Stonesoft Corporation Stock Exchange Release 13 February 2009 AT 9:15 A.M.

STONESOFT CORPORATION'S FINANCIAL STATEMENT RELEASE FOR JANUARY-DECEMBER 2008

StoneGate sales grew by 19%, net sales by 19% in the last quarter.

The sales of Stonesoft's main product portfolio, the StoneGate product line, increased by 19% and the company's net sales by 19% during the last quarter compared to the corresponding period in the previous year. The positive development of the sales, net sales and cash flow has now continued for five consecutive quarters.

SUMMARY

The comparable figures from 2007 and 2006 are in parentheses and refer to the figures for continuing operations.

October - December 2008
- Stonesoft's core business, the sales of the StoneGate product family, EUR 4.3 (3.6 and 2.3) million, growth 19%
- Net sales EUR 6.9 (5.8 and 4.3) million, growth 19%
- Operating result EUR –0.2 (-1.2 and –1.9) million
- Operating result as percentage of net sales -3 (-21 and -44)%
- Earnings per share EUR –0.00 (-0.02 and –0.03)
- Cash flow EUR –0.2 (-0.9 and –1.6) million
- Liquid assets at the end of the period EUR 7.0 (8.2 and 14.4) million

January – December 2008
- Net sales EUR 24.4 (19.0 and 16.5) million, growth 28%
- Sales of the StoneGate product family, EUR 14.8 (10.6 and 8.3) million, growth 40%
- Operating result EUR –2.3 (–6.5 and –6.6) million
- Operating result as percentage of net sales –9 (-34 and –40)%
- Earnings per share EUR –0.04 (–0.11 and –0.11)
- Cash flow EUR –1.9 (–6.2 and –7.4) million. The total cash flow, including the last payment of the selling price of Embe Systems Oy amounting to EUR 0.8 million, was EUR –1.2 million.
- Liquid assets at the end of the period EUR 7.0 (8.2 and 14.4) 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 33. Definitions for key indications.

CEO Ilkka Hiidenheimo

During the last quarter, StoneGate sales were, regardless of the economical recession, the highest ever in the company´s history and exceeded the sales in the corresponding period in the previous year by 19%. The company's main target in 2008 was to generate improved profitability through strong growth of sales. The company increased its net sales by 28% and the sales of its main product, StoneGate, by 40% during the fiscal year. The growth of sales was especially strong in the developing markets. Due to this development the company's cash flow improved by EUR 4.2 million and profitability by EUR 4.2 million, even though the operating result (EBIT) remained EUR 2.3 million negative. The company achieved its targets set for the fiscal year in respect of net sales, cash flow and result.

The company's position as a provider of integrated network security and business continuity was further strengthened when the renowned independent research company Gartner, Inc. positioned Stonesoft in the Challengers Quadrant in its latest Magic Quadrant for Enterprise Network Firewalls research report on network security vendors. In this comparison Gartner positioned Stonesoft in the same quadrant with the market leader Cisco Systems Inc.

We continued to make strong investments in extending our product line and increasing our competitiveness. During the last quarter of 2008, we launched the StoneGate FW-310 for remote offices with new generation firewall functionality and increased performance, the StoneGate UTM (Unified Threat Management) solution and the StoneGate SSL VPN 1.2 for full mobility, security and ease of administration.

In 2008, Stonesoft was among the first to introduce new products to VMware virtual environments to respond to the rapidly increasing demand of virtualization of IT infrastructure. During the year, the company launched the StoneGate Virtual Firewall and IPS solutions. Both solutions, like all StoneGate appliances, can be centrally managed with the StoneGate Management Center, which eliminates barriers, limitations and security compromises between virtual and physical networks. The security of virtual environments has attracted a great deal of interest among our customers and this interest is expected to turn into demand during 2009.

Despite the global economical uncertainty we have shown strong growth and commitment to strengthening our product offering, competitiveness and customer base. We believe the investments we have made provide a solid base for positive development in the future.

FOURTH QUARTER 1.10. - 31.12.2008

Net sales

The Group's net sales totaled EUR 6.9 (5.8 and 4.3) million. Growth compared to the corresponding period in the previous year was EUR 1.1 million or 19%. The operating result (EBIT) was EUR –0.2 (-1.2 and –1.9) million.

