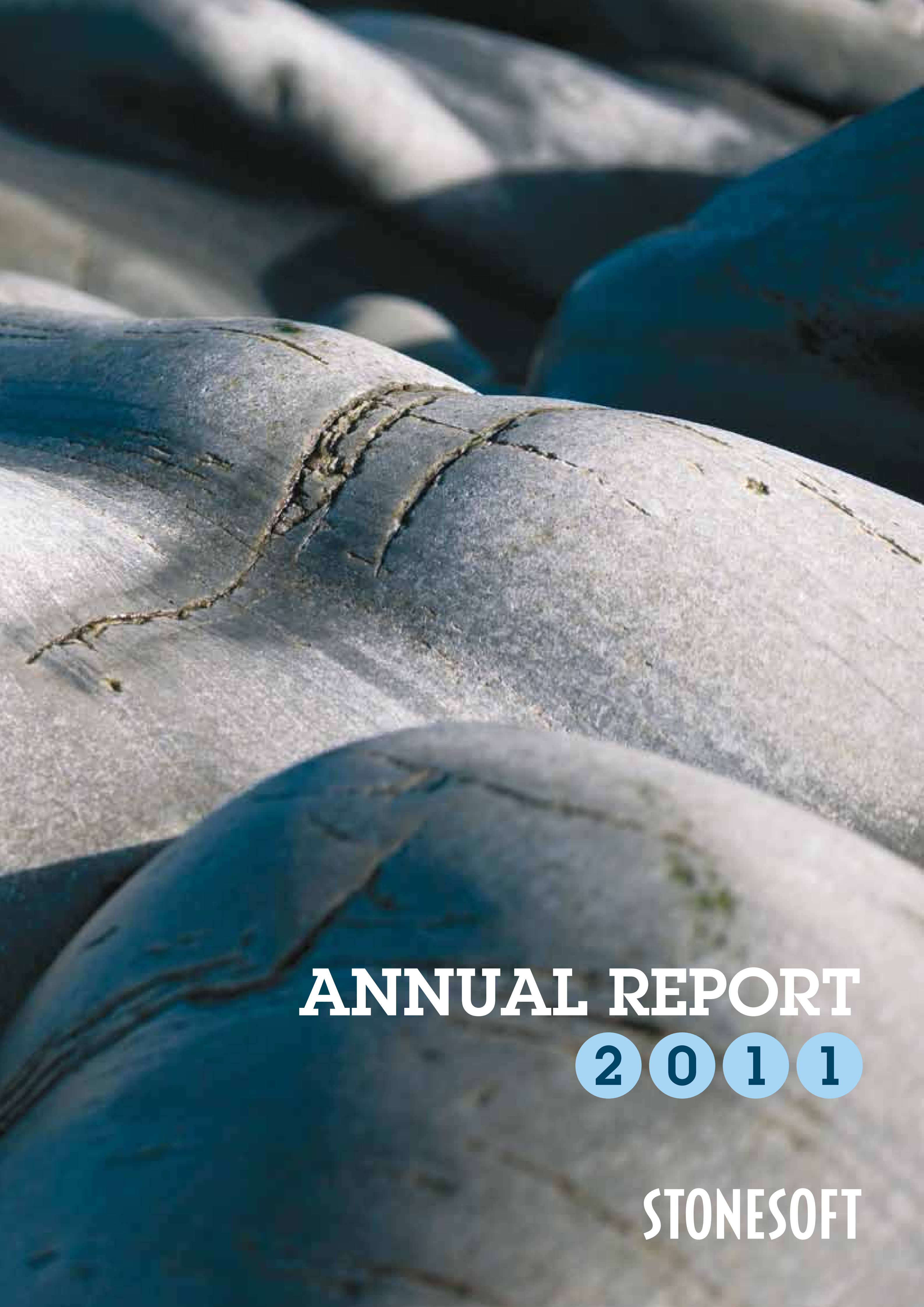

ANNUAL REPORT 2011

STONESOFT

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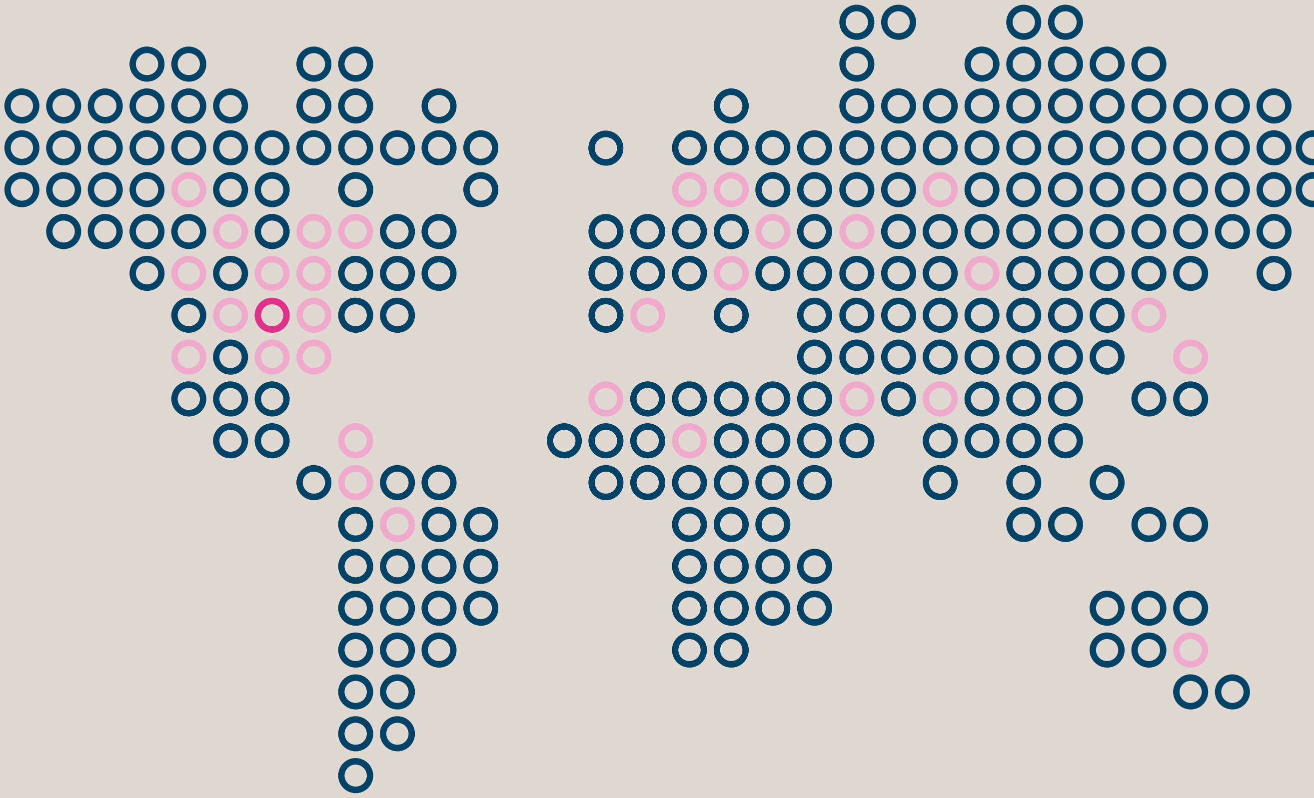


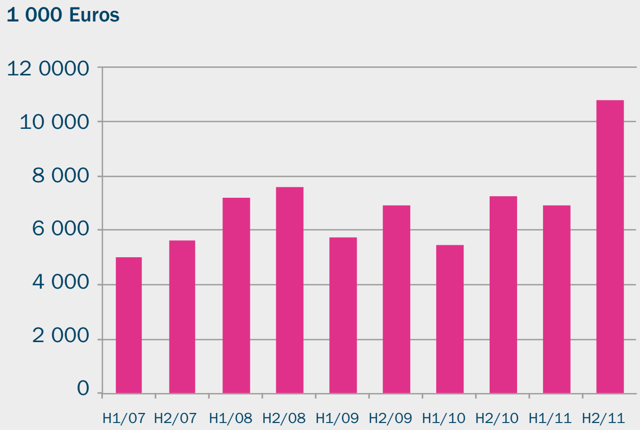
ANNUAL REPORT 2011

STONESOFT

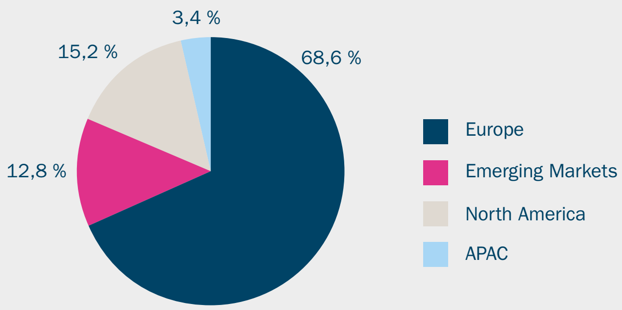
KEY FIGURES

(1 000 Euros)	2011	2010
Net sales	30 604	24 341
Operating profit/loss	-1 137	-2 685
% of net sales	-4	-11
Operating result before taxes	-779	-2 468
% of net sales	-3	-10
Return on equity (ROE) %	-22	-74
Return on investment (ROI) %	-16	-65
Equity ratio %	40	49
Net Gearing	-1.99	-1.75
Capital investments	581	566
% of net sales	2	2
R&D costs	6 131	5 639
% of net sales	20	23
Number of employees (weighted average)	207	191
Number of employees at the end of the year	222	201
Earnings per share	-0.01	-0.04
Equity per share	0.06	0.07
Dividend	0.00	0.00
Dividend per share	0.00	0.00
Dividend/profit, %	0	0
Average number of shares adjusted for share issue	63 316 427	61 855 279
Number of shares adjusted for share issue at year end	64 328 315	64 283 238

DEVELOPMENT OF PRODUCT SALES 2007-2011



GEOGRAPHICAL DISTRIBUTION OF NET SALES



CEO'S REVIEW

The future is here now

For a long time, we have dreamed about a being able to offer the highest level of security without compromising performance or usability. To our great pleasure, today our long-standing dream has finally come true through our newest product.

The new Stonesoft Security Engine is a dynamic, future-proof solution for real world network security needs.

We have carefully listened to our customers, partners and analysts and applied what we have heard based on our own know-how and vision. As a result, we decided to merge our highly capable IPS and Firewall/VPN technologies into the new Stonesoft Security Engine - into one Security Engine that is much greater than just the sum of its parts.

Stonesoft's Security Engine is a flexible solution that does not fall into the traditional trap of the mediocrity of multipurpose tools. Instead, thanks to our holistic thinking, we have been able to create a massive performance boost; for example, 100Gb/s firewall performance and more than a 400% increase in small packet handling, without compromising security, usability or flexibility. The engine can be set to work as, for example, a full-fledged Next Generation Firewall/VPN solution, Next Generation IPS solution or even a Next Generation Layer 2 Firewall solution just by changing the configuration from our centralized management tool. It is future-proof and fully equips organizations for unexpected needs without unexpected costs.

Regardless of whether they want to keep up with the latest trends or make sure they have the best security in place, organizations using the Stonesoft Security Engine will not have to keep reinvesting as new hypes appear. The solution offers application and user identification, comprehensive protection against Advanced Evasion Techniques, and 64-bit architecture, just to mention some features – and this is just the beginning. Whatever it is you need, with Stonesoft Security Engine we can and we will secure your network.

Sales are booming

2011 started with solid growth in product sales, followed by a significant mid-year boost and ended up with yet another all-time high. The net sales for the whole year came to over 30 million EUR.

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 that there is a growing need for our technology in the market. During 2011, Stonesoft delivered almost 300 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 that is able to offer comprehensive protection against all known evasion techniques.

Based on these findings, we recommend that all organizations that are not willing to risk their critical information capital and business assets 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.

I would like to thank our employees, customers and partners for good cooperation. The year 2011 has once again demonstrated that we live in an extremely vulnerable environment. Our common efforts to develop the security of data communications and networks will continue.

Ilkka Hiidenheimo
CEO
Stonesoft Oyj

CORPORATE GOVERNANCE STATEMENT

The corporate governance statement is not part of the official Financial Statements

Stonesoft Corporation, the parent company of the Group is registered in Finland and domiciled in Helsinki, Finland. In the administration and management of the company, Stonesoft Corporation applies the laws of Finland, the company's Articles of Association, and the working order for the company's Board of Directors. Stonesoft also applies the Corporate Governance recommendations for listed companies prepared by NASDAQ OMX Helsinki Ltd, the Central Chamber of Commerce and the Confederation of Finnish Industries EK, as well as the insider guidelines of NASDAQ OMX Helsinki Ltd.

This Corporate Governance Statement is based on law as well as on the Finnish Corporate Governance Code, and it has been prepared pursuant to Recommendation 54 of the Code and Chapter 2, Section 6 of the Securities Markets Act. The Corporate Governance statement is issued separately from the Board of Director's Report.

Stonesoft Corporation conforms to the Finnish Corporate Governance Code with the following exemption:

Currently, both genders are not represented on the Board of Directors of Stonesoft Corporation, as is stated in recommendation 9. It has not been possible to find a female member with strong knowledge of the industry. However, the company aims to achieve gender representation on the Board.

The Finnish Corporate Governance Code is available on the Securities Market Association's website (www.cgfinland.fi).

General Meeting

The General Meeting of the Shareholders is the highest decision-making body of Stonesoft Corporation. The General Meeting decides upon matters such as amendments to the Articles of Association, the approval of the Financial Statements, the distribution of profits and the election and fees of Board members and auditors. The Annual General Meeting shall be held each year by end of June in Helsinki.

The documents of the General Meeting shall be available at the company website at least 21 days prior to the General Meeting.

Board of Directors

The Board's duties and responsibilities

The Board is responsible for supervising the administration and proper organization of the Group in accordance with legislation, the Articles of Association and the instructions issued by General Meeting. The Board decides upon matters of major importance to the operations of the company. These include the acceptance of the main strategies, approval of action plans, major capital expenditures and divestitures of assets. The Board also appoints the company's CEO and decides on his/her service terms. The main duties of the Board are outlined below. The Board of Directors annually assesses its operations and working manners to further develop its practices.

