 602	-967	4 751	-78 334	3 202

	Share capital	Issue of shares	Share premium	Conversion differences	Reserve for invested unrestricted equity fund	Retained earnings	Total
Shareholders' equity at 1.1.2012	1 151	0	76 602	-954	4 732	-77 659	3 873
Comprehensive income	0	0	0	6	0	-973	-966
Reserve for invested unrestricted equity fund reduction	0	0	0	0	-70	70	0
Transaction costs from equity	0	0	0	0	0	0	0
Stock options exercised	0	0	0	0	46	0	46
Stock option expenses	0	0	0	0	0	53	53
Shareholders' equity at 30.6.2012	1 151	0	76 602	-948	4 708	-78 509	3 004

Stonesoft Group

Cash flow statement (1000 Euros)

	1.1.-30.6.2012	1.1.-30.6.2011	1.1.-31.12.2011
Cash flow from operating activities			
Operating Result	-1 001	-1 576	-1 137
Adjustments			
Non-cash transactions	96	57	334
Financial expenses	-35	-76	-106
Financial incomes	183	313	445
Change in net working capital	2 682	3 079	904
Taxes paid	-29	-102	-218
Total cash flow from operating activities	1 895	1 696	221
Cash flow from investing activities			
Investments in tangible assets	-556	-323	-460
Investments in intangible assets	-20	-111	-120
Total cash flow investing activities	-576	-435	-581
Cash flow from financing activities			
Stock options exercised	46	-1	53
Total cash flow from financing activities	46	-1	53
Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period	7 710	8 016	8 016
Conversion differences	0	-17	1
Changes in the market value of investments	0	0	0
Total cash and cash equivalents at end of period *)	9 075	9 260	7 710

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

521 467 496

Stonesoft Group

Geographical segments (1000 Euros)

	1.1.-30.6.2012	1.1.-30.6.2011	1.1.-31.12.2011
Net sales			
Europe	12 439	9 275	20 979
Emerging Markets	2 392	1 740	3 926
Americas	2 026	1 641	4 656
APAC	493	359	1 043
Total net sales	17 350	13 015	30 604

Operating profit			
Europe	88	-590	150
Emerging Markets	-166	-286	-352
Americas	-793	-530	-650
APAC	-130	-171	-286
Total operating profit	-1 001	-1 576	-1 137

Stonesoft Group

Contingent liabilities (1000 Euros)

1.1.-30.6.2012 1.1.-30.6.2011 1.1.-31.12.2011

Contingent off-balance sheet			
Non-cancellable other leases	1 626	2 024	1 970
Contingent liabilities for the Company	223	171	223

Stonesoft Group							
Quarterly development	Q2 /	Q1 /	Q4 /	Q3 /	Q2 /	Q1 /	
(Euro Millions)	2012	2012	2011	2011	2011	2011	2011
Software	0,5	0,6	0,8	0,4	0,4	0,4	2,1
Security appliances	4,9	4,3	5,3	4,2	2,9	3,2	15,6
Services	3,6	3,4	3,4	3,3	3,2	3,0	12,8
Other products	0,1	0,0	0,1	0,1	0,0	-0,1	0,1
Net sales continuing operations	9,1	8,3	9,5	8,0	6,5	6,5	30,6
Change-% from previous year	40	27	27	43	29	6	26
Sales margin	7,4	6,8	7,6	6,7	5,6	5,4	25,4
Sales margin %	81	82	80	83	87	83	83
Operative expenses	8,0	7,6	7,6	6,7	6,7	6,4	27,3
Operating profit (EBITA)	-0,4	-0,6	0,3	0,2	-0,7	-0,8	-1,1
% of net sales	-5	-7	3	2	-12	-13	-4
Result before taxes	-0,4	-0,5	0,3	0,2	-0,7	-0,6	-0,8
% of net sales	-6	-6	4	3	-11	-10	-3

Stonesoft Group			
Key ratios	1.1.-30.6.2012	1.1.-30.6.2011	1.1.-31.12.2011
(1000 Euros)			

Net sales	17 350	13 015	30 604
Net sales change-%	33	16	26
Operating result	-1 001	-1 576	-1 137
% of net sales	-6	-12	-4
Operating result before taxes	-853	-1 340	-779
% of net sales	-5	-10	-3
ROE - %, annualized	-57	-74	-22
ROI - %, annualized	-47	-64	-16
Equity ratio-%	36	40	40
Net gearing	-3,02	-2,89	-1,99
Total Assets	21 674	18 811	21 157
Capital expenditure	576	435	581
Capital disposals	0	0	0
R&D costs	3 785	3 006	6 131
% of net sales	22	23	20
Number of employees (weighted average)	231	199	207
Number of employees (end of the period)	234	203	222

Share Specific Ratios			
Earnings per share	-0,02	-0,02	-0,01
Equity per share	0,05	0,05	0,06
Dividend	0,00	0,00	0,00
Dividend per share (EUR)	0,00	0,00	0,00
Dividend / Profit-%	0	0	0

Calculation of indicators

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

Equity per share =
$$\frac{\text{Equity}}{\text{Number of shares at end of period}}$$

FORWARD-LOOKING STATEMENTS

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

PRESS CONFERENCE

A press conference for analysts and investors will be held on 10 August, 2012 at 10.30 am at the Stonesoft headquarters, street address Itälahdenkatu 22 A, 00210 Helsinki.

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