The sales of the StoneGate product family, the Group's core business, including Firewall, VPN, SSL VPN and IPS (Intrusion Prevention and Detection System), were EUR 4.3 (3.6 and 2.3) million. In 2008 the growth of the sales compared to the previous year was 19%.

The net sales were distributed geographically as follows: Europe 60 (70 and 64) %, Emerging markets (Russia, North Africa and Middle East) 18 (8 and 10) %, Americas (North and South America) (18 and 18) % and APAC (Asia-Pacific) 4 (4 and 8) %.

Result

Stonesoft's operating result (EBIT) was EUR –0.2 (-1.2 and –1.9) million, i.e. 1.1 million better compared to the corresponding period in the previous year. The operating result as percentage of net sales was -3 (-21 and -44) %. The operating result after taxes was EUR –0.2 (-1.1 and –2.0) million. The earnings per share were EUR –0.00 (-0.02 and –0.03). The equity per share was EUR 0.06 (0.10 and 0.17).

FISCAL YEAR 2008

Net sales

The Group's net sales totaled EUR 24.4 (19.0 and 16.5) million. Growth compared to the corresponding period in the previous year was EUR 5.4 million or 28%. The operating result (EBIT) was EUR –2.3 (–6.5 and –6.6) million.
The sales of the StoneGate product family, the Group's core business, including Firewall, VPN, SSL VPN and IPS (Intrusion Prevention and Detection System), were EUR 14.8 (10.6 and 8.3) million. In 2008 the growth of the sales compared to the previous year was 40%.

The net sales were distributed geographically as follows: Europe 60 (63 and 63) %, Emerging markets (Russia, North Africa and Middle East) 17 (11 and 7) %, Americas (North and South America) 19 (21 and 22) % and APAC (Asia-Pacific) 4 (5 and 8) %.

Result

Stonesoft’s operating result (EBIT) was EUR –2.3 (–6.5 and –6.6) million, i.e. 4.2 million better compared to the previous year. The operating result as percentage of net sales was -9 (–34 and –40) %. The operating result after taxes was EUR –2.0 (–4.2 and -6.4) million. The earnings per share were EUR -0.04 (-0.11 and –0.11). The equity per share was EUR 0.06 (0.10 and 0.17). The dividend per share was EUR 0 (0 and 0).

Finance and investments

At the end of the fiscal year, Stonesoft’s total assets were EUR 16.2 (17.7 and 24.5) million. The equity ratio was 46 (52 and 66) % and gearing (the ratio of net debt to shareholders’ equity) was EUR –1.99 (–1.46 and –1.50).

The comparable cash flow was EUR –1.9 (–6.2 and –7.4) million. The Group has no interest-bearing debt with the exception of EUR 2 206 related to a financial leasing agreement that is close to expire. The consolidated liquid assets at the end of the fiscal year totaled EUR 7.0 (8.2 and 14.4) 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 23.0 million, of which EUR 22.2 million is accrued in Finland and EUR 0.8 million in the United States.

In order to strengthen the company´s capital structure and to ensure the positive development of the company’s strategy and growth plan also in the future, the main shareholders of the company have announced in October 2007 their willingness to invest at least EUR three (3) million in the company in the form of a convertible bond. The commitment given by the main shareholders is in force until the end of the AGM in 2009. The company has not executed the convertible bond arrangement.

Investments in tangible and intangible assets totaled EUR 0.5 (0.5 and 0.4) million.

Development of business operations and strategy

During the past years the company has carried out a considerable amount of structural and operational changes as well as widened intensely its product offering. A turning point was achieved in 2006 and the positive development of net sales and result has continued since then. In 2008 this positive trend continued despite the general global deterioration of the economic situation. In 2008, the company’s overall net sales grew by 28%, while the sales of the main product StoneGate grew by 40%. Among this positive development the company’s profitability improved by EUR 4.2 million compared to the previous year, even though the operating result (EBIT) remained EUR 2.3 million negative. The development of the company’s net sales and cash flow as well as the result corresponded to the future outlook published by the company earlier and to the targets set for 2008.