Election of the Board of Directors

The Annual General Meeting elects no fewer than three (3) and no more than seven (7) members to the Board of Directors of Stonesoft Corporation. The term of a Board member begins at the end of the General Meeting that elected the Board member and expires at the end of the next General Meeting. The Board elects a Chairman and Vice Chairman from among its members. The Board currently comprises of five (5) members, one of whom is employed by the company. Having five Board members is considered to be suitable for a company of this size.

In the 2011 Annual General Meeting the following members were elected to the Board:

- **Mr. Hannu Turunen**, Born: 1957, Education: MSc. in Electrical Engineering, MBA, Main duty: Managing Partner, Magnolia Ventures Oy
- **Mr. Ilkka Hiidenheimo**, Born: 1960, Main duty: CEO of Stonesoft Corporation
- **Mr. Harri Koponen**, Born: 1962, Education: Phd. Econ h.c., EMBA, commercial college. Main duty: Oy Osaka Ltd, CEO and Chairman of the Board
- **Mr. Jukka Manner**, Born: 1972, Education: M.Sc. (1999), PhD (2004), University of Helsinki, Main duty: Professor, Department of Communications and Networking (Comnet), Aalto University
- **Mr. Timo Syrjälä**, Born: 1958, Education: MSc. in Economics and Business Administration, Main duty: Managing Director, Syrjälä & Co Oy

Additional information about the Members of the Board is available at the corporate website www.stonesoft.com and on pages 15-16.

Independence

The Board has evaluated the independence of its members on April 13, 2011 in compliance with the guidelines of the Corporate Governance Recommendation. It is required in the Recommendation that the majority of the Board members are independent from the company. In addition, at least two of the Board members representing this majority shall be independent from significant shareholders of the company. A significant shareholder means, among others, a shareholder who holds at least 10 % of all the shares or of the aggregate votes in the company.

Board members' independence from the company

Pursuant to the Finnish Corporate Governance Code recommendation 14, the Board has noted that based on the evaluation all other Board members except Ilkka Hiidenheimo as CEO are independent from the company with the following note: Jukka Manner, Harri Koponen and Timo Syrjälä have been granted stock option rights as part of their compensation as Board members, but such compensation is deemed to have no significant economic value for the above mentioned Board members.

Board members' independence from the significant shareholders

Pursuant to the recommendation 14, it has been noted that Ilkka Hiidenheimo (holding 16.4 percent of the shares and the votes in the company) and Hannu Turunen (holding 11.6 percent of the shares and the votes in the company) are significant shareholders themselves, and that all other Board members are independent from significant shareholders of the company.

Board meetings and working order

The Board meets regularly at least eight (8) times a year and additionally when necessary. The Board met 14 times in 2011. The average attendance of the members at the Board meetings was 97 percent.

The Board has approved a written Working Order to govern its work. The Working Order has been summarized below.

The Board of Directors shall

- review and approve of the company's strategy and guidelines and the annual business plan
- decide on significant investments, acquisitions and divestitures as well as financing arrangements
- elect a Chief Executive Officer (CEO) for the company and approve the election of members to the Executive Management and supervise that the CEO leads the company´s activities in compliance with the instructions and guidelines provided by the Board of Directors
- decide on the remuneration and benefits for CEO and approve the remuneration level for Executive Management and other employees reporting to CEO
- review and approve financial statements and interim reports
- sign and present the financial statements for approval by the Annual General Meeting and present a proposal for distribution of profits
- grant and revoke the right to represent the company
- approve the main values, policies and guidelines of the company steering the business operations
- establish and elect the members of Board committees, if needed
- evaluate the independence of the Board members
- annually assess the activities and the working manners of the Board
- be responsible for other duties or tasks set out in the Companies' Act or elsewhere

The Board's annual meeting schedule shall be confirmed by the end of previous year. For consideration and decision on a matter that cannot be postponed until the next scheduled Board meeting, an extraordinary Board meeting shall be held. A Board meeting is convened by the Chairman or, when the Chairman is prevented, by the vice Chairman. The Chairman leads the meetings. The Board constitutes a quorum when more than half of its members are present.

The Chairman prepares the meeting agenda together with the CEO. The agenda is delivered to the Board members approximately five (5) days before the meeting along with the minutes of the previous meeting and all presentation material concerning issues to be brought up at the meeting. The secretary of the Board keeps minutes of the meetings. The minutes are signed and confirmed by the secretary and the Chairman of the Board and a member elected to scrutinize the minutes.

The CEO ensures that the Board members receive information that is needed to evaluate the financial planning, liquidity and business development of the company.

Accordingly, the CEO ensures that the Board receives agreed reports about the development and operation of the company, including the development of sales, profit status and liquidity, as well as information about important events, e.g. important legal disputes, the cancellation of important agreements, the appearance of extensive liabilities or the insolvency of important clients. If necessary, the CEO will give reports directly to the Chairman and Board members even in between the Board meetings.

A Board member, CEO or a company employee shall be disqualified from the consideration of an issue pertaining to a contract or matter between the said person or his/her close relative and the company or a contract or other transaction between the company and a third party, if the person or someone close to him/her might derive an essential benefit in the matter and that benefit may be contrary to the interests of the company. A disqualified Board Member, CEO or employee may not take part in any preparation or decision making concerning the matter at the Board meeting. However, a disqualified person may be heard in order to clarify the matter.

The Board committees

In April 2011, the Board of Directors decided to establish an Audit Committee. To the Audit Committee, three (3) to five (5) members are elected for one year at the time. The members must have the qualifications required for Audit Committee's duties. The Audit Committee's duty is to prepare and assist the Board of Directors in the company's financial reporting matters and ensure that the company has an adequate internal audit system with respect to its size. In addition, the Audit Committee assists the Board of Directors in ensuring that the company's accounting and asset management are organized in a reliable manner and that the company's activities are in compliance with laws and regulations. In particular, the Audit Committee shall:

- monitor the reporting process of financial statements
- supervise the financial reporting process
- monitor the efficiency of the company's internal control, internal audit, if applicable, and risk management systems
- review the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which is included in the company's Corporate Governance Statement

- monitor the statutory audit of financial statements and consolidated financial statements
- evaluate the independence of the statutory auditor or audit firm and in particular the provision of additional services to the company
- prepare the proposal for resolution on the election of the auditor
- monitor and control the company's financial situation and its development
- assess and address compliance with laws and regulations in the company
- manage communication with the auditor and review of reports prepared for the Audit Committee by the auditor.

The Audit Committee comprises of three (3) members, Harri Koponen (Chairman), Timo Syrjälä and Hannu Turunen. The Audit Committee convened three (3) times during the year 2011. The attendance in committee meetings was 100 percent.

The compensation paid for the Board members

The fees paid to members of the Board in 2011 were confirmed by the Annual General meeting in April 2011 as follows:

The Chairman's fee is EUR 4,000 per month and a member's fee is EUR 2,000 per month. In addition, Stonesoft Corporation's Annual General Meeting has granted stock options to the Board members. No additional compensation shall be paid for participating in the meetings of the Board of Directors.

No additional compensation shall be paid for the members of the Audit Committee or for participating in the meetings of the Audit Committee meetings.

Chief Executive Officer

The Board appoints and dismisses the CEO of the company. The CEO is in charge of the day-to-day management of the Group in accordance with the Companies' Act and the instructions and orders given by the Board. The CEO may undertake acts which, considering the scope and nature of the operations of the company, are unusual or extensive, only with the authorization of the Board. The Group's Executive Management assists the CEO in his duties.

Since August, 2004, the President and CEO of Stonesoft Corporation is Mr. Ilkka Hiidenheimo, the founder and biggest shareholder (16.4% of the shares and votes) of the company.

The CEO's compensation

Stonesoft's President and CEO Mr. Ilkka Hiidenheimo did not receive any compensation for his duties during the year 2011. There is no specific retirement age set forth for the CEO. The CEO's pension is the same as Finland's Employee Pension Act TYEL provides for and that is compulsory for all Stonesoft employees. The service contract for the CEO provides for a notice period of six (6) months prior to termination with compensation being six (6) months' salary and a further optional six (6) months fixed salary in case the company terminates the contract without essential breach of contract by the CEO.

Executive Management

The CEO of the company is responsible for the operative management with the assistance of Executive Management. Executive Management convenes regularly and all issues addressed in the meetings and thereto related decisions are recorded in the meeting minutes.

The responsibilities of the Executive Management include, among others:
- Business operations management and financial performance review globally
- Annual strategic planning and implementation of the strategy
- Preparation and processing of adjustment plans that are crucial for the Group's business operations
- Preparation of global guidelines and standards of activity applicable in the Group as well as supervision of compliance with them

On December 31, 2011, the members of the Executive Management were:
- Ilkka Hiidenheimo, Chief Executive Officer
- Kim Fagernäs, Vice President of Sales
- Mika Jalava, Chief Technology Officer
- Juha Kivikoski, Chief Operating Officer
- Mikael Nyberg, Chief Financial Officer
- Ari Vänttinen, Vice President of Marketing

Additional information about the members of the Executive Management is available at www.stonesoft.com and on pages 13-14.

Risk management, internal control and internal audit

The Board of Directors of Stonesoft Corporation has primary responsibility for accounting and monitoring of financial administration of the company. The Audit Committee prepares and assists the Board in matters related to financial reporting and ensures that the company has an adequate internal audit system with respect to its size. In addition, the Audit Committee assists the Board of Directors in ensuring that the company's accounting and asset management has been organized in a reliable manner and that the company's activities are in compliance with laws and regulations also in other respects.

The Board of Directors is also ultimately responsible for risk management and internal control of Stonesoft Corporation, and the CEO is in charge of arranging the risk management and internal control in practice as well as of monitoring their functioning. Co-ordination of risk management and internal control is the responsibility of the Chief Financial Officer (CFO), who will regularly report to the CEO and to the Audit Committee. The Executive Management of the Group supports the risk management processes by considering the risks and management thereof in its meetings.

Risk management and internal control aim at ensuring that

(i) the operation of the company is effective and suited to its purpose,

(ii) financial information is reliable and
(iii) authority regulation and internal policies are complied with.

The CFO, as the coordinator of corporate risk management, creates corporate-level risk management principles, develops risk management tools and is in charge of global insurance policies. Business units must adhere to the corporate level policies and proactively contribute to the development of corporate risk management. Risk management function concentrates on

(i) evaluation and management of operational risks
(ii) management of financial risk and
(iii) management and safeguard of critical business-related information and assets.

Operational risks

The company sets financial targets annually related to budgeting and monitors them on a monthly basis. The guidance and supervision of business operations are conducted with group-wide reporting and forecasting systems the company strives to develop on a continuous basis. The product sales and related service sales are conducted 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 global business operations through continuous management and development of contracts. The company has also insured property, operational and liability risks.

Financial risks

Stonesoft does not normally provide financing, other than generally accepted terms of payment, to its customers. The company invoices mainly in Euros, the US dollar being the other major 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 principles of the policy are to:

(i) ensure the short-term liquidity of the company
(ii) guarantee efficient circulation of cash funds and
(iii) 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 have generally been invested in low risk interest bearing instruments, but during the year 2011 they have been kept on bank accounts for long periods of time while funds have been unprofitable.

The company's operations and related costs are continuously controlled.

Management and safeguard of critical business related information and assets

Stonesoft manages and safeguards its critical business information by stringent internal policies and processes. The company constantly reviews and updates its network infrastructure and actively utilizes its own products in order to protect its data infrastructure. The company has back-up systems to ensure business continuity during the unexpected.

Internal audit

Due to the small size of the company and the scope of its business operations Stonesoft does not have a separate organization for the internal audit function or a separate internal audit committee. The regular audits conducted by the audit firm in relation to the interim reports aim also for their part at evaluating the efficiency of and constant developing of risk management, internal audit and administrative processes.

The structure of the Group and the financial administration have been set up with the aim to prevent misuse, among others, through clear internal guidelines and definition of authorizations. In addition, all sales are made in the name of the parent company and local payment transactions of subsidiary companies and sales offices concern generally only salaries and other local costs.

Auditors

The auditors' task is to conduct an annual statutory audit in order to examine whether the financial statements present the financial position and results of operations of the company in conformity with generally accepted accounting principles in Finland, and that the company's internal control functions are in place and support the company's activities.

At the Annual General Meeting, the shareholders appoint one audit firm of public accountants certified by the Central Chamber of Commerce, to operate as company's Auditor, as stated in Articles of Association. The auditor's term shall begin at the end of the General Meeting that elected the Auditor and expire at the end of the next Annual General meeting. Furthermore Board's working order adds that;

(i) the Board members shall discuss the auditor's report once a year in a meeting held during the first quarter and
(ii) one of the Company's auditors should be present at the Board meeting, where the auditor's report is discussed. The Board shall review the auditors' performance annually. Prior to the Annual General Meeting, the Board shall based on the Audit Committee's proposal discuss who is to be proposed as auditors for the next financial year.

The auditor of Stonesoft is an authorized public accountant, Ernst & Young Oy, with authorized public accountant Bengt Nyholm as responsible auditor. The Stonesoft Group auditor fees were EUR 120,435.40 in year 2011. Additionally, the auditor was paid EUR 3,734.00 for the services not related to auditing as well as EUR 2,983.00 for other statements and reports.

Insiders

The Stonesoft Group complies with NASDAQ OMX Helsinki Ltd.'s guidelines for insiders, which are complemented by the company's own insider regulations.

Under the Finnish Securities Market Act, the permanent insiders of Stonesoft, based on their positions, are the members of the Board of Directors, the CEO and the auditors. Additionally, based on the company's own insider regulations, the individuals of the Executive Management are qualified as public permanent insiders, Furthermore, the individuals holding the following positions are regarded as company-specific insiders: Regional Directors, Lawyers, Controllers, Product Managers, Marketing and Communications Managers, the Chief Accountant, the Head of Order and Invoicing Team and all other persons entitled to global access to the company's sales management system Salesforce.com.

