

STONESOFT CORPORATION INTERIM REPORT FOR JANUARY-SEPTEMBER 2012

Growth of product sales and net sales continues

In the third quarter, Stonesoft Corporation's product sales grew by 20% and net sales by 16% compared to the corresponding period in the previous year. The growth has continued for already two years. Operating result was MEUR +0.1. The company still continued to invest 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.

July-September 2012

- Net sales MEUR 9.3 (8.0), growth 16%
- Product sales MEUR 5.6 (4.7), growth 20%
- Operating result MEUR 0.1 (0.2)
- Operating result as percentage of net sales 1 (2)%
- Earnings per share -0.00 (0.00) EUR
- Operative cash flow MEUR -1.8 (-2.2)
- Liquid cash funds at the end of the fiscal period MEUR 7.2 (7.1). The corporate has no interest-bearing debt.

January-September 2012

- Net sales MEUR 26.7 (21.1), growth 27%
- Product sales MEUR 16.0 (11.6), growth 38%
- Operating result MEUR -1.0 (-1.4)
- Operating result as percentage of net sales -4 (-7)%
- Earnings per share EUR -0.02 (-0.02)
- Operative cash flow MEUR -0.5 (-0.9)

CEO ILKKA HIIDENHEIMO

During the third quarter of the year 2012 Stonesoft's product sales grew by 20% and net sales by 16%. The growth of net sales was lower than expected due to the postponement of some customers' purchase decisions. This was normal variation between quarters.

We published the Evader and Evasion Prevention System (EPS) products in July at the Black Hat event in the United States. Evader is an evasion technique testing tool and Evasion Prevention System is the world's first evasion prevention product. EPS is an easily implemented and efficient solution for the detection and protection against advanced evasion techniques. 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. So far Evader has been downloaded by already thousands of organizations.

Stonesoft's intrusion prevention system (IPS) received excellent results in the NSS Labs tests and the market research company Gartner positioned Stonesoft in the Visionaries Quadrant of its latest "Magic Quadrant for Intrusion Prevention Systems (IPS)" report.

We have continued the cyber security discussion by bringing up facts about cyber threats and security issues that our customers around the world encounter every day. The threat scenario of the digital world is worrying and as a criminal enterprise it is one of the fastest growing. In addition, the national arms race is currently very powerful. Along the cyber threats, also the demand for efficient, dynamic security products is constantly growing.

NET SALES AND RESULT

July-September 2012 (hereinafter 'reporting period')

The Group's net sales in the reporting period were MEUR 9.3 (8.0). Increase compared to the corresponding period in the previous year was MEUR 1.3, or 16%. The operating result (EBIT) was MEUR 0.1 (0.2) and the result after taxes was MEUR -0.0 (0.2).

Product sales were MEUR 5.6 (4.7), growth 20% compared to the corresponding quarter in the previous year.

The geographical distribution of net sales was as follows: Europe 76 (60)%, Emerging Markets (North Africa, Middle East and Latin America) 11 (15)%, North America 10 (22)% and APAC (Asia-Pacific) 3 (3)%.

January-September 2012 (hereinafter 'fiscal period')

The Group's net sales in the fiscal period were MEUR 26.7 (21.1). Increase compared to the corresponding period in the previous year was MEUR 5.6, or 27%. The operating result (EBIT) was MEUR -1.0 (-1.4) and the result after taxes was MEUR -1.0 (-1.3).

Product sales were MEUR 16.0 (11.6), growth 38% compared to the corresponding quarter in the previous year.

The geographical distribution of net sales was as follows: Europe 73 (67)%, Emerging Markets (North Africa, Middle East and Latin America) 13 (14)%, North America 11 (16)% and APAC (Asia-Pacific) 3 (3)%.

#### FINANCE AND INVESTMENTS

At the end of the fiscal period, the Group's total assets were MEUR 21.0 (18.5). The equity ratio was 36 (41)% and gearing (the ratio of net debt to shareholders' equity) was -2.39 (-2.08).

The operative cash flow during the fiscal period was MEUR -0.5 (-0.9). The Group has no interest-bearing debt. The consolidated liquid assets at the end of the fiscal period totalled MEUR 7.2 (7.1).

Investments in tangible and intangible assets totalled MEUR 0.8 (0.5).

#### DEVELOPMENT OF BUSINESS OPERATIONS

Main business events in the reporting period

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

In August Stonesoft announced its IPS-1302 had received excellent results in the NSS Labs 2012 Intrusion Prevention Systems (IPS) Test.