The company has established its position in the market as a provider of integrated network security and business continuity, and the organization and sales processes of the company have reached the level required by the growth expectations. Personnel turnover has been low during the past couple years, offering stability and continuity for the development of the company. In the last years, the company has invested in three emerging growth markets: Africa, Russia and China. These investments have turned out to be profitable, especially through the strong and profitable growth that took place in North-Africa and Russia during 2008.

The company will, in accordance with the chosen growth strategy, continue its decisive and persistent efforts to increase its net sales and to improve the profitability of the company. The company’s main target in 2009 is the growth of its net sales, and consequently improved profitability.

The main business events in 2008:

- In January Stonesoft received a certification from ICSA Labs, an independent division of Verizon Business. Stonesoft became one of a select few vendors to achieve this distinction for network-based intrusion prevention systems;

- In January Stonesoft introduced the new StoneGate security solution for high capacity networks. StoneGate IPS-6100 and FW-5100 appliances offer managed service providers (MSPs) and large organizations high performance, cost-efficiency and unrivalled flexibility;

- In February Stonesoft became a member of the Technology Alliance Partner (TAP) program of VMware, the world`s leading provider of virtualization solutions. The cooperation brings Stonesoft among the first providers to launch security solutions for virtual environments and strengthens its position as a leading expert in network security;

- In May Stonesoft introduced the new StoneGate Management Center 4.3 for advanced unified management. The product offers enhanced visibility and control over network security in both traditional and virtual network environments;

- In May Stonesoft's StoneGate IPS was shortlisted for the 2008 Techworld awards in the category IPS/IDS Product of the Year;

- In May Stonesoft introduced the new StoneGate IPS 4.3 for protecting internal networks and operating systems from malicious traffic. The solution stands out through its scalability: the revolutionary serial clustering technology of the new StoneGate appliances allows adding IPS throughput up to 60%. The system also supports the new IPv6 protocol;

- In July Stonesoft executed a partnership agreement with the leading Algerian telecommunications company Algeria Telecom. The first order at the value of more than EUR 700,000 was deliverd to the Algerian Ministry of Healthcare at the end of the second quarter;

- In August Stonesoft certified the VMware ESX server as a supported environment and became a member of the VMware VMsafe™ technology program. In September, Stonesoft's StoneGate Virtual Security Solutions received the VMware certification

- In September Stonesoft introduced the StoneGate Virtual IPS 4.3.1 (Intrusion Prevention System) to protect internal networks from malicious traffic;

- In September Stonesoft received an order from a major Russian telecom operator at the value of USD 1.9 million;

- In October Stonesoft and Magirus, one of the leading IT solution providers in Europe extended their distribution agreement to cover the whole Europe. The agreement covered originally Germany, Austria, Switzerland and Italy, and now it has been extended to include Great Britain, Denmark, Sweden, the Netherlands, France, Spain, Portugal and the Middle East;

- In October Stonesoft introduced the StoneGate FW-310 firewall, which provides enhanced network security for the remote offices of geographically distributed organizations;

- As an answer to the latest vulnerability announced by Microsoft, Stonesoft announced in October that its StoneGate IPS (Intrusion Prevention System) provided pre-emptive protection against the vulnerability. StoneGate customers have had full protection against this most recent vulnerability since August 2006;

- In November Stonesoft introduced the StoneGate UTM (Unified Threat Management) solution for remote locations. The solution is available as an integral part of the new StoneGate FW-310 firewall appliance launched earlier this autumn;

- In November StoneGate introduced StoneGate SSL VPN 1.2 for full mobility, security and ease of administration. In the new version, log details and monitoring of SSL VPN appliances are integrated with StoneGate Management Center, providing a centralized view of all remote connections;

- In December the research company Gartner, Inc. positioned Stonesoft in the Challengers Quadrant in its latest Magic Quadrant for Enterprise Network Firewalls research report on network security vendors;

- In December Stonesoft's StoneGate SSL VPN solution was named finalist in "the Best IPsec/SSL VPN solution" category of the 2009 SC Awards program of the US SC Magazine;

- The following changes took place during the year in the executive management group of Stonesoft Corporation: in May Outi Torniainen, Vice President of Marketing and Communications, was replaced by Klaus Majewski, Vice President of Marketing, and in October, as Juha Kivikoski, Vice President of Sales, left the company, his responsibilities were transferred to Kim Fagernäs, Vice President of Sales;

- In December Stonesoft delivered to the Supreme Court a petition for leave of appeal and a letter of complaint concerning the verdict given by the Helsinki Court of Appeal on October 2008, reversing the decision given by the District Court of Helsinki in November 2006 dismissing all charges against Stonesoft, and imposing Stonesoft a corporate fine of EUR 20.000 for a security market information offence for a delay of a profit warning in February 2001.