The Company's own insider regulations regulate trading with the company's shares as follows: permanent insiders must schedule their trading within four (4) weeks' time after publication of the company's financial statements release or the publication of an interim report (the so-called open window). In addition, the Board of Directors has given the following recommendations to all Stonesoft employees:

(i) Stonesoft's shares and/or other securities should be acquired only as long-term investments; and
(ii) Acquisitions and disposals of Stonesoft's shares and other securities should be scheduled for times when the markets have as detailed and accurate information as possible on factors affecting the value of the company's securities (e.g. after the disclosure of results).

STOCK EXCHANGE RELEASES IN 2011

11.1.2011	Stonesoft Corporation's Year 2010 Releases
3.3.2011	Stonesoft Corporation's Financial Statement Release for January-December 2010
16.3.2011	Notice to the Annual General Meeting of Stonesoft Corporation
21.3.2011	Stonesoft's Annual Report 2010 is Published
23.3.2011	Proposal to the AGM for the Remuneration and Composition of the Board of Directors
13.4.2011	Decisions Made by the Annual General Meeting
13.4.2011	Organizing Meeting of the Board of Directors of Stonesoft Corporation
6.5.2011	Stonesoft Corporation's Interim Report for January-March 2011
12.8.2011	Stonesoft Corporation Interim Report for January-June 2011
4.10.2011	Advance Information on the Net Sales and Product Sales During the Third Quarter: Strong Growth
21.10.2011	Stonesoft Corporation Interim Report for January-September 2011
25.10.2011	Invitation to Stonesoft's Capital Markets Day 17 November 2011
21.12.2011	Stonesoft Corporation's Financial Calender In 2012
30.12.2011	Stonesoft Share Subscriptions with Stock Options

EXECUTIVE MANAGEMENT

ILKKA HIIDENHEIMO

Founder, CEO

Born: 1960
Member of the Stonesoft Executive Management Group since 1990
Education: Studies at Helsinki University of Technology

Essential work experience:
- Stonesoft Oyj, CEO 2004-
- Stonesoft Oyj, CTO 1990-2004
- Oracle Finland, Consultant 1989-1990
- Tekla Oy, System designer and Product manager 1985-1989

Essential positions of trust:
- Teos, member of the Board
- Hiidenkivi Investment, member of the Board
- Tietotalo Infocenter, member of the Board
- Envault Corporation, member of the Board

Shares and share-based rights:
- Shares: 10 417 400 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 0 units from stock option program 2008

JUHA KIVIKOSKI

Chief Operating Officer

Born: 1970
Member of the Stonesoft Executive Management Group since 2009
Education: M.Sc., International Economics
Area of responsibility: Sales and Marketing

Essential work experience:
- Stonesoft Oyj, Chief Operating Officer, 2009-
- Siemens Enterprise Communications Ltd, CEO, 2008-2009
- Stonesoft Corporation, Vice President, Europe and Channels 2006-2008, Vice President, Marketing 2004-2006
- Cisco Systems, Finland, various sales and marketing management positions, member of the executive management in Finland, Estonia, Latvia and Lithuania
- Techdata / Computer 2000, Director, Product Marketing

Essential positions of trust: -

Shares and share-based rights:
- Shares: 0 units as a direct owning and
- units through controlled corporations
- Stock option rights: 250 000 units from stock option program 2008

MIKA JALAVA

Chief Technology Officer

Born: 1968
Member of the Stonesoft Executive Management Group since 2008
Education: Master of Science, Engineering
Area of responsibility: Product Development, Product Management, IT- and Technical Services

Essential work experience:
- Stonesoft Oyj, several positions since 1997-
- Laboratory of Water Resources Research in Helsinki University of Technology
- Information technology instructor, Porvoo Commercial College

Essential positions of trust: -

Shares and share-based rights:
- Shares: 1 200 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 80 000 units from stock option program 2008

MIKAEL NYBERG

Chief Financial Officer

Born: 1960
Member of the Stonesoft Executive Management Group since 2004
Education: Master of Science, Business Administration and Master of Science, Engineering
Area of responsibility: Finance and Order services

Essential work experience:
- Stonesoft Oyj, CFO 2004-
- Tech Data International Switzerland, Managing Director 2001-2003
- Tech Data Finland, CFO and MD 1997-2001
- Esso-group, several tasks 1985-1997

Essential positions of trust: -

Shares and share-based rights:
- Shares: 130 000 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 0 units from stock option program 2008

KIM FAGERNÄS

Vice President, Emerging and APAC

Born: 1954
Member of the Stonesoft Executive Management Group since 2006
Education: Dip. EMC
Areas of responsibility: Middle East, North Africa, Russia, APAC and Latin America

Essential work experience:
- Stonesoft Oyj, VP 2004-
- Teleste Broadband Cable Access, VP 1997-2004
- Teleste Access, Nordic Sales Director 1995-1997
- Teleste Oyj, several Sales Management tasks 1989-1995

Essential positions of trust: -

Shares and share-based rights:
- Shares: 0 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 150 000 units from stock option program 2008

ARI VÄNTTINEN

Vice President, Marketing

Born: 1969
Member of the Stonesoft Executive Management Group since 2010
Education: Master of Science, Marketing
Area of responsibility: Marketing

Essential work experience:
- Stonesoft Oyj, Vice President of Marketing, 2010-
- Talent Partners, Senior executive consultant 2007-2010
- Nokia, Services Marketing Manager 2004-2007
- IDO, Sanitec Group, Marketing Manager 1997-2004

Essential positions of trust: -

Shares and share-based rights:
- Shares: 0 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 0 units from stock option program 2008

BOARD OF DIRECTORS

HANNU TURUNEN

Chairman of the Board, Stonesoft Corporation

Born: 1957
Stonesoft Board:
- Chairman of the Board of Stonesoft 2000-2002
- Member of the Board of Stonesoft 1992-1999 and since 2007

Education: MSc. in Electrical Engineering, MBA
Main duty: Managing Partner, Magnolia Ventures

Essential work experience:
- Managing Partner, Magnolia Ventures Oy, 2001-
- President, Stonesoft Corp, 2000-2001
- CEO, Stonesoft Corp, 1992-2000
- Sales Director, Oracle Finland Oy, 1988-1992

Positions of trust:
- Chairman of the Board of BLStream Oy, Gamelion Oy, dSign Oy and Tecnotree Oyj
- Member of the Board of Men&Mice
- Member of The Finnish Association of Professional Board Members

Shares and share-based rights:
- Shares: 7 350 000 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 0 units from stock option program 2008

ILKKA HIIDENHEIMO

Member of the Board, Stonesoft Corporation

Born: 1960
Stonesoft Board:
- Founder of Stonesoft and Chairman of Board of Stonesoft 1990-1998
- Member of the Board of Stonesoft 1998-2005

Main duty: Stonesoft Corporation, CEO since 2004

Essential work experience:
- Chief Technology Officer at Stonesoft, 1990-2004
- Consult at Oracle Finland, 1989-1990
- System designer at Tekla, 1985-1989

Positions of trust:
- Member of the Board of Teos, Tietotalo Infocenter, Envault Corporation and Hiidenkivi Investment

Shares and share-based rights:
- Shares: 10 417 400 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 0 units from stock option program 2008

JUKKA MANNER

Member of the Board, Stonesoft Corporation

Born: 1972
Stonesoft Board: Member of the Board of Stonesoft since 2010
Education: M.Sc. 1999, PhD 2004, University of Helsinki
Main duty: Professor, Department of Communications and Networking (Comnet), Aalto University

Essential work experience:
- Professor of networking technology (tenured), Aalto University, 2008-
- Professor (pro tem) of computer science, TKK, 2006-2007
- Adjunct professor, computer science, University of Helsinki, 2005-
- University lecturer, computer science, University of Helsinki, 2004-2007
- Researcher, University of Helsinki, 1998-2004

Positions of trust:
- Internet Engineering Task Force, working group chair, 2008-
- Tivit FutureInternet Research Programme, academic coordinator and Member of the Steering Group, 2008-
- Kullo Golf, Captain and Member of the Board, 2004

Shares and share-based rights:
- Shares: 200 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 30 000 units from stock option program 2008

TIMO SYRJÄLÄ

Member of the Board, Stonesoft Corporation

Born: 1958
Stonesoft Board: Member of the Board of Stonesoft since 2008
Education: MSc. in Economics and Business Administration
Main duty: Managing Director, Syrjälä & Co Oy

Essential work experience:
- Head Asset Management Oy, Partner
- Aros Securities Oy, Financial Analyst
- ABB Treasury Center Oy, Head of Management Consulting
- Kouri Capital Oy, Director
- Bensow Oy, stock brokerage, Head of International Sales
- Lohja Electronics, Marketing Manager

Positions of trust:
- Orbis Oy, Member of the Board
- As Martinson Trigon, Member of the Supervisory Board

Shares and share-based rights:
- Shares: 800 185 units as a direct owning and 3 555 923 units through controlled corporations
- Stock option rights: 0 units from stock option program 2008

HARRI KOPONEN

Member of the Board, Stonesoft Corporation

Born: 1962
Stonesoft Board: Member of the Board of Stonesoft since 2011
Education: Phd. Econ h.c., EMBA, commercial college
Main duty: Oy Osaka Ltd, CEO and Chairman

Essential work experience:
- Tele2, President and CEO 2008-2010
- Wataniya Telecom Kuwait, General Manager and CEO 2004-2008
- TeliaSonera, Deputy Managing Director, 2002-2004
- Sonera Oyj, President and CEO 2001-2003
- SonyEricsson / Ericsson consumer products, EVP and GM Americas 2000-2001
- Ericsson, EVP and Global Account Executive Vodafone/Airtouch USA/UK 1998-2000
- LM Ericsson Ab, Director of Sales and several other executive positions 1994-1998
- Hewlett-Packard, Sales Manager and other managerial positions 1989-1994
- Oy Shell Ab, Office Manager and other managerial positions 1985-1989

Positions of trust:
- Tecnotree Oyj, Member of the Board
- Ainacom Oy, Member of the Board
- Oy Osaka Ltd., Chairman and CEO

•Shares and share-based rights:
- Shares: 0 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 15 000 units from stock option program 2008

BOARD OF DIRECTOR'S REPORT

SUMMARY

The comparable figures from 2010 and 2009 are in parentheses and refer to the figures for continuing operations.

- Net sales EUR 30.6 (24.3 and 23.6) million, increase 26%
- Product sales EUR 17.7 (12.7 and 12.6) million, increase 39%
- Operating result EUR -1.1 (-2.7 and -1.0) million
- Operating result as percentage of net sales -4 (-11 and -4)%
- Earnings per share EUR –0.01 (-0.04 and -0.02)
- Cash flow EUR –0.3 (-2.8 and -0.8) million
- Liquid assets at the end of the period EUR 7.7 (8.0 and 6.2) million

Reporting is done according to the International Financial Reporting Standards (IFRS). The calculation indicators for the key figures are described in the annexed information of the consolidated Financial Statements, item 31. Definitions for key indications.

Net sales

The Group's net sales totalled EUR 30.6 (24.3 and 23.6) million. Increase compared to the corresponding period in the previous year was EUR 6.3 million or 26%. The operating result (EBIT) was EUR –1.1 (–2.7 and –1.0) million.

StoneGate product sales were EUR 17.7 (12.7 and 12.6) million. Increase compared to the previous year was 39%.

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 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) %.

Result

Stonesoft's operating result (EBIT) was EUR –1.1 (–2.7 and –1.0) million, an increase of EUR 1.5 million compared to the previous year. The operating result as percentage of net sales was -4 (–11 and –4) %. The operating result after taxes was EUR –0.9 (–2.7 and –1.0) million. The earnings per share were EUR -0.01 (-0.04 and –0.02). The equity per share was EUR 0.06 (0.07 and 0.05). The dividend per share was EUR 0 (0 and 0).

The development of the company's turnover and profit are in line with the future estimates and targets announced by the company during the fiscal year 2011.

Finance and investments

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

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

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 EUR 18.1 million, of which EUR 17.7 million is accrued in Finland and EUR 0.4 million 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 totalled EUR 0.6 (0.6 and 0.3) million.

Development of business operations and strategy

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

Stonesoft's organization and sales processes are at the level required by the targets set for the year 2012. According to its selected growth strategy, Stonesoft aims to continue its decisive and persistent efforts according to its selected growth strategy to increase its net sales and result.

MAIN BUSINESS EVENTS 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. 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 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 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 2011, R&D employed altogether 85 (75 and 63) persons.

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

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).

Share capital development 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 EUR -0.7 million. 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

Division of shareholders by classes

The amount of shares 31.12.2011	Shareholders	Shares and voting rights	
	Number	Number	%
1 - 100	1 279	98 219	0.16
101 - 500	1 909	602 422	0.95
501 - 1 000	838	717 406	1.13
1 001 - 5 000	1 377	3 508 149	5.52
5 001 - 10 000	321	2 522 145	3.97
10 001 - 50 000	268	5 991 351	9.44
50 001 - 100 000	42	2 977 002	4.69
100 001 - 500 000	41	9 828 173	15.48
500 001 - 99 999 999	16	37 247 615	58.66
In total	**6 091**	**63 492 482**	**100.00**
Nominee registrations	**10**	**3 797 401**	**5.98**

Division of shareholders by sector

Shareholders by sector 31.12.2011	Shareholders Number	Shares and voting rights Number	%
Corporations	261	10 645 062	16.76
Financial institutions	15	7 261 814	11.44
Governmental institutions	3	2 446 900	3.85
Households	5 765	39 376 225	62.02
Non-profit institutions	6	2 111 609	3.33
Foreign registered	41	1 650 872	2.60
In total	**6 091**	**63 492 482**	**100.00**
Nominee registrations	**10**	**3 797 401**	**5.98**

Largest shareholders

Largest shareholders 31.12.2011	Number	%
Hiidenheimo Ilkka	10 417 400	16.4
Turunen Hannu	7 350 000	11.5
Syrjälä Timo Ownership is divided as follows: Timo Syrjälä 800 185 pcs minor under guardianship 11 900 pcs Controlled corporations Ekobrokers Oy 50 000 pcs, Maijos Oy 2 420 223 pcs, Syrjälä&Co Oy 1 085 700 pcs	4 368 008	6.9
Nordea Pankki Suomi Oyj (Incl. nominee registrations)	2 555 640	4.0
Ulkomarkkinat Oy	2 549 900	4.0
FIM Fenno Sijoitusrahasto	2 099 783	3.3
Keskinäinen työeläkevakuutusyhtiö Varma	1 715 000	2.7
Kaloniemi Markku	1 404 180	2.2
OP-Suomi Pienyhtiöt	1 100 000	1.7
Lapuan Osuuspankki	979 111	1.5
Others (incl. nominee registrations)	28 965 360	45.6
In total	**63 492 482**	**100.0**

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 Vänttinen.