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

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

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

Main business events after the fiscal period

In October, Stonesoft announced the growth of its net in the third quarter were lower than expected because of postponed purchase decisions by some clients. The company changed its estimate and announced it expects the net sales to grow by 25 - 32 % in 2012 and the full year operating result (EBIT) to be close to zero.

## RESEARCH AND DEVELOPMENT

Stonesoft continued its strong investments in R&D. Direct investments during the fiscal period totalled MEUR 5.5 (4.4). This represented 23 (22)% of operating expenses.

R&D employed 97 (79) 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 63 681 732. 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 189 250 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 September 2012 the price was EUR 1.56 (0.52). The highest price was EUR 1.78 (0.65) and the lowest EUR 0.87 (0.41). During the fiscal period the total turnover of Stonesoft shares amounted to MEUR 23.8 (5.2) and 17.6 (9.3) million shares, which is 27.7 (14.6)% 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 99.3 (32.9).

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 240 (212).

## AUTHORIZATIONS OF THE BOARD OF DIRECTORS

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 need of companies and authorities to protect themselves against network attacks and cyber threats will increase significantly. The global economical crisis has negative impact on the total demand. With regard to the year 2013, the risk scenario will become more accurate at the end of the year 2012.

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

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.

Earlier the company has announced that Stonesoft aims net sales to grow by at least 30% and to achieve a positive result for the year 2012.

Based on the current outlook the company expects the net sales to grow by 25 - 32 % in 2012 and the full year operating result (EBIT) to be close to zero.

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 - SEPTEMBER 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	7-9/2012	7-9/2011	1-9/2012	1-9/2011	1-12/2011
(1000 Euros)					
Net sales	9 319	8 050	26 668	21 065	30 604
Other operating income	219	226	719	624	904
Materials and services	-1 669	-1 353	-4 824	-3 294	-5 240
Personnel expenses	-4 708	-4 029	-14 265	-12 067	-16 665
Depreciation	-160	-116	-453	-364	-479
Other operating expenses	-2 949	-2 589	-8 796	-7 352	-10 262
Operating result	51	188	-951	-1 388	-1 137
Financial income and expenses	-7	25	141	261	358
Result before taxes	43	213	-810	-1 127	-779
Taxes	-82	-60	-201	-154	-138
Result for the accounting period	-39	152	-1 011	-1 281	-917
Other comprehensive income					
Exchange differences on translating foreign operations	2	6	9	-10	-3
Total other comprehensive income	2	6	9	-10	-3
Total comprehensive income	-36	158	-1 003	-1 291	-920
Basic earnings per share (EUR), continuing operations	0,00	0,00	-0,02	-0,02	-0,01
Diluted earnings per share (EUR), continuing operations	0,00	0,00	-0,02	-0,02	-0,01

Stonesoft Group			
Balance Sheet (1000 Euros)	30.9.2012	30.9.2011	31.12.2011

ASSETS			
Non-Current Assets			
Tangible assets	1 033	725	700
Intangible assets	138	184	162
Other investments	10	10	10
Total	1 181	919	872
Current assets			
Inventories	1 918	1 525	1 508
Trade and other receivables	10 467	8 920	10 847
Prepayments	160	74	220
Marketable securities	5 697	0	0
Cash and cash equivalents	1 543	7 075	7 710
Total	19 784	17 594	20 285
Total assets	20 965	18 513	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	-945	-961	-954
Reserve for invested unrestricted equity fund	4 718	4 679	4 732
Retained earnings	-78 496	-78 066	-77 659
Total	3 029	3 405	3 873
Long-term liabilities			
Prepayments *)	4 203	2 979	3 157
Total	4 203	2 979	3 157
Short-term liabilities			
Trade and other payables	5 133	4 746	5 563
Prepayments *)	8 361	7 195	8 381
Tax liability	155	116	126
Provisions	84	74	58
Total	13 733	12 130	14 127
Total liabilities	17 935	15 109	17 285
Total equity and liabilities	20 965	18 513	21 157
*) Prepayments contain customers advance payment of support and maintenance contracts	12 563	10 173	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
Shareholders' equity at 1.1.2011	1 151	0	76 603	-951	4 751	-76 986	4 567
Comprehensive income	0	0	0	-10	0	-1 281	-1 291
Reserve for invested unrestricted equity fund reduction	0	0	0	0	-71	71	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	129	129
Shareholders' equity at 30.9.2011	1 151	0	76 602	-961	4 679	-78 066	3 405
	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	9	0	-1 011	-1 003
Reserve for invested unrestricted equity fund reduction	0	0	0	0	-70	70	0
Transaction costs from equity	0	0	0	0	-2	0	-2
Stock options exercised	0	0	0	0	57	0	57
Stock option expenses	0	0	0	0	0	104	104
Shareholders' equity at 30.9.2012	1 151	0	76 602	-945	4 718	-78 496	3 029