Main business events after the fiscal period

No main business events.

Resales channel

The sales of the StoneGate product family as Stonesoft's core business are mainly conducted through an international resale channel.

Review of major research and development activities

The company's R&D operations are located in Finland and France. At the end of 2008, R&D employed altogether 66 (69 and 67) persons. The company's R&D investments during the fiscal period for continuing operations totaled EUR 5.2 (5.3 and 4.8) million.

R&D costs represented 21 (22 and 22) % of all expenses for continuing operations.

In January 2008 Stonesoft received the respected ICSA Labs Network Intrusion Prevention System certificate. So far products of only three vendors have been able to pass the requirements for the certification. In February Stonesoft became a member of the VMware Technology Alliance Program (TAP) of VMware, the leading provider of virtual server environments, and introduced the StoneGate Firewall for virtual environments.

In May Stonesoft launched a new version of the StoneGate Management Center. The most significant benefits of the version include assistance to help the user to avoid mistakes that may risk security, monitoring feature with increasingly advanced usability and improved auditing features for controlling requirements set by authorities and standards.

The new StoneGate IPS launched in June offered increased performance as well as support for inspecting IPv6 traffic. During autumn also the StoneGate IPS for virtual environments became available and Stonesoft's StoneGate Virtual Firewall/VPN and Virtual IPS received the certification for VMware platform. The features of the StoneGate Firewall were extended to include UTM (Unified Threat Management) by adding anti-virus and IPS capabilities. The StoneGate SSL VPN offered new features such as log and monitoring in the centralized management system, load balancing and redundancy.

Stonesoft was granted nine patents during the year. The patents were related to, among others, the rule management of security appliances, load balancing and detection of vulnerabilities.

We believe that the above-mentioned incidents will improve the competitiveness of the company in the markets.

Development of share prices and turnover

Stonesoft's share value at the beginning of the fiscal year on January 2, 2009 was EUR 0.29 (0.47 and 0.49). At the end of the fiscal year on December 30, 2008, the share price was EUR 0.32 (0.29 and 0.47). The highest share price was EUR 0.50 (0.56 and 0.61), and the lowest EUR 0.24 (0.22 and 0.41). During 2008, the total turnover of Stonesoft shares amounted to EUR 5.2 (8.4 and 10.9) million and 14.9 (20.0 and 22.3) million shares, which is 26.0 (34.9 and 38.9) % of the total amount of the shares. Based on the share price on December 31, 2008, Stonesoft's market capitalization was EUR 18.3 (16.6 and 26.9) million.

Share capital and stock option programs

At the end of the fiscal year on December 31, 2008, Stonesoft's share capital recorded in the Trade Register totaled EUR 1,146,054. The weighted average value of the numbers of shares corrected by share issue was 57,309,875 (57,302,732 and 57,302,732). The share capital remained unchanged. 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 (former Finnish Central Securities Depository Ltd), which maintains the official shareholder register of the company. The shares of the company are rated on the small company list under the information technology classification with the trade identification SFT1VY in the NASDAQ OMX Helsinki Ltd.

The company has currently two valid stock option programs, Stock Option program 2004–2010 and Stock Option program 2008-2010. Under the Stock Option program 2004-2010, the subscription price is EUR 0.56, and the total number of stock options to be granted based on it is at the maximum 1,500,000. The subscription period of the shares is graded and will end for all stock options on December 31, 2010. At the end of the year 2008 in total 1,061,250 stock options had been granted under this program. Under the Stock Option program 2008-2014, the subscription price of which is EUR 0.30 and the total number of stock options to be granted based on this program is at the maximum of 3,000,000. The subscription period of the shares is graded and will end for all stock options on December 31, 2014. At the end of the year 2008 in total 50,000 stock options had been granted under this program. At the end of the fiscal year in total 858,750 shares could be subscribed based on these programs, which represents 1.50% of the present number of shares and votes in the company. During 2008, no subscriptions were made on the basis of the stock option programs targeted for key persons in the company.