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 the structure of the Group

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 a subcontractor. Stonesoft is a member of PYR (The International Register of Packaging PYR ltd). Stonesoft's products are compliant with RoHS and WEEE directives (directives for restrictions of hazardous substances in electric appliances and recycling of electric appliances).

Corporate Governance Statement

Stonesoft Corporation's Corporate Governance Statement will be issued separately from The Board of Director's report and published in the Annual Report 2011. The Audit Committee of Stonesoft Corporation's Board of Directors has reviewed and approved the Corporate Governance Statement on 14.2.2012.

Stonesoft Corporation applies the Corporate Governance Code recommendations for listed companies prepared by the NASDAQ OMX Helsinki Ltd, the Central Chamber of Commerce and the Confederation of Finnish Industries EK and published in June 2010, 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).

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 on pages 43-45.

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 percent, 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 percent 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.

STONESOFT GROUP

INCOME STATEMENT (IFRS)

(1 000 Euros)	Notes	1.1-31.12.2011	1.1-31.12.2010
Net sales	1., 2.	**30 604**	**24 341**
Other operating income	3.	904	847
Material and services		-5 240	-3 640
Personnel expenses	6.	-16 665	-14 744
Depreciation	5.	-479	-437
Other operating expenses	4.	-10 262	-9 052
Operating result		**-1 137**	**-2 685**
Financial income and expenses	7., 8.	358	217
Result before taxes		**-779**	**-2 468**
Taxes	9.	-138	-221
Result for the accounting period		**-917**	**-2 689**
Other comprehensive income			
Exchange differences on translating foreign operations		-3	-15
Total other comprehensive income		**-3**	**-15**
Total comprehensive income		-920	-2 704
Earnings per share			
Basic earnings per share (EUR)	10.	-0,01	-0,04
Diluted earnings per share (EUR)	10.	-0,01	-0,04

BALANCE SHEET (IFRS)

(1 000 Euros)	Notes	31.12.2011	31.12.2010
ASSETS			
Non-current assets			
Tangible assets	11.	700	649
Intangible assets	12.	162	112
Other financial assets	13.	10	10
Total		**872**	**771**
Current assets			
Inventories	15.	1 508	953
Trade and other receivables	16.	10 847	10 106
Prepayments	16.	220	69
Cash in hand and in bank	17.	7 710	8 016
Total		**20 285**	**19 144**
Total assets		**21 157**	**19 915**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent	18.		
Share capital		1 151	1 151
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 *)	21.	3 157	2 976
Total		**3 157**	**2 976**
Short-term liabilities			
Trade and other payables	21.	5 563	4 571
Prepayments *)	21.	8 381	7 687
Tax liabilities		126	76
Provisions	20.	58	37
Total		**14 127**	**12 372**
Total liabilities		**17 285**	**15 348**
Total equity and liabilities		**21 157**	**19 915**
*) Other liabilities consist mainly of customers advance payments of support and maintenance contracts		**11 538**	**10 663**

CASH FLOW STATEMENT (IFRS)

(1 000 Euros)	Notes	1.1.-31.12.2011	1.1.-31.12.2010
Cash flow from operating activities			
Result for the period		-1 137	-2 685
Adjustments	25.		
Operations without money transfer		316	58
Financial expenses		-106	-96
Financial income		463	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 *)	17.	**7 710**	**8 016**
*) Total cash and cash equivalents at end of the period contain pledged securities		496	477

STATEMENT OF CHANGES IN EQUITY (IFRS)

Equity attributable to equity holders of the parent (1 000 Euros)	Share capital	Share premium	Conversion differences	Reserve for invested unrestricted equity fund	Retained earnings	Total
Shareholders' equity at 1.1.2010	1 146	76 821	-936	0	-74 346	2 685
Comprehensive income	0	0	-15	0	-2 689	-2 704
Share premium termination	0	-338	0	338	0	0
Directed share issue	0	0	0	4 560	0	4 560
Transaction costs from equity	0	-3	0	-172	0	-175
Stock options exercised	5	122	0	25	0	152
Stock option expenses	0	0	0	0	49	49
Shareholders' equity at 31.12.2010	**1 151**	**76 603**	**-951**	**4 751**	**-76 986**	**4 567**

Equity attributable to equity holders of the parent (1 000 Euros)	Share capital	Share premium	Conversion differences	Reserve for invested unrestricted equity fund	Retained earnings	Total
Shareholders' equity at 1.1.2011	1 151	76 603	-951	4 751	-76 986	4 567
Comprehensive income	0	0	-3	0	-917	-920
Share premium termination	0	0	0	-71	71	0
Directed share issue	0	0	0	0	0	0
Transaction costs from equity	0	-0	0	-1	0	-1
Stock options exercised	0	0	0	54	0	54
Stock option expenses	0	0	0	0	173	173
Shareholders' equity at 31.12.2011	**1 151**	**76 602**	**-954**	**4 732**	**-77 659**	**3 873**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Corporate information

Founded in 1990, Stonesoft Corporation is a global company with corporate headquarters in Helsinki, Finland and Americas headquarters in Atlanta, Georgia. For more information, visit www.stonesoft.com. The mother company is Stonesoft Oyj. The mother company is domiciled in Helsinki with a registered address of Itälahdenkatu 22 A, 00210 Helsinki. Stonesoft Corporation's shares are quoted on the main list of NASDAQ OMX (SFT1V) Helsinki Stock Exchange.

A copy of the consolidated Financial Statements is available at the internet address www.stonesoft.com or at the Group headquarters at Itälahdenkatu 22 A, 00210 Helsinki.

Stonesoft Corporation is an innovative provider of integrated network security solutions to secure the information flow of distributed organizations. Stonesoft customers' business require advanced network security and reliable availability of applications. The Stonesoft security solution unifies firewall, VPN, IPS (intrusion detection and prevention) and SSL VPN allowing secure remote access. The solution combines network security, continuous availability and award winning load balancing into one unified, centrally managed solution. The key benefits of Stonesoft secure connectivity solution include low TCO, excellent price-performance ratio and high ROI. The virtual Stonesoft solution protects the network and ensures business continuity in both virtual and physical network environments.

Stonesoft Management Center provides unified management for Stonesoft Firewall with VPN, IPS and SSL VPN. Stonesoft Firewall and IPS work seamlessly together to provide layered defense throughout the enterprise network while Stonesoft SSL VPN provides efficient protection for mobile and remote use.

In 2010 Stonesoft discovered a significant network security threat category posed by Advanced Evasion Techniques (AETs). AETs are capable of delivering any known payload to target hosts without being detected by current security devices. In order to protect their critical digital assets, organizations need to implement a dynamic, software based security system. As the threat of AETs is ever-evolving, network protection needs to be based on centralized management capabilities, such as the Stonesoft network security solution.

The Board of Stonesoft Corporation has approved these Financial Statements for publishing in its meeting on February 15, 2012. According to the Finnish Companies Act the shareholders can approve or dismiss the Financial Statements in the Annual General Meeting held after the publication. The Annual General Meeting can also decide to change the Financial Statements.

Principles and accounting policies applied preparing the Annual Report

Basis for preparing the Financial Statements

The consolidated Financial Statements have been prepared in accordance with IFRS (International Financial Reporting Standards). IAS and IFRS standards in force 31.12.2011 as well as SIC and IFRIC interpretations have been applied. The Notes to the Financial Statements are also compliant with Finnish accounting and company legislation.

The consolidated Financial Statements have been prepared based on original acquisition values with the exception of investments, which are valued at fair values. Share based payment plans have been booked at fair values on their grant date. The consolidated Financial Statements are expressed in thousands of Euros.

Preparing the Financial Statements in accordance with IFRS requires managerial judgment when applying the standards. Information on judgment used by the management when applying the standards, which has had the biggest impact on the figures, is presented in "Principles requiring management judgment and main uncertainties related to the estimates".

The Group has since 1.1.2011 applied the following new and renewed standards and interpretations which have an impact on the Financial Statements:
-Amendment to IAS 32 Financial Instruments Presentation - Classification of Rights Issues (in force for reporting periods starting 1.2.2010 or later)
-Revised IAS 24 Related party disclosures (in force for reporting periods starting 1.1.2011 or later)
-Improvements to IFRS changes, May 2010 (in force for reporting periods starting 1.7.2010 or later)

Principles applied in preparing the consolidated Financial Statements

Group companies

The Group's consolidated Financial Statements include the parent company Stonesoft Corporation and all its daughter companies. A specification of the ownership within the Group can be found in the Notes, item 29. Related party transactions.

All the internal business transactions, receivables, liabilities and unrealized profits, as well as internal profit sharing are eliminated in the Group Financial Statements. Daughter companies disposed of are included in the consolidated Financial Statements until the date when control ceases.

During the financial period 2011 the Group established a branch office in the Kingdom of Saudi-Arabia.

Conversion of currency items

The result and financial situation of Group entities are measured in the currency primarily used in its operating environment ("operating currency"). The consolidated Financial Statements are presented in Euros, the parent company's operating and reporting currency.

Business transactions in foreign currency are booked in the operating currency using the exchange rate of the transaction date. Currency based monetary values are translated into the operating currency using the exchange rates of the closing day. Otherwise non-monetary values are translated using the transaction day exchange rates. Profits and losses arising from business transactions in foreign currency and from translating monetary items are booked in the income statement. Exchange rate profits and losses related to business transactions are included in the corresponding lines above operating result.

The income statements of foreign Group companies are translated into Euros using the weighted average exchange rate of the period. Corresponding balance sheets are translated using the exchange rate of the closing day. The translation of the result of the reporting period using different exchange rates in the income statement and in the balance sheet results in a translation difference, which is booked into the shareholders' equity.

Tangible assets

Tangible assets are valued at original acquisition prices less cumulated planned depreciation and write-offs based on impairment testing.

Repair and maintenance related to tangible assets are booked through the income statement when completed.

Depreciation on tangible assets is booked using flat rates based on the economical life expectancy. The estimated economical lives are:

Computer hardware	3-5 years
Machinery	3-5 years
Equipment	5 years
Other tangible assets	3-5 years

The remaining value and economic life of tangible assets are evaluated at each closing and, if needed, corrected to comply with the changes in the expectations of economical benefit.

Trade profits or losses arising from selling or scrapping tangible assets are included in either other operating income or costs.

Costs related to liabilities

Costs related to liabilities are booked in the period during which they originate.

Intangible assets

Research and development costs

The Group's products require ongoing research and development in order to meet the changing information security threats.

Costs related to the development of new products are not activated because, for example, the future cash flows related to them can only be properly estimated when the products hit the market. Research and development costs are booked as costs in the reporting period they are generated. No R&D costs have been activated at the closing date.

The Group has activated product development expenses in its taxation since 2008. A specification of the activations are found in the Notes items 9. Income taxes and 14. Deferred tax receivables and liabilities.

The capacity for gathering information for activation has been developed in order to be able to do so in case a development project would meet the requirements for activation.

Stonesoft Oyj had in the reporting period 2011 financing decisions from Tekes regarding the following development projects:

- The duration of the project "The protection of fast networks of critical infrastructure" was 1.3.2009 - 28.2.2011
- The duration of the project "ICT SHOK Future Internet Programme" was 1.6.2009 - 31.3.2011
- The duration of the project "Dynamic network information security" is 1.3.2011 - 28.2.2013
- The duration of the project "Strategic Centres for Science,Technology and Innovation research program" is 1.4.2011 - 31.3.2012

The Group has booked 814 thousand Euros in 2011 (775 thousand Euros in 2010) Tekes funding into other income.

Other intangible assets

Intangible assets are activated only if the acquisition value can be defined reliably and it is reasonable to assume the economical benefit that can be expected to benefit the company.

Intangible assets, which have a limited economical life, are activated at their original acquisition value and depreciated linearly based on their known or estimated economical life. Intangible assets with an indefinite economical life are not depreciated, but instead tested for impairment on a yearly basis.

The estimated useful lives of intangible assets are:

Computer software	5 years
Other intangible assets	5 years

Inventories

Inventories are valued at acquisition cost or a lower, probable net realization value. The acquisition value is based on the average cost method. Net realizable value is in the ordinary course of business less the estimated selling price less estimated selling expenses.

Leases

The Group has no leases categorized as financial leases in its financial statements for 2011 and 2010.

Leases where risks and benefits associated with ownership are with the lessor are treated as other rental agreements. Rents paid based on other rental agreements are booked as costs during the rental period. A more detailed specification of other rental agreements can be found in the Notes, item 27. Operating lease commitments.

Impairment

The Group estimates on each closing date whether there are signs indicating that the value of some assets has been impaired. If such signs appear, the potential cash flow that this asset can generate is assessed. The cash flow that can be generated through the following assets are tested on a yearly basis, regardless of signs of impairment: intangible assets with limited economical life and intangible assets under work. The impairment is tested on the level of units generating cash flow, i.e. on the lowest unit level, which is mainly independent from other units and has a cash flow, which can be separated from other cash flows.