Stonesoft Group			
Cash flow statement (1000 Euros)	1.1.-30.9.2012	1.1.-30.9.2011	1.1.-31.12.2011
Cash flow from operating activities			
Operating Result	-951	-1 388	-1 137
Adjustments			
Non-cash transactions	195	-6	334
Financial expenses	-65	-89	-106
Financial incomes	209	351	445
Change in net working capital	897	841	904
Taxes paid	-47	-135	-218
Total cash flow from operating activities	239	-427	221
Cash flow from investing activities			
Investments in tangible assets	-739	-382	-460
Investments in intangible assets	-22	-130	-120
Total cash flow investing activities	-761	-512	-581
Cash flow from financing activities			
Stock options exercised	55	-1	53
Total cash flow from financing activities	55	-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	-1	1
Changes in the market value of investments	-3	0	0
Total cash and cash equivalents at end of period *)	7 240	7 075	7 710
*) Total cash and cash equivalents at end of the period contains pledged securities	512	467	496

Stonesoft Group			
Geographical segments	1.1.-30.9.2012	1.1.-30.9.2011	1.1.-31.12.2011
(1000 Euros)			
Net sales			
Europe	19 547	14 097	20 979
Emerging Markets	3 444	2 925	3 926
Americas	2 917	3 418	4 656
APAC	760	626	1 043
Total net sales	26 668	21 065	30 604
Operating profit			
Europe	760	-194	150
Emerging Markets	-144	-326	-352
Americas	-1 412	-596	-650
APAC	-154	-272	-286
Total operating profit	-951	-1 388	-1 137

Stonesoft Group			
Contingent liabilities	1.1.-30.9.2012	1.1.-30.9.2011	1.1.-31.12.2011
(1000 Euros)			
Contingent off-balance sheet			

Non-cancellable other leases	1 530	1 795	1 970
Contingent liabilities for the Company	223	183	223

Stonesoft Group								
Quarterly development	Q3 /	Q2 /	Q1 /	Q4 /	Q3 /	Q2 /	Q1 /	
(Euro Millions)	2012	2012	2012	2011	2011	2011	2011	2011
Software	0,5	0,5	0,6	0,8	0,4	0,4	0,4	2,1
Security appliances	5,1	4,9	4,3	5,3	4,2	2,9	3,2	15,6
Services	3,7	3,6	3,4	3,4	3,3	3,2	3,0	12,8
Other products	0,0	0,1	0,0	0,1	0,1	0,0	-0,1	0,1
Net sales continuing operations	9,3	9,1	8,3	9,5	8,0	6,5	6,5	30,6
Change-% from previous year	16	40	27	27	43	29	6	26
Sales margin	7,6	7,4	6,8	7,6	6,7	5,6	5,4	25,4
Sales margin %	82	81	82	80	83	87	83	83
Operative expenses	7,8	8,0	7,6	7,6	6,7	6,7	6,4	27,3
Operating profit (EBITA)	0,1	-0,4	-0,6	0,3	0,2	-0,7	-0,8	-1,1
% of net sales	1	-5	-7	3	2	-12	-13	-4
Result before taxes	0,0	-0,4	-0,5	0,3	0,2	-0,7	-0,6	-0,8
% of net sales	0	-6	-6	4	3	-11	-10	-3

Stonesoft Group			
Key ratios	1.1.-30.9.2012	1.1.-30.9.2011	1.1.-31.12.2011
(1000 Euros)			
Net sales	26 668	21 065	30 604
Net sales change-%	27	25	26
Operating result	-951	-1 388	-1 137
% of net sales	-4	-7	-4
Operating result before taxes	-810	-1 127	-779
% of net sales	-3	-5	-3
ROE - %, annualized	-39	-43	-22
ROI - %, annualized	-28	-34	-16
Equity ratio-%	36	41	40
Net gearing	-2,39	-2,08	-1,99
Total Assets	20 965	18 513	21 157
Capital expenditure	761	512	581
Capital disposals	0	0	0
R&D costs	5 520	4 405	6 131
% of net sales	21 %	21 %	20
Number of employees (weighted average)	233	202	207
Number of employees (end of the period)	240	212	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) % = 
$$\frac{(\text{Profit before taxes} - \text{income taxes}) \times 100}{\text{Shareholders' equity} + \text{minority interest (average)}}$$

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 =	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. 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 19 October, 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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