Shareholders

At the end of 2008, the company had 5,877 (6,034 and 6,935) shareholders. Nominee-registered holdings represented 6.8% of the share capital in 2008.

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, 2008, the members of the Board of Directors, the CEO and the entities under their control held a total of 23,471,061 shares of the company, which represented 41.0% of the shares and the voting rights. The stock option rights held by the members of the Board of Directors on December 31, 2008 entitled them to a subscription of 90,000 shares.

Proposal by the Board of Directors for distribution of profit

The operating result of the parent company was EUR -1.3 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 23, 2008, decided to grant the Board of Directors a new authorization and to cancel the authorization granted by the AGM in 2007.

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

According to the authorization, the Board of Directors may decide to offer new shares to be issued in a new issue and/or the stock option or special rights for subscription either according to the shareholders´ pre-emptive subscription rights, or in deviation from the shareholders´ pre-emptive subscription right in case the deviation is justified by a weighty financial reason for the company, such as financing of an acquisition, enabling of a joint venture transaction, providing of additional financial alternatives, and/or an arrangement for incentive program directed to the company's personnel.

The issue may be directed partly or in full to the company's main shareholders, Ilkka Hiidenheimo and Hannu Turunen, who have confirmed to be ready to invest at least three (3) million Euros in the company in form of a convertible bond in order to strengthen the company's capital structure with an additional cash reserve and to ensure the continuance of the positive development in the future in line with the company's strategy and growth plan. The commitment given by the main shareholders is in force until the end of the AGM in 2009.

The Board of Directors was authorized to decide other terms and conditions related to the share issues and to the issuance of stock option or other special rights. The authorization is in force until the end of the AGM in 2009.

Based on the authorization given, the Board of Directors of Stonesoft Corporation decided in its meeting on 6 May 2008 to approve the Stock Option Plan 2008, under which new stock option rights can be granted to the members of the Board of Directors, other management and key persons in the personnel of the companies of Stonesoft Group. The total amount of stock option rights that can be granted is 3,000,000 and they entitle to subscribe in total 3,000,000 shares in the Stonesoft Corporation. The stock option rights of the Stock Option Plan 2008 are divided into four series, each having an own subscription period as follows:

Series A on March 1, 2010 – December 31, 2014,
Series B on March 1, 2011 – December 31, 2014,
Series C on March 1, 2012 – December 31, 2014, and
Series D on March 1, 2013 – December 31, 2014.

The subscription prices of the shares correspond to the volume-weighted average share price of the Company during the last 90 trading days on the NASDAQ OMX Helsinki Ltd before the Board Meeting deciding on this plan. The subscription price of a share with stock options is EUR 0.30.

In its meeting held on 17 June 2008, the Board of Directors of Stonesoft Corporation decided to supplement the terms in paragraph II 6 and II 7 of the Stock Option Plan 2008 approved earlier in order to grant to a stock option holder the same or equal rights as a shareholder has in case of issuance of new shares, stock options or other specific rights prior to share subscriptions as well as in certain other special cases.

The terms and conditions of the Stock Option Plan 2008 are available in full on the company website at http://www.stonesoft.com.

The company does not own its shares and the Board of Directors do not have an authorization to acquire its own shares.

The company’s Board of Directors, Executive Management and auditors

According to the Articles of Association of the company, the Board of Directors is comprised of three to seven (3–7) ordinary members. The term of the member of the Board of Directors starts at the end of the Annual General Meeting that elects him/her and continues until the end of the next Annual General Meeting. The Annual General Meeting held on April 23, 2008 elected five members to the Board of Directors. Ilkka Hiidenheimo, Topi Piela, Matti Viljo, Hannu Turunen and Timo Syrjälä were elected to the Board. In its statutory meeting held on April 23, 2008, the Board elected Matti Viljo as Chairman of the Board and Topi Piela as Vice Chairman. Furthermore, the Board decided that there will be no separate Board committees because due to the size of the company’s business operations and the size of the Board, there is no need to prepare issues in smaller units than the entire Board.