The cash flow that an asset can generate is its fair value, less the cost of handing it over or, if higher, a value in use. The value in use means the estimated future net cash flow obtainable from the asset or the cash generating unit in question, discounted to their net present value. For financial assets the cash flow that can be generated is either the fair value or the net present value of estimated future cash flows, discounted using the effective interest rate.

Losses due to impairment are booked when the book value is greater than the value of the cash flow that can be generated by the asset. Losses trough impairment are booked through the income statement when the book value of the asset is larger than the sum of money than can be generated thereof. An impairment loss is reversed if changes in the environment occur and the cash flow that the asset can generate has changed since the impairment loss booking date. Impairment losses are not reversed with a larger amount than the originally booked impairment loss.

Employee benefits

Pensions

The pension arrangements of the Group in different countries abide with local regulations and practices.

Pension plans are classified as defined contribution plans and are recognized in the period in which the charge applies.

Share-based payment plans

The Group has stock option based incentive programs, which are paid with equity based instruments. Stock options are valued at market prices on the granting date and booked as costs evenly during the period of earning.

The cost defined at the moment of the option grant is based on the Group's estimate on the amount of options to which the right to subscribe is expected to be born at the end of the subscription period.

The fair values of the share-based payment plans are calculated using the Black-Scholes pricing model. Impacts of non-market-based conditions like profitability or a given profit growth target are not included in the fair value of the option but taken into consideration when estimating the number of options that will be vestable at the end of the earning period. The Group updates the assumptions on the final number of options at each closing date. The changes are booked through the income statement.

Provisions

A provision is booked if the Group, based on earlier transaction, has a legal or factual liability, a payment liability is probable and the magnitude of the liability can be assessed reliably. The existing provisions are related to guarantees, contracts resulting in losses and restructuring cases. If it is possible to receive compensation from a third party for part of a liability, the compensation is booked as an asset. This is only done when receiving the compensation in practice is definite. The provisions are valued at net present value of the costs required to cover the liability. A more detailed specification of the provisions is presented in the Notes, item 20. Provisions.

A guarantee provision is booked when the guarantee for a sold product granted to the customer surpasses the guarantee granted by the supplier.

The amount of the provision is based on experience of actual guarantee related costs.

Income taxes

The taxes in the income statement consist of the tax based on the income of the reporting period and deferred taxes. The tax based on the income of the reporting period is calculated for each country using their tax rate in force. Taxes are corrected for possible taxes related to previous periods.

The Group's French daughter company has been granted a 146 thousand Euro R&D subsidy in the format of a tax credit in the reporting period 2011. The research and development grant has been booked against taxes, thereby reducing them.

Deferred tax receivables have been booked up to a value against which it is likely that future taxable income will be generated and against which the difference can be applied. The Group will consider booking a potential deferred tax asset in the next financial years.

The Group has no deferred tax assets or liabilities in its financial statements for the years 2011 and 2010.

Revenue recognition – sold products and services rendered

Income from the licensing and sale of goods is recognized when the licenses and to ownership of the risks and rewards are transferred to the buyer. At this stage the Group no longer has right of disposal to or control of the product. In most cases this coincides with the delivery of the product to the customer in accordance with the delivery terms clause.

Rental income is booked linearly during the rental period. Income from services are booked when they have been delivered.

Income from support and maintenance contracts and fixed-term licenses are uniformly distributed over the contract periods.

Net sales include income from sales of products and services, corrected for indirect taxes and exchange differences related to sales in foreign currencies.

Interest and dividends

Interest income has been booked in accordance with the effective interest method. The Group booked no dividend income during the financial years 2011 and 2010.

Financial assets and financial liabilities

The Group's financial assets are classified in accordance with the IAS 39 Financial instruments: Booking and valuating standard. The classification is done based on the purpose of obtaining the financial assets, and they are classified in conjunction with the original acquisition. All purchases or sales are booked on the transaction day.

Tradeable financial assets and financial assets due within 12 months are included in short term assets. Items in this class are valued at fair value. Fair values of all items in this class are defined as published prices on functioning markets, i.e. based on purchasing prices on the closing date. Both realized and unrealized profits and losses originating from changes in fair values are booked through the income statement in the period during which they occur.

Cash in hand and in bank consists of cash, avista bank accounts and other short term, liquid investments. Assets classified as financial assets have a maximum maturity of three months calculated from their acquisition date.

The principles for defining the fair value of all financial assets and liabilities are presented in the Notes, item 24. Fair value of financial assets and liabilities.

The Group books impairment losses on Accounts receivable if there is objective proof that the receivable can not be collected in full. Significant economical problems, likelihood of bankruptcy, non-payment or payment delays in excess of 60 days are proof of impairment of receivables. In case the impairment loss in a later reporting period diminishes and the deduction can objectively be linked to a transaction taking place later than the impairment booking, the loss is reversed into a profit.

Derivative contracts and hedge accounting

The Group had no derivatives in in its balance sheet in 2011 or 2010.

Equity

The common shares issued are presented as equity.

Operating result

The IAS 1 "Presentation of Financial Statements" standard does not define Operating result. The Group has defined it as follows: Operating result is the net amount arising from adding other income to revenue, deducting cost of sales corrected for changes in inventories and cost of products taken into own use, deducting costs related to employee benefits, depreciation and possible impairments as well as other operating expenses. Foreign exchange differences are included in operating result in case they originate from operating items, otherwise they are booked in financial income and expenses.

Preparing principles requiring judgement by management and main uncertainties related to estimates done

In preparing the Financial Statements one is forced to make future estimates and assumptions, which may deviate from the final outcome.

The Group management uses judgement in choosing which principles to use and how to apply them when preparing the Financial Statements. This concerns particularly cases where the IFRS norms in force include alternative ways of booking, valuing or presenting. Areas where judgement has been used include the Group's depreciation, options, provisions and valuation of the receivables and inventory. The value of assets regarding to which judgement or assumptions have been used is estimated to be small.

Applying new or changed IFRS standards

IASB has published the following new or renewed standards and interpretations, which are not yet in force and which the Group has not applied. The Group will apply them starting from the date of validity for each of the standards and interpretations, or in case the validity date is not the first day of the reporting period, starting from the beginning of the following report period. The following reforms are estimated to impact the consolidated financial statements:

-Amendment to IFRS 7 Financial Instruments: Disclosures (in force for reporting periods starting 1.7.2011 or later)
-Amendment to IAS 19 Employee benefits (in force for reporting periods starting 1.1.2013 or later)

1. Operating segments

The segment reporting used by the Group is geographical. The segments are based on the internal organizational structures and reporting.

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 reported under the North and South America segment, has been transferred to the Emerging Markets segment and Russia, which has previously reported under the Emerging Markets segment, has been transferred to the Europe segment. The comparative figures of the operating segment report from the fiscal year 2010 have been changed according to these changes in reporting.

The segment information presented by the Group is based on internal management reporting where the valuation of assets and liabilities has been and continues to be in line with IFRS standards.

The reporting segments of the Group are:

Europe	Europe, including Russia
Emerging Markets	North Africa, Middle East and Latin America
North America	USA and Canada
APAC	Asia and the Pacific

The revenue, expenses, assets and liabilities of the segments are presented based on where the customers are geographically located.

The operating result of a segment consists of geographical sales, local costs of Group companies and cost allocations from headquarters. In allocating costs, the Group uses net sales as allocation basis.

This may impact comparability between periods. The business practices of different geographical areas differ from each other. Due to this the risks and profitability of the segments may differ from each other.

The assets and liabilities of a segment are items which the segment uses in its business and which sensibly can be attributed to the segment.

Unattributed items consist of items common to the whole Group as well as tax and financial assets. Investments consist of additions of angible assets to be used during multiple reporting periods.

Operating segments 1.1. - 31.12.2011

(1 000 Euros)	Europe	Emerging Markets	North America	APAC	Total
External net sales total	20 979	3 926	4 656	1 043	30 604
Depreciation	-415	-36	-26	-2	-479
Segment result before taxes	9 061	1 312	1 324	155	11 853
Costs allocated to the segment	-8 912	-1 664	-1 974	-441	-12 990
Segment result before taxes total	150	-352	-650	-286	-1 137
Assets					
Segment assets	14 131	1 468	1 532	501	17 632
Investments	495	51	34	1	581
Liabilities					
Segment liabilities	12 446	2 181	2 256	401	17 285

Operating segments 1.1. - 31.12.2010

(1 000 Euros)	Europe	Emerging Markets	North America	APAC	Total
External net sales total	15 825	3 844	3 712	961	24 341
Depreciation	-379	-21	-35	-2	-437
Segment result before taxes	6 761	2 109	559	95	9 524
Costs allocated to the segment	-7 697	-2 222	-1 820	-471	-12 209
Segment result before taxes total	-935	-114	-1 260	-375	-2 685
Assets					
Segment assets	9 543	2 019	948	336	12 846
Investments	474	68	19	6	566
Liabilities					
Segment liabilities	11 088	1 971	1 970	319	15 348

Reconciliations

Net sales (1 000 Euros)	2011	2010
Segment external net sales	30 604	24 341
The Group's total net sales	**30 604**	**24 341**
Result before taxes (1 000 Euros)	**2011**	**2010**
Segment result before taxes	11 900	9 232
Costs allocated to the segment	-12 680	-11 700
The Group's total result before taxes	**-779**	**-2 468**
Assets (1 000 Euros)	**2011**	**2010**
Segment assets	17 632	12 846
Unallocated assets	3 526	7 069
The Group's total assets	**21 158**	**19 915**
Liabilities (1 000 Euros)	**2011**	**2010**
Segment liabilities	17 285	15 348
The Group's total liabilities	**17 285**	**15 348**

2011 (1 000 Euros)	Segment total	Corrections	Group total
Investments	581	0	581
Depreciation	-479	0	-479
2010 (1 000 Euros)	**Segment total**	**Corrections**	**Group total**
Investments	566	0	566
Depreciation	-437	0	-437

2. Net sales

(1 000 Euros)	2011	2010
Income from sales of software	2 063	1 523
Income from sales of services	12 832	11 605
Income from sales of appliances	15 630	11 169
Other sales	80	46
Total	**30 604**	**24 341**

The Group has no unfinished long-term assets in its financial statements in 2011 and 2010.

3. Other operating income

(1 000 Euros)	2011	2010
Public grants TEKES	814	775
Other public grants	24	0
Others	67	72
Total	**904**	**847**

4. Other operating expenses

(1 000 Euros)	2011	2010
Optional personnel expenses	302	365
Leasing and other building expenses	1 436	1 367
Office expenses	600	570
EDP-expenses	795	692
Travel expenses	1 078	993
Car expenses	188	153
Entertainment expenses	238	218
Marketing expenses	2 495	1 701
Telephone expenses	384	399
External services	2 311	2 311
Other expenses	435	282
Total	**10 262**	**9 052**

Auditors' fees

(1 000 Euros)	2011	2010
Auditors	120	115
Certificates and statements	3	2
Other services	4	7
Total	**127**	**124**

5. Depreciation, amortization and impairment

(1 000 Euros)	2011	2010
Depreciation and amortization by asset type		
Intangible assets		
Other intangible assets	70	55
Tangible assets		
Machinery and equipment	401	375
Other tangible assets	8	7
Total	**479**	**437**

6. Personnel expenses

(1 000 Euros)	2011	2010
Wages and salaries	13 619	12 055
Pensions – defined contribution plans	1 396	1 207
Granted share based and paid options	173	49
Other personnel costs	1 477	1 433
Total	**16 665**	**14 744**

Average number of personnel in Group	2011	2010
Europe	166	153
Emerging Markets	15	13
North America	19	19
APAC	7	6
Total	**207**	**191**

Information on benefits offered to the management is presented in the Notes, item 29. Related party transactions. Information on granted options are presented in the Notes, item 19. Share based payment plans.

7. Financial income

(1 000 Euros)	2011	2010
Interest income	54	26
Exchange gains	124	134
Sales profit of securities held for trading	281	150
Other financial income	3	6
Total	**463**	**316**

Exchange gains included in operating result total 385 thousand Euros in 2011 (307 thousand Euros in 2010).

8. Financial expenses

(1 000 Euros)	2011	2010
Interest expenses	1	0
Exchange expenses	99	95
Other financial expenses	5	4
Total	**105**	**99**

Exchange losses included in operating result total 162 thousand Euros in 2011 (195 thousand Euros in 2010).

9. Income taxes

(1 000 Euros)	2011	2010
Current income tax for the year	138	223
Current income tax of previous years	0	-1
Total	**138**	**221**

The Group's French daughter company has been granted a 146 thousand Euro R&D subsidy in the format of a tax credit in the reporting period 2011.

Other taxes related to comprehensive income

2011 (1 000 Euros)	Before taxes	Tax effect	After taxes
Conversion differences	-3	0	-3
Total	**-3**	**0**	**-3**

2010 (1 000 Euros)	Before taxes	Tax effect	After taxes
Conversion differences	-15	0	-15
Total	**-15**	**0**	**-15**

Reconciliation of taxes booked in the income statement in Finland and the taxes calculated using 26% tax rate:

(1 000 Euros)	2011	2010
Profit before tax	-779	-2 468
Tax calculated at Finnish statutory tax rate	-203	-642
Unrecognized tax receivables of losses	8	33
Effect of different tax rates in foreign subsidiaries	22	-8
Income not subject to tax	-8	-31
Expenses not deductible for tax purposes	92	10
Temporary differences	1 576	1 330
Previously unbooked usage of tax losses	-1 270	-507
Current income tax of previous years	0	-1
Other	-80	37
Tax charge	**138**	**221**

When calculating the taxable income the Group has activated 5 598 thousand Euros of product development costs in 2011 (4 915 thousand Euros in 2010).

10. Earnings per share

The non-diluted earnings per share is calculated by dividing the profit of the reporting period belonging to the owners of the parent company by the weighted average of outstanding shares.

When calculating the diluted earnings per share the weighted number of outstanding shares includes the full impact of all potential shares causing dilution. The diluting instruments of the Group adding the number of shares are share options. The share options have a diluting impact when the vesting price is lower than the fair price of the share. The dilution effect is the number of shares that need to be issued at nil cost since the company could not issue the same amount of shares against fair value with the funds received for exercising the options. The fair value of shares is based on the average price of the share during the reporting period.

(1 000 Euros)	2011	2010
Profit attributable to equity holders of the parent company	-917	-2 689
Weighted average number of shares outstanding (1 000 pcs)	63 316	61 855
Effect of issued share options (1 000 pcs)	668	858
Diluted weighted average number of shares outstanding (1 000 pcs)	64 019	62 833
Diluted earnings per share (1 EUR)	-0,01	-0,04

11. Tangible assets

(1 000 Euros)	Machinery and equipment	Other tangible assets	Total
Acquisition cost at 1.1.2011	3 015	1 246	4 261
Correction for the acquisition cost	172	6	178
Additions	424	143	568
Disposals	-147	-104	-251
Acquisition cost at 31.12.2011	**3 464**	**1 291**	**4 756**
Accumulated depreciation at 1.1.2011	2 400	1 211	3 612
Correction to the accumulated depreciation	174	6	180
Depreciation during the financial year	401	8	409
Disposals	-145	0	-145
Accumulated depreciation at 31.12.2011	**2 830**	**1 225**	**4 055**
Book value at 1.1.2011	614	35	649
Book value at 31.12.2011	634	66	700

(1 000 Euros)	Machinery and equipment	Other tangible assets	Total
Acquisition cost at 1.1.2010	2 841	1 215	4 056
Correction for the acquisition cost	8	0	8
Additions	661	142	803
Disposals	-495	-111	-606
Acquisition cost at 31.12.2010	**3 015**	**1 246**	**4 261**
Accumulated depreciation at 1.1.2010	2 359	1 202	3 561
Correction to the accumulated depreciation	0	0	0
Depreciation during the financial year	373	9	382
Disposals	-332	0	-332
Accumulated depreciation at 31.12.2010	**2 400**	**1 211**	**3 612**
Book value at 1.1.2010	482	13	494
Book value at 31.12.2010	614	35	649

The tangible assets do not include assets rented through financial leasing contracts in 2011 and 2010.

The acquisition value remaining after depreciation of machinery and equipment in tangible assets is 634 thousand Euros in 2011 (614 thousand Euros in 2010).

12. Intangible assets

(1 000 Euros)	Other intangible assets
Acquisition cost at 1.1.2011	1 682
Correction to acquisition cost	-20
Additions	133
Disposals	-49
Acquisition cost at 31.12.2011	**1 746**

(1 000 Euros)	Other intangible assets
Accumulated depreciation at 1.1.2011	1 571
Correction to the accumulated depreciation	-21
Additions	70
Disposals	-36
Accumulated depreciation at 31.12.2011	**1 584**
Book value at 1.1.2011	112
Book value at 31.12.2011	162

(1 000 Euros)	Other intangible assets
Acquisition cost at 1.1.2010	1 711
Correction to the acquisition cost	-50
Additions	30
Disposals	-8
Acquisition cost at 31.12.2010	**1 683**
Accumulated depreciation at 1.1.2010	1 535
Correction to the accumulated depreciation	-12
Additions	55
Disposals	-8
Accumulated depreciation at 31.12.2010	**1 571**
Book value at 1.1.2010	176
Book value at 31.12.2010	112

13. Other investments and marketable securities

(1 000 Euros)	2011	2010
Available for sale financial assets		
Unquoted equity investments	10	10
Total	**10**	**10**

The Group has decided to book investments in interest bearing instruments made during the reporting period at fair values as securities held for trading. The Group has no assets held for sale in its financial statements 2011 or 2010.

During the accounting periods 2011 and 2010, the Group has not re-classified neither financial assets booked at fair value through profit/loss nor assets valued at amortized cost.

Securities held for trading consist primarily of mutual money market funds and all are in Euros. The principles for defining fair values is defined in the Notes, item 24. Fair value of financial assets and liabilities.

Profits from securities held for trading are presented in the Notes, item 7. Financial income, and losses in the Notes, item 8. Financial expenses.

During the financial years 2011 and 2010 the Group did not sell any unquoted shares.

14. Deferred tax receivables and liabilities

The Group has cumulated, taxable losses for a total of 73 853 thousand Euros at the closing on the 31.12.2011 (loss confirmed in 2010 taxation is 77 099 thousand Euros). 2 597 thousand Euros of the cumulated taxable losses expire in 2011 and the rest in the years 2012-2017. The Group is not certain that the parent company will generate corresponding amounts of taxable income within the time frame during which the losses could be utilized. No deferred tax income has been booked related to the cumulated loss.

When calculating the taxable income the Group has activated 5 598 thousand Euros of product development costs in 2011 (4 951 thousand Euros in 2010). In total, the Group has activated product development costs in taxation for 18 014 thousand Euros in 2011 (12 416 thousand Euros in 2010).

15. Inventories

(1 000 Euros)	2011	2010
Finished goods	1 410	953
Materials and supplies	14	0
Goods in transit	84	0
Total	**1 508**	**953**

The book value of inventories has been changed to correspond to its net market value. In the reporting period 2011 178 thousand Euros of devaluation has been booked (as income of 1 thousand Euros in 2010).

16. Trade and other receivables

(1 000 Euros)	2011	2010
Trade receivables	9 158	8 685
Prepayments	220	69
Accrued incomes	1 108	1 219
Other receivables	582	203
Total	**11 067**	**10 175**

Writedowns on unsure receivables have been reduced in 2011 for a total value of 140 thousand Euros (as income of 236 thousand Euros in 2010).

The Group has entered as income from credit losses recorded in accounts receivable 4 thousand Euros in 2011 (income of 11 thousand Euros in 2010). The Balance Sheet values equal the amount of money, which are estimated to be received. No major concentration of credit risk is linked to the receivables. At the end of the reporting period 2011 the Group has a credit guarantee from Finnvera related to a significant receivable.

The main items in accrued incomes are related to fixing of costs to the correct reporting period.

The ageing analysis of trade receivables is as follows:

The ageing analysis of trade receivables

(1 000 Euros)	2011	Impairment losses	Netto 2011
Non-overdue	**6 812**		**6 812**
Past due			
Less than 30 days	1 905		1 905
30-60 days	308		308
61-90 days	158	26	132
Over 90 days	138	138	0
Total	**9 321**	**164**	**9 158**

(1 000 Euros)	2010	Impairment losses	Netto 2010
Non-overdue	**7 676**	**0**	**7 676**
Past due			
Less than 30 days	616	0	616
30-60 days	356	0	356
61-90 days	49	10	38
Over 90 days	12	14	-2
Total	**8 709**	**24**	**8 685**

17. Cash on hand and on deposit

(1 000 Euros)	2011	2010
Cash and bank	7 710	8 016
Total	**7 710**	**8 016**

Total cash and cash equivalents include client- and rent contract-based pledged securities for a total of 496 thousand Euros in 2011 (477 thousand Euros in 2010).

18. Share capital of the parent company

(1 000 Euros)	Number of shares	Share capital	Share premium	Reserve for invested unrestricted equity fund	Total
31.12.2009	**57 302 732**	**1 146**	**76 821**	**0**	**77 967**
31.12.2010	**63 312 482**	**1 151**	**76 603**	**4 751**	**82 504**
Booking of the loss of the previous financial year from the SVOP Fund	0	0	0	-71	-71
Transaction costs from equity	0	0	0	-1	-1
Stock options exercised	180 000	0	0	54	54
31.12.2011	**63 492 482**	**1 151**	**76 602**	**4 732**	**82 485**

Stonesoft Corporation has one class of shares. All issued shares are fully paid.

A description of the equity reserves is presented below:

Share premium

In those cases where stock option decisions have been taken under the old corporate law (29.9.1978/734) the payments received from subsriptions based on options have been booked into share capital and share premium as per the option program, transaction costs deducted.

Invested non-restricted equity fund

The invested non-restricted equity fund contains other own capital investments and the part of share subscriptions for which there is no specific decision to book it into share capital. For share suscriptions done based on option programs decided upon after the new corporate law (21.7.2006/624) came into effect (1.9.2006) received payments are in entirity booked into the invested non restricted equity fund.

Foreign currency translation

The foreign currency translation reserve consists of translation differences arising from translating foreign units' Financial Statements.

Dividends

After the closing date the Board has proposed that no dividends will be paid. During years 2011 and 2010 no dividends have been paid.

19. Share based payment plans

Share based stock options expire unless they are vested before or on the vesting date defined in the option plan. Stock options are lost if the person leaves the company before he/she has the right to exercise the stock options. In 2011 Financial Statements, the Group had one valid option program in place for its employees. The main terms of the stock option programs are presented below.

A total of 173 thousand Euros has been booked as provisions against equity for benefits of employment based on stock options during the reporting period 2011 (49 thousand Euros in 2010). A cost of 108 thousand Euros in 2012 is estimated to arise from the stock options.

Stock Option Plan 2008

The Board of Stonesoft Corporation approved the option plan 6.5.2008 and 17.6.2008.

Under the Stock Option Plan a maximum of 3 000 000 option rights are offered, deviating from the stock owners subscription rights, to the Stonesoft Group companies' members of the Board of Directors, other management and personnel. Each option right entitles to subscribing one Stonesoft share. The subscription periods start as follows: March 1. 2010, March 1. 2011, March 1. 2012 and March 1.2013. The subscription period ends for all option rights on December 31. 2014. The exercised price is 0,30 Euro.

The terms of the option plans are the following:

Option right	Subscription price for one share	Subscription period	Options
Option plan 2008 A	0,30	1.3.2010 - 31.12.2014	368 750
Option plan 2008 B	0,30	1.3.2011 - 31.12.2014	428 750
Option plan 2008 C	0,30	1.3.2012 - 31.12.2014	512 500
Option plan 2008 D	0,30	1.3.2013 - 31.12.2014	512 500

The Group uses the Black-Scholes model for option plans for which there are no special conditions. The expected volatility has been defined as the historic volatility of the Group's shares. The historic volatility is calculated as the weighted average for the vesting period of the options.

The changes in options and weighted average exercise prices during the reporting period are:

Amount of option rights issued	2011 weighted average exercise price Euros/share	Number of options	2010 weighted average exercise price Euros/share	Number of options
At the beginning of the financial year	0,41	1 975 250	0,42	2 251 250
Correction to the options granted	0,30	-30 000	0,00	0
Allocated new options	0,30	930 000	0,30	125 000
Forfeited options	0,30	-22 500	0,30	-91 250
Exercised stock options	0,30	-180 000	0,49	-309 750
Expired options	0,56	-850 250	0,00	0
At the end of the financial year	**0,30**	**1 822 500**	**0,41**	**1 975 250**
Vested options outstanding at end of the financial year	0,30	797 500	0,46	1 352 750
Vested options during the financial year	0,30	180 000	0,49	309 750

Outstanding options at the end of the financial year:

Ending of exercised	Subscription price (Euros)	2011 number of shares	2010 number of shares
2010	0,56	0	850 250
2014	0,30	1 822 500	1 125 000
Total		**1 822 500**	**1 975 250**

The fair value of the shares in the option programmes, based on which shares are granted, have been based on actual share prices. Payments of dividends are not foreseen and therefore the calculation of the fair value of the options also excludes dividends.

Options granted during the financial year 2011	2008C	2008D	2008C	2008D
Date of issue	13.4.2011	13.4.2011	25.5.2011	25.5.2011
Issued number	15 000	15 000	450 000	450 000
Subscription price	0,30	0,30	0,30	0,30
Share price on the date of issue	0,62	0,62	0,57	0,57
Number of persons on the date of issue	2	2	12	12
Expected volatility	47 %	47 %	47 %	47 %
Risk-free interest	2,9 %	3,2 %	2,9 %	3,2 %
Maturity, years	2,3	2,8	2,2	2,7
Subscription period starts	1.3.2012	1.3.2013	1.3.2012	1.3.2013
Subscription period ends	31.12.2014	31.12.2014	31.12.2014	31.12.2014
Share price 31.12.2011	0,86	0,86	0,86	0,86
Fair value of 31.12.2011	12 900	12 900	387 000	387 000

Options granted during the financial year 2010	2008C	2008D	2008C	2008D
Date of issue	22.4.2010	22.4.2010	9.9.2010	9.9.2010
Issued number	22 500	22 500	40 000	40 000
Correction to the options granted	-7 500	-7 500	0	0
Forfeited options	-7 500	-7 500	0	0
Subscription price	0,30	0,30	0,30	0,30
Share price on the date of issue	0,95	0,95	0,66	0,66
Number of persons, date of issue	2	2	2	2
Expected volatility	67 %	67 %	65 %	65 %
Risk-free interest	2,4 %	2,6 %	1,8 %	1,9 %
Maturity, years	3,3	3,8	2,9	3,4
Subscription period starts	1.3.2012	1.3.2013	1.3.2012	1.3.2013
Subscription period ends	31.12.2014	31.12.2014	31.12.2014	31.12.2014
Share price 31.12.2010	0,58	0,58	0,58	0,58
Fair value of 31.12.2010	13 050	13 050	23 200	23 200

20. Provisions

(1 000 Euros)	Guarantee provision	Other provisions	Total
31.12.2010	21	17	37
Additional provisions	36	5	41
Used provisions	-21	0	-21
Utilized during year	0	0	0
31.12.2011	**36**	**21**	**58**
(1 000 Euros)		**2011**	**2010**
Short term		58	37
Long term		0	0
Total		**58**	**37**

Guarantee provision

In some cases the Group grants guarantees to customers which exceed the guarantee granted by the supplier. During the guarantee period the faults of the products are corrected or the customer is given a corresponding product, cost covered by the Group. At the end of 2011 guarantee provisions were 36 thousand Euros (21 thousand Euros in 2010). The guarantee provision is based on experience of faulty products in previous years. The guarantee provisions are expected to be used during the next two years.

Other provisions

Other provisions are related to possible costs in conjunction with personnel arrangements.