According to the Articles of Association, the company has a Chief Executive Officer (CEO), who is appointed and discharged by the Board of Directors. In 2008, 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, Kim Fagernäs, Saara Laine, Mikael Nyberg, Mika Jalava and Klaus Majewski.

In 2008, authorized public accountants Ernst & Young Oy acted as Stonesoft’s auditor and authorized public accountant Pekka Luoma as the main auditor.

The compensation of the CEO

CEO Ilkka Hiidenheimo will not accept any compensation for his duties until the company is profitable. There is no specific retirement age set forth for the CEO, and the CEO’s pension is the same as Finland’s Employee Pension Act (TYEL) that is compulsory for all Stonesoft employees. The contract of employment for the CEO provides for notice of six (6) months prior to termination, with compensation being equal to six months’ salary and a further optional six (6) months’ fixed salary if the company terminates the contract without essential breach of contract by the CEO. Both the pension right and the right to compensation in case of termination of contract are only theoretical as long as the CEO is not receiving any compensation. The same arrangement applies in connection with public take-over bids.

Acquisitions and changes in the structure of the Group

There were no acquisitions or other changes made in the Group structure during the fiscal year.

Foreign branches and representative office

The company has no foreign branches. The company has a representative office in China.

Personnel

The comparable figures from 2007 and 2006 are in parentheses and refer to the figures for continuing operations.

At the end of the fiscal year, the Group’s personnel totaled 185 (181 and 181) people, of which 167 (165 and 168) were employees and 18 (6 and 13) had contractual relationships as full-time sales representatives or consultants.
The salaries and other remuneration paid to the employees, including social security payments, were in total EUR 14.8 (14.2 and 13.1) million.

The average number of personnel during the fiscal period was 183 (181 and 182).

The geographical distribution of Stonesoft personnel was Europe 144 (145 and 145), Emerging markets (Russia, North Africa and Middle East) 9 (8 and 5), Americas (North and South America) 28 (23 and 23) and APAC (Asia and Pasific) 4 (5 and 8).

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

Stonesoft complies with the Corporate Governance recommendations for public listed companies published in October 2008 by the Securities Market Association, a body established by the Confederation of Finnish Industries EK, the Central Chamber of Commerce, and NASDAQ OMX Helsinki Ltd., as explained on the company’s web pages.

Short-term risks and business uncertainties

During the fiscal year in 2009, 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 general economic uncertainty has increased strongly lately. In other respects there have been no major changes in Stonesoft’s risks and business uncertainties. Furthermore, the identified risks and business uncertainties have had barely any impact on the company’s operations or development of the result during 2008.

Risk Management, Internal Control and Internal Audit

The Board of Directors of Stonesoft Corporation has primary responsibility for accounting and monitoring of financial administration of the company. The Board of Directors is also ultimately responsible for risk management and internal control of Stonesoft, and the CEO is in charge of arranging the risk management and internal control in practice as well as of monitoring their functioning. Co-ordination of risk management and internal control is the responsibility of the Chief Financial Officer (CFO). The Executive Management of the Group supports the risk management processes by considering the risks and management thereof in its meetings. Risk management and internal control aim at ensuring that (i) the operation of the company is effective and suited to its purpose, (ii) financial information is reliable and (iii) authority regulation and internal policies are complied with.

CFO, as the coordinator of corporate risk management, creates corporate-level risk management principles, develops risk management tools and is in charge of global insurance policies. Business units must adhere to the corporate level policies and proactively contribute to the development of corporate risk management. Risk management function concentrates on (i) evaluation and management of operational risks, (ii) management of financial risk and (iii) management and safeguard of critical business-related information and assets.

Operational risks The company sets financial targets annually in connection with the budgeting and the realization of the targets is monitored on a monthly basis. The guidance and supervision of the business operations takes place with the means of a reporting and forecasting system covering the entire group that the company strives to develop on a continuous basis. The product sales and related services sales are made mainly through global channel partners, using standardized Stonesoft agreements. The sales operations are supported by the company's internal 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 provide financing to its customers, other than generally accepted terms of payment. The company invoices mainly in Euros, the US dollar being the other invoicing currency. The company's costs occur mostly in Euros. Exchange rate fluctuations can affect the company's financial results. The company uses matching as a main tool for offsetting the exchange rate risks. The task of Stonesoft's Corporate Treasury is to manage financial risks in accordance with the Treasury Policy approved by Stonesoft's Board of Directors. The main goals of the policy are: (i) to ensure the short-term liquidity of the company, (ii) to guarantee efficient circulation and short-term investments of the operational cash flows and (iii) to follow prudent and transparent investment policy for the cash reserves, aiming at guaranteeing competitive return on a selected risk level. The company's reserves are all invested on interest bearing low risk instruments. The company's operations and related costs are continuously controlled.