21. Trade and other payables

(1 000 Euros)	Notes	2011	2010
Short term payables valued at amortized cost			
Trade payables	24.	2 320	1 625
Accrued expenses		2 664	2 330
Prepayments		8 381	7 687
Other	24.	578	616
Long term payables valued at amortized cost			
Prepayments		3 157	2 976
Short term and long term total		**17 101**	**15 234**

The material items in prepayments consist of periodizations of sold maintenance contracts, prepaid by customers. Fair value of trade and other payables are presented in the Notes, item 24. Fair value of financial assets and liabilities.

22. Management of financial risks

The Group is exposed to financial risks in its regular business. The aim of the Group's risk management is to minimize negative impacts of changes on financial markets to the Group's income. The Group's largest financial risk is the currency risk. The general risk management principles of the Group are approved by the Board and the execution lies with the finance department.

Foreign currency risk

The Group operates on four continents but uses as its main invoicing currency Euros and to a lesser extent US dollars. The cost structure forward contracts were used in financial year 2011 to hedge USD receivables. The cost structure also consists mainly of Euros, to a lesser extent US dollars and of currencies linked to both of these. Transaction risks are managed based on the net position using, when required, forward contracts or options. There are no forward contracts open in the 2011 and 2010 balance sheets. The balance sheets of the daughter companies do not contain notable balance items whereby the conversion risk is deemed low.

The operating currency of the parent company is Euro. Assets and liabilities in foreign currencies transformed into Euros using the values of the closing date are:

Nominal values (1000 Euros)	2011 USD	2011 GBP	2010 USD	2010 GBP
Current assets				
Trade and other receivables	2 431	61	2 035	35
Short-term liabilities				
Non-interest bearing liabilities	672	107	363	63
Open position	1 759	-46	1 672	-28

The effect of the Euro strengthening or weakening vs the US dollar is shown in the table below, assuming all other factors unchanged. The change percentages represent the average volatility of the corresponding 12 months. The sensitivity analysis is based on the assets and liabilities in USD on the day of closing.

The change in US dollars would primarily have been related to receivables and non-interest bearing liabilities.

(1 000 Euros)	2011 USD	2010 USD
Increase / decrease	7,0 %	-0,7 %
Effect on profit after tax	-185	10

The Group has no interest bearing debt and therefore no need for protection related to interest risk.

Market risk related to investments

The Board has defined a policy for investing liquid funds. As per this policy funds are invested in low risk, short term interest bearing papers. The investments consist mainly of Euro-based instruments linked to short term interest rates with a remaining duration of maximum one year. The general development of the interest markets in the Euro area impacts the value of these investments. Due to the instability of the financial markets the funds have at times been kept in fixed-term deposits, spread over different domestic banks in the reporting periods 2011 and 2010. The Group did not have any financial investments in its financial statements 2011 and 2010.

Credit risk

The credit extending principles are defined in the Group's credit policy. As per these principles the credit risks related to an individual customer are linked to the strength of that company. Credit ratings provided by outside sources as well as published Income statements and Balance sheets are utilized to define this strength. As the Group is working with a large number of partners the credit risk is spread and lowered. Continuous customer specific follow up and active collection form the basis of the credit management. At the end of the reporting period 2011 the Group has a significant credit guarantee from Finnvera and has during the year used Letters of Credit on a case by case basis.

The Group does not have any significant pools of receivables and credit risk related thereto. During the financial year 2011 the Group booked 4 thousand Euros as income from credit losses (11 thousand Euros booked as income in 2010). The credit losses were a result of sudden, unexpected changes in the customers' economical environment. The age distribution of the receivables has been presented in the Notes, item 16. Trade and other receivables.

Liquidity risk

The liquidity risk of the Group is petty since the invested funds, which are sizeable in comparision with the cash flow, are kept in short term interest funds or depositions and therefore are available on a next day basis. The Group does not hedge the liquidity risk.

The table below shows a maturity analysis based on contracts. The figures are not discounted and include both interest and capital payments.

2011 (1 000 Euros)	Balance Sheet value	Cash flow	Less than 1 year
Trade and other payables	2 320	2 320	2 320
2010 (1 000 Euros)	**Balance Sheet value**	**Cash flow**	**Less than 1 year**
Trade and other payables	1 625	1 625	1 625

Commodity risk

As sales are primarily appliance based, the availability of certain components and price fluctuation of these components may create a commodity risk. This risk is estimated to be small. The Group has spread its appliance purchasing to multiple suppliers thereby reducing its subcontracting risk. If the commodity risk materializes there may be delays in deliveries. No hedging methods are used related to the commodity risk.

Capital management

The Group's financing structure became own capital oriented in the public offerings at the time of the millennium, primarily Euro based. The conversion risk of capital is deemed very small.

The Group's capital structure is monitored by gearing. The Group has no interest bearing liabilities end of year 2011 and 2010. The gearing was -1.99 in 2011 (-1.75 in the reporting period 2010). In calculating the gearing, the net interest bearing liabilities are divided by own capital.

(1 000 Euros)	2011	2010
Cash and cash equivalents	-7 710	-8 016
Shareholders' equity total	3 873	4 567
Net gearing	-1,99	-1,75

23. Financial assets and liabilities by categories

Financial assets and liabilities in the tables below are divided into categories in accordance with IAS 39. The categories are further divided into classes, which are the basis for valuing respective assets or liability. Further information can be found in the Notes referred to in the table.

Financial assets by categories 2011 (1 000 Euros)	Notes	Loans and receivables Amortised cost	Total financial assets
Financial instruments in non-current assets			
Trade receivables	16.	9 158	9 158
Cash and cash equivalents	17.	7 710	7 710
Total		**16 867**	**16 867**

Financial assets by categories 2010 (1 000 Euros)	Notes	Loans and receivables Amortised cost	Total financial assets
Financial instruments in current assets			
Trade receivables	16.	8 685	8 685
Cash and cash equivalents	17.	8 016	8 016
Total		**16 701**	**16 701**

Financial liabilities by categories 2011 (1 000 Euros)	Notes	Other financial liabilities Amortised cost	Total financial liabilities
Financial instruments in current liabilities			
Trade payables	21.	2 320	2 320
Total		**2 320**	**2 320**

Financial liabilities by categories 2010 (1 000 Euros)	Notes	Other financial liabilities Amortised cost	Total financial liabilities
Financial instruments in current liabilities			
Trade payables	21.	1 625	1 625
Total		**1 625**	**1 625**

24. Fair value of financial assets and liabilities

The fair values of financial assets and liabilities include non-interest bearing components of the net working capital, investments booked at fair value and financial lease debts valued at book values.

Investments in shares, mutual funds and other investments

In the Financial Statements 31.12.2011 there are non-quoted shares in the continuous operations assets for a total of 10 thousand Euros (10 thousand Euros in 2010). These non-quoted equity investments are valued at cost, because their measurement at fair value is impossible.

The financial assets booked at fair values are either tradable or then the value used by the counterparts purchasing price on the closing data has been used.

Derivatives

The Group has no open derivatives in its Financial Statements 2011 and 2010.

Financial lease liabilities

The Group has no finance lease liabilities of the Financial Statements for 2011 and 2010.

Accounts receivable and other receivables

The original book value of receivables equal their fair value since discounting would have no material impact due to the maturity of receivables.

Accounts payable and other liabilities

The original book value of accounts payable and other liabilities equal their fair value since discounting would have no material impact due to the maturity of liabilities.

25. Adjustments for cash flow from operating activities

(1 000 Euros)	2011	2010
Non-cash transacting		
Depreciations	479	437
Decrease in fair values	81	-237
Employment benefits	173	49
Exchange rate differences	-3	0
Deferred transactions	-396	-229
Other transactions	0	39
Financial expenses	-106	-96
Financial incomes	445	316
Fair value gains/loss of financial instruments held for trading	0	148
Total	**672**	**426**

26. Subsidiaries

The information is presented in the Notes, item 29. Related party transactions.

27. Operating lease commitments

Group as leaseholder

Minimum rents to be paid based on non-revocable lease contracts:

(1 000 Euros)	2011	2010
In less than one year	996	882
Between one and five years	973	1 445
Total	**1 970**	**2 327**

The Group rents the offices it utilizes. The remaining duration of the rental contracts is 0–5 years. Normally the contracts include prolongation options past the original ending date. The index, renewal and other terms and conditions differ from contract to contract.

The income statement for year 2011 contains rents paid based on rental agreements for a total of 1 199 thousand Euros (1 157 thousand Euros in 2010).

28. Contingent liabilities

(1 000 Euros)	2011	2010
Other contingent liabilities		
Other contingent liabilities	223	94

Disputes and litigations

Stonesoft corporation was since 2010 involved in an arbitration process, in which claims and counterclaims had been posed, with a former appliance supplier. The matter has been settled and finished during 2011.The reservation linked to the arbitration has been dissolved.

Furthermore there was an open employment dispute against Stonesoft Corporation, which has been settled in 2012. There is still one open employment dispute against a daughter company of Stonesoft Corporation which the management deems as minor and against which a reservation has been made in the books. The open dispute will have no substantial impact on Group result or its financial situation.

29. Related party transactions

Related parties include Group companies, Board members, Chief Executive Officers and members of the Management Group. Transactions related to products and services done with related parties are based on market prices.

The parent and the Group companies are:

Company	Home country	Ownership %	Voting right %
Parent company Stonesoft Oyj	Finland, Helsinki		
Stonesoft Finland Oy	Finland, Helsinki	100,00	100,00
Stonesoft Inc	USA, Atlanta	100,00	100,00
Stonesoft AB	Sweden, Stockholm	100,00	100,00
Stonesoft Networks (UK) Ltd	Great Britain, Surrey	100,00	100,00
Stonesoft France S.A.S.	France, Sophia Antipolis	100,00	100,00
Stonesoft Germany GmbH	Germany, Frankfurt	100,00	100,00
Stonesoft Espana S.A.	Spain, Madrid	100,00	100,00
Stonesoft Canada Inc	Canada, Ontario	100,00	100,00
Stonesoft Poland Sp.z.o.o	Poland, Kracow	100,00	100,00
Stonesoft Italy S.r.l	Italy, Milan	100,00	100,00
Stonesoft Tunis SARL	Tunis, Ariana	100,00	100,00
BVBA Stonesoft Belgium	Belgium, Diegem	100,00	100,00

Employee benefits of Directors and Executive Officers (1 000 Euros)	2011	2010
Salaries and other short term employee benefits	718	740
Other long term payments	0	9
Share based payments	94	27
Total	**812**	**775**

Remuneration for Board of Directors and Managing Directors (1 000 Euros)	2011	2010
Managing Directors	0	0
Board of Directors		
Turunen Hannu, Chairman of the Board since 13.4.2011	32	0
Viljo Matti, Chairman of the Board until 13.4.2011	12	68
Hiidenheimo Ilkka	0	0
Koponen Harri 13.4.2011 since	19	0
Piela Topi 22.3.2010 until	0	13
Manner Jukka 22.3.2010 since	31	19
Syrjälä Timo	31	28

The impacts of the stock options are presented in the Notes, item 19. Share based payment plans.

280 000 options have in 2011 been awarded to the management of the mother company and its board (45 000 in 2010). 22 500 awarded options were forfeited in 2011 (51 250 in 2010). The terms of the options for Management and the Board are equal. Management and the Board possess a total of 525 000 awarded options in 2011 (915 000 in 2010) out of which 230 000 are subscribable in 2011 (652 500 in 2010). 390 000 of Management and Board owned options expired in 2011 (0 in 2010).

30. Events after the Balance Sheet Date

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.

31. Key Ratios

(1 000 Euros)	IFRS 2011	IFRS 2010	IFRS 2009	IFRS 2008	IFRS 2007
Net sales	30 604	24 341	23 597	24 427	19 020
Net sales change-%	26 %	3 %	-3 %	28 %	15 %
Operating result	-1 137	-2 685	-1 048	-2 286	-6 514
% of Net sales	-4 %	-11 %	-4 %	-9 %	-34 %
Result before taxes	-779	-2 468	-731	-2 010	-6 312
% of Net sales	-3 %	-10 %	-3 %	-8 %	-33 %
Result for the accounting period	-917	-2 689	-971	-2 043	-4 212

(1 000 Euros)	IFRS 2011	IFRS 2010	IFRS 2009	IFRS 2008	IFRS 2007
% of Net sales	-3 %	-11 %	-4 %	-8 %	-22 %
Return on equity (ROE) %	-22 %	-74 %	-31 %	-49 %	-85 %
Return on investment (ROI) %	-16 %	-65 %	-19 %	-40 %	-78 %
Equity ration %	40 %	49 %	40 %	46 %	52 %
Net gearing	-1,99	-1,75	-2,31	-1,99	-1,46
Capital investments	581	566	328	488	495
% of Net sales	2 %	2 %	1 %	2 %	3 %
R&D costs	6 131	5 639	4 918	5 230	5 285
% of Net sales	20 %	23 %	21 %	21 %	28 %
Number of employees (weighted average)	207	191	178	183	181
Number of employees at the end of the year	222	201	174	185	181
Earnings per share	-0,01	-0,04	-0,02	-0,04	-0,11
Equity per share	0,06	0,07	0,05	0,06	0,10
Dividend	0,00	0,00	0,00	0,00	0,00
Dividend per share	0,00	0,00	0,00	0,00	0,00
Dividend/profit %	0 %	0 %	0 %	0 %	0 %
Average number of shares adjusted for share issue	63 316 427	61 855 279	57 723 942	57 307 748	57 302 732
Number of shares adjusted for share issue at year end	64 328 315	64 283 238	57 727 732	57 309 875	57 302 732

Definitions for key indications

Return on equity (ROE) % $\dfrac{\text{(Profit before taxes - taxes) x 100}}{\text{Equity + minority interest}}$

Return on investment (ROI) % $\dfrac{\text{(Profit before taxes + interest expenses + net other financial expenses) x 100}}{\text{Balance sheet total - Interest-free liabilities (average)}}$

Equity ration % = $\dfrac{\text{(Equity + minority interest) x 100}}{\text{Balance sheet total - advances received}}$

Net gearing = $\dfrac{\text{Interest bearing net debt - cash in hand and on deposit - marketable securities}}{\text{Equity + minority interest}}$

Earnings per share = $\dfrac{\text{Profit before taxes - minority interest - taxes}}{\text{Average number of shares outstanding}}$

Equity per share = $\dfrac{\text{Equity}}{\text{Issue-adjusted number of shares at December 31}}$

Dividend per share = $\dfrac{\text{Total dividend}}{\text{Issue-adjusted number of shares at December 31}}$

Dividend & profit % = $\dfrac{\text{Total dividend x 100}}{\text{Earning per share}}$

PARENT COMPANY INCOME STATEMENT (FAS)

(1 000 Euros)	Notes	1.1.-31.12.2011	1.1.-31.12.2010
Net sales	1.	**30 604**	**24 341**
Other operating income	2.	904	847
Materials and services	3.	-5 240	-3 640
Personnel costs	4.	-8 276	-7 214
Depreciations and reduction in value	5.	-364	-335
Other operating expenses	6.	-19 226	-17 275
Operating result		**-1 597**	**-3 276**
Financial income and expenses	8.	947	689
Result before appropriations and taxes		**-651**	**-2 587**
Direct taxes	9.	0	0
Result for financial year		**-651**	**-2 587**

PARENT COMPANY BALANCE SHEET (FAS)

(1 000 Euros)	Notes	31.12.2011	31.12.2010
ASSETS			
Non-current assets			
Intangible assets	10.	148	117
Tangible assets	11.	484	471
Investments	12.	968	957
Non-current assets total		**1 599**	**1 544**
Current assets			
Inventories		1 508	953
Short-term receivables	13.	10 657	9 812
Cash in hand and at banks		7 358	7 764
Current assets total		**19 523**	**18 529**
Total		**21 123**	**20 074**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	14.	1 151	1 151
Share premium account	14.	76 943	76 943
Reserve for invested unrestricted equity fund	14.	4 639	4 585
Retained earnings/loss	14.	-78 183	-75 596
Profit/loss for the financial year	14.	-651	-2 587
Shareholders' equity total		**3 899**	**4 496**
Provisions	15.	**36**	**21**
Liabilities			
Short term liabilities	16.	17 187	15 557
Liabilities total		**17 187**	**15 557**
Total		**21 123**	**20 074**

PARENT COMPANY CASH FLOW STATEMENT (FAS)

(1 000 Euros)	1.1.-31.12.2011	1.1.-31.12.2010
Cash flow from operating activities		
Operating result	-1 597	-3 276
Adjustments to operating result	46	-288
Financial income and expenses	458	233
Change in net working capital	580	492
Total	**-512**	**-2 839**
Cash flow from investing activities		
Investments to intangible and tangible assets	-407	-534
Investments to (-) / sales of (+) shares in subsidiaries	-11	-1
Dividends received	470	457
Total	**52**	**-79**
Cash flow from financing activities total		
Total	**54**	**4 712**
Change in cash and cash equivalents	-406	1 794
Cash and cash equivalents at the beginning of the period	7 764	5 971
Cash and cash equivalents at the end of the period	7 358	7 764

STONESOFT OYJ

NOTES TO THE FINANCIAL STATEMENTS

Accounting principles

Items in foreign currency

The Financial Statements have been prepared in Euros. Receivables and payables in foreign currency have been converted to Euros using end rates of the closing day. Exchange rate differences from accounts receivable have been recorded to sales adjustments and from accounts payable to exchange rate adjustments of purchases. Other exchange rate differences have been entered to exchange rate adjustments in financial income and expenses.

The profit and loss accounts of foreign subsidiaries have been converted using the average exchange rate of the period and the balance sheets have been converted using the exchange rate of the closing day. Translation differences from the shareholders' equity and other restricted capital are included in other restricted capital. Translation differences from retained earnings and profit/loss for the financial year are included in retained earnings.

Income periodization

Time limited software licenses and support services sold by the company have been periodized in equal installments over the contract period in accordance with the accruals principle.

Pension expenses

The company's pension arrangements have been made in compliance with local legislation. Pension costs are recorded as expenses for the financial period. The statutory pension liability has been fully covered by annual pension insurance payments.

Research and development

R&D expenses have been recorded as annual expenditure for the year they incurred.

Rents

Rental expenses are recorded as expenditure for the financial period they incurred. The rental liabilities include future rental payments according to current contract terms.

Valuation of capital assets

Capital assets have been entered in the balance sheet at acquisition price less scheduled depreciation. The scheduled depreciation has been calculated using the straight line method on the basis of the economic lifespan of the capital asset.

Depreciation period of capital assets	2011	2010
Computer hardware	3-5	3-5
Machinery	3-5	3-5
Equipment	5	5
Other tangible assets	5	5
Other long term expense items	3-5	3-5
Consolidated goodwill	5	5

Securities included in financial assets

Securities included in financial assets have been valuated at the acquisition price or the market price, whichever is lower.

NOTES TO THE INCOME STATEMENT

1a. Net sales by segment

(1 000 Euros)	2011	2010
Europe	20 979	15 825
Emerging Markets	3 926	3 844
North America	4 656	3 712
APAC	1 043	961
Total	**30 604**	**24 341**

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 Americas 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 year 2010 have been changed according to these changes in reporting.

1b. Net sales by business function

(1 000 Euros)	2011	2010
Software and appliance revenue		
Software	2 063	1 523
Appliance	15 630	11 168
Service revenue		
Services	12 831	11 605
Other revenue		
Other revenue	80	45
Total	**30 604**	**24 341**

2. Other income from business operations

(1 000 Euros)	2011	2010
Sales of fixed assets	2	0
Rental income	0	2
Lunch sold to employees	65	70
Tekes allowance	813	775
Other operating income	24	0
Total	**904**	**847**

3. Materials and services

(1 000 Euros)	2011	2010
Materials and goods		
Purchases during the financial period	4 465	3 195
Change in stocks	555	280
Total	5 020	3 475
External services	220	166
Total	**5 240**	**3 641**

4. Wages, salaries and indirect employee expenses

(1 000 Euros)	2011	2010
Wages and salaries	7 043	6 135
Pension expenses	977	846
Other indirect employee expenses	256	233
Total	**8 276**	**7 214**

Salaries and fees paid to the Board of Directors and CEO	112	96
Number of personnel, average	91	87

5. Depreciation

(1 000 Euros)	2011	2010
Tangible assets	312	281
Intangible assets	52	54
Total	**364**	**335**

6. Other operating expenses

(1 000 Euros)	2011	2010
Optional personnel expenses	220	269
Leasing and other building expenses	792	781
Equipment expenses	1 212	1 055
Travel expenses	521	492
Marketing expenses	1 140	519
Entertainment expenses	97	135
Intra-group transfers of expenses	13 023	11 752
External services	1 295	1 184
Other expenses	926	1 088
Total	**19 226**	**17 275**

7. Auditors' fees

(1 000 Euros)	2011	2010
Auditors	65	54
Certificates and statements	3	2
Other services	4	7
Total	**72**	**63**

8. Financial income and expenses

(1 000 Euros)	2011	2010
Dividend income from Group companies	470	457
Interest and other financial income	578	501
Financial income, total	**1 048**	**958**
Interest and other financial expenses	101	269
Financial income and expenses, total	**947**	**689**

(1 000 Euros)	2011	2010
Financial income and expenses includes		
Exchange rate gains/losses (net)	24	39
Gains/losses from securities market	281	300
Exchange rate gains/losses (net) from securities market	0	-150

9. Income taxes

(1 000 Euros)	2011	2010
Taxes from previous financial periods	0	0
Direct taxes, total	**0**	**0**

NOTES TO THE BALANCE SHEET

10. Intangible assets

(1 000 Euros)	2011	2010
Intangible rights		
Acquisition cost 1.1.	1 628	1 657
Additions	68	21
Disposals	-33	-50
Acquisition cost 31.12.	1 663	1 628
Accumulated depreciation 1.1.	-1 520	-1 483
Depreciation for financial period	-48	-48
Disposals	19	11
Accumulated depreciation 31.12.	-1 549	-1 520
Balance sheet value 31.12	**114**	**108**
Other long term expense items		
Acquisition cost 1.1.	1 211	1 201
Additions	33	10
Acquisition cost 31.12.	1 244	1 211
Accumulated depreciation 1.1.	-1 202	-1 196
Depreciation for financial period	-8	-6
Accumulated depreciation 31.12.	-1 210	-1 202
Balance sheet value 31.12.	**34**	**9**

11. Tangible assets

(1 000 Euros)	2011	2010
Machinery and equipment		
Acquisition cost 1.1.	2 228	1 705
Additions	315	526
Disposals	-169	-3
Acquisition cost 31.12.	2 374	2 228
Accumulated depreciation 1.1.	-1 781	-1 501
Depreciation for financial period	-308	-279
Disposals	169	-1
Accumulated depreciation 31.12.	-1 920	-1 781
Balance sheet value 31.12.	**454**	**447**
Other tangible assets		
Acquisition cost 1.1.	23	6
Additions	110	128
Reductions	-104	-111
Acquisition cost 31.12.	29	23

(1 000 Euros)	2011	2010
Accumulated depreciation 1.1.	0	0
Depreciation for financial period	0	0
Accumulated depreciation 31.12.	0	0
Balance sheet value 31.12.	**29**	**23**

12. Investments

(1 000 Euros)	2011	2010
Stocks and shares		
Acquisition cost 1.1.	933	961
Additions	0	1
Reductions	0	-29
Acquisition cost 31.12.	**933**	**933**

A specification of the daughter companies including ownership information can be found in the Notes item 29. Related party transactions in the Financial Statements of the Group.

Capital loans to Group companies		
Balance sheet value 1.1.	13	13
Additions	11	0
Balance sheet value 31.12.	**24**	**13**
Other shares and participations		
Balance sheet value 1.1.	10	10
Additions	0	0
Balance sheet value 31.12.	**10**	**10**

13. Short term receivables

(1 000 Euros)	2011	2010
Accounts receivable	9 158	8 685
Receivables from Group companies		
Other receivables	407	148
Prepayments and accrued income		
Rental deposits	14	18
Tekes	396	443
Other prepayments and accrued income	682	518
Short term receivables, total	**10 657**	**9 812**

Stonesoft Oyj has cumulated, taxable losses for a total of 72 218 thousand Euros at the closing on the 31.12.2011 (77 099 thousand Euros on the 31.12.2010). 2 597 thousand Euros of the cumulated, taxable losses expire in 2011 and the rest during years 2012-2017. The company has no certainty it will cumulate corresponding profits during 2012-2017, against which the losses can be utilized. No deferred tax income has been been booked related to the cumulated losses.

Stonesoft Oyj has capitalized postponed depreciation from development costs a total 5 598 thousand Euros on taxation 2011 and a total 4 951 thousand Euros on taxation 2010.

14. Shareholders' equity

(1 000 Euros)	2011	2010
Restricted shareholders' equity		
Share capital		
Share capital 1.1.	1 151	1 146
Option payments	0	5
Share capital 31.12.	1 151	1 151
Other restricted shareholders' equity		
Share premium account 1.1	76 943	76 821
Option payments	0	122
Share premium account 31.12.	76 943	76 943
Other restricted shareholders' equity total	**78 094**	**78 094**
Unrestricted equity		
Other funds		
Reserve for invested unrestricted equity fund 1.1.	4 585	0
Issue of shares	0	4 560
Option payments	54	25
Reserve for invested unrestricted equity fund 31.12.	4 639	4 585
Retained earnings/loss		
Retained earnings/loss 1.1.	-78 183	-75 596
Retained earnings/loss 31.12.	-78 183	-75 596
Result for the financial period	**-651**	**-2 587**
Total unrestricted equity	**-74 194**	**-73 598**
Shareholders' equity, total	**3 899**	**4 496**

Calculation on distributable funds

(1 000 Euros)	2011	2010
Retained earnings/loss	-78 183	-75 596
Result for the financial period	-651	-2 587
Total	**-78 834**	**-78 183**

15. Provisions

(1 000 Euros)	2011	2010
Other provisions		
Guarantee reserve	36	21
Total	**36**	**21**

16. Liabilities

(1 000 Euros)	2011	2010
Short term liabilities		
Accounts payable	2 004	1 417
Debts to the Group companies		
Other debts	1 729	1 718
Substantial items included in deferred liabilities		
Matched maintenance cost	11 538	10 663
Other deferred liabilities	1 747	1 509
Other debts	169	250
Short term liabilities total	**17 187**	**15 557**
Liabilities total	**17 187**	**15 557**

17. Contingent liabilities

(1 000 Euros)	2011	2010
Leasing liabilities		
Payable in year 2011	38	41
Payable later	12	43
Rental liabilities and pledges		
Rental liabilities	1 107	1 481
Performance bond	223	94
Contingent liabilities total	**1 380**	**1 659**

AUDITOR'S REPORT

TO THE ANNUAL GENERAL MEETING OF STONESOFT OYJ

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Stonesoft Oyj for the year ended 31 December, 2011. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other opinions

We support that the Members of the Board of Directors and the Managing Director should be discharged from liability for the financial period audited by us.

Helsinki, 15 February 2012

Ernst & Young Oy
Authorized Public Accountant Firm

Bengt Nyholm
Authorized Public Accountant

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 prevention 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.

SIGNATURES TO THE FINANCIAL STATEMENTS AND BOARD OF DIRECTOR'S REPORT

Helsinki, 15 February 2012

Hannu Turunen
Chairman of the Board

Timo Syrjälä
Member of the Board

Harri Koponen
Member of the Board

Jukka Manner
Member of the Board

Ilkka Hiidenheimo
CEO

AUDITOR'S NOTE

The year-end Financial Statements and the Annual Report have been prepared according to good accounting practices. An Auditor's Report concerning the performed audit has been given to date.

Helsinki, 15 February 2012

Ernst & Young Oy
Authorized Public Accountant Firm

Bengt Nyholm
Authorized Public Accountant

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