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

Internal audit Due to the small size of the company and the scope of the business operations Stonesoft does not have a separate organization for the internal audit function or a separate internal audit committee. The regular audits conducted by the audit firm in relation to the interim reports aim also for their part at evaluating the efficiency of and constant developing of risk management, internal audit and administrative processes. The structure of the group and the financial administration has been set up with the aim to prevent malpractice, among others, through clear internal guidelines and definition of authorizations. In addition, all sales are made in the name of the parent company and local payment transactions of subsidiary companies and sales offices concern generally only local salaries and other minor costs.

Future outlook

Companies will continue to network with their partners and subcontractors, and this development will create even higher requirements for network security and availability. At the same time, the demand for outsourcing solutions and services will grow. Managed security service providers (MSSPs) have a growing need to provide their customers with the possibility to track the status of their network security while maintaining an overview of their own data network. According to the company’s view combining security and high availability, which is the cornerstone of the StoneGate product design, will prove its strength even better in this development.

The convergence of voice, video and data on IP-based networks will create more demand for capacity and drive the adoption of 10 Gbps networks. The growing demand for added bandwidth together with new protocols in the IP networks is expected to increase the general demand for better reporting, monitoring and analysis tools. This development will support Stonesoft in achieving its year 2009 growth plan, since these features are the cornerstones in StoneGate Management Center’s functionality.

The strong growth of virtualization has created a demand for ensuring network security and business continuity also in virtual environments. StoneGate products are better suited for virtual environments than the competitors’ hardware-based products, because they are based on software solutions.

As security threats in the public sector are increasing, growing number of governments have started improving their protection against network attacks and cyber espionage. StoneGate products offer comprehensive, centrally managed protection and suit well to the needs of the public sector.

While the global financial uncertainty continues, companies need to pay more attention to the cost efficiency of their operations. This will further strengthen the competitiveness of the StoneGate solutions and emphasize the possibilities the solutions offer for generating considerable cost savings in relation to infrastructure, communications and operating costs.

Stonesoft will continue its decisive and persistent efforts to increase its net sales and to improve the profitability of the company. The company’s main target in 2009 is to grow its net sales and consequently generate improved profitability. Due to the present global economical situation and the prevailing uncertainty in the market, the company considers it difficult to give any estimates on the future development. Accordingly, the company does not see it justified to give any estimate on the future development of its annual operating result at this stage.

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

Stonesoft Group

Income Statement	10-12/2008	10-12/2007	1-12/2008	1-12/2007
(1000 Euro)				
Continuing operations				
Net sales	6 936	5 815	24 427	19 020
Other operating income	404	406	1 275	1 144

Materials and services	-860	-1 137	-3 547	-3 064
Personnel expenses	-4 000	-4 098	-14 796	-14 218
Depreciation	-119	-108	-483	-449
Other operating expenses	-2 539	-2 118	-9 161	-8 946
Operating result	-177	-1 240	-2 286	-6 514
Financial income and expenses	59	71	276	202
Result before taxes	-118	-1 169	-2 010	-6 312
Taxes	-69	-76	-219	-213
Result from continuing operations	-187	-1 245	-2 229	-6 525
Result from discontinued operations	0	95	186	2 312
Result for the accounting period	-187	-1 150	-2 043	-4 212
Basic earnings per share (EUR), continuing operations	0,00	-0,02	-0,04	-0,11
Diluted earnings per share (EUR), continuing operations	0,00	-0,02	-0,04	-0,11
Basic earnings per share (EUR), discontinued operations	0,00	0,00	0,00	0,04
Diluted earnings per share (EUR), discontinued operations	0,00	0,00	0,00	0,04

Stonesoft Group

Balance Sheet (1000 Euro)	31.12.2008	31.12.2007
ASSETS		
Non-Current Assets		
Tangible assets	692	709
Intangible assets	104	82
Other investments	10	0
Deferred tax assets	0	1
Total	806	793
Current assets		
Inventories	911	1 069
Trade and other receivables	7 371	7 498
Prepayments	19	97
Marketable securities	6 310	7 571
Cash and cash equivalents	738	640
Total	15 348	16 874

Total assets	16 154	17 666

EQUITY AND LIABILITIES

Equity attributable to equity holders of the parent company		
Share capital	1 146	1 146
Share premium account	77 013	76 981
Conversion differences	-951	-927
Retained earnings	-73 665	-71 622
Total	3 543	5 579
Long-term liabilities		
Provisions	26	56
Interest bearing liabilities	0	0
Other long-term liabilities	2 336	1 722
Total	2 363	1 779
Short-term liabilities		
Trade and other payables	9 991	10 018
Tax liability	41	85
Provisions	214	131
Short-term interest bearing liabilities	2	75
Total	10 248	10 309
Total liabilities	12 611	12 088
Total equity and liabilities	16 154	17 666

Stonesoft Group
Statement of changes in equity
(1000 Euro)

	Share capital	Share premium	Conversion differences	Retained earnings	Total
Shareholders' equity at 1.1.2007	1 146	76 897	-867	-67 410	9 767
Conversion differences			-60		-60
Result for the period				-4 212	-4 212
Total recognized income and expense for the period			-60	-4 212	-4 272
Stock options exercised		84			84
Shareholders' equity at 31.12.2007	1 146	76 981	-927	-71 622	5 579

	Share capital	Share premium	Conversion differences	Retained earnings	Total

Shareholders' equity at 1.1.2008	1 146	76 981	-927	-71 622	5 579
Conversion differences			-24		-24
Result for the period				-2 043	-2 043
Total recognized income and expense for the period			-24	-2 043	-2 068
Stock options exercised		32			32
Shareholders' equity at 31.12.2008	1 146	77 013	-951	-73 665	3 543

Stonesoft Group

Cash flow statement (1000 Euro)	1.1.- 31.12.2008	1.1.- 31.12.2007
Cash flow from operating activities		
Operating Result	-2 286	-6 514
Adjustments	601	417
Change in net working capital	614	687
Taxes paid	-218	-212
Net cash flow from operating activities continuing operations	-1 288	-5 622
Net cash flow from operating activities discontinued operations	0	0
Total cash flow from operating activities	-1 288	-5 622
Cash flow from investing activities		
Investments in tangible assets	-422	-463
Investments in intangible assets	-66	-32
Investments in affiliated company	0	-1
Investments in other shares	-10	0
Net cash flow investing activities continuing operations	-498	-496
Net cash flow investing activities discontinued operations	761	-448
Total cash flow investing activities	263	-944
Cash flow from financing activities		
Payments of financial leasing liabilities	-72	-95
Total cash flow from financing activities	-72	-95
Change in cash and cash equivalents		
Cash and cash equivalents at beginning of period	8 210	14 370
Conversion differences	-30	-60
Changes in the market value of investments	-34	69
Discontinued operations	0	492
Total cash and cash equivalents at end of period *)	7 048	8 210
*) Total cash and cash equivalents at end of the period contains pledged securities	315	281

Stonesoft Group

Geographical segments	1.1.- 31.12.2008	1.1.- 31.12.2007

(1000 Euro)

Net sales		
Europe	14 740	12 075
Emerging Market	4 123	2 004
Americas	4 495	3 906
APAC	1 069	1 036
Total net sales	24 427	19 020
Operating profit		
Europe	-1 061	-4 119
Emerging Market	338	-231
Americas	-1 532	-2 038
APAC	-31	-126
Total operating profit	-2 286	-6 514

Stonesoft Group

Contingent liabilities (1000 Euro)	1.1.- 31.12.2008	1.1.- 31.12.2007
Contingent off-balance sheet		
Non-cancelable other leases	3 377	4 624
Contingent liabilities for the Company	63	20
Contingent liabilities for inventories	0	0

Stonesoft Group

Related party information (1000 Euro)	1.1.- 31.12.2008	1.1.- 31.12.2007
Consultation fees paid to the Board of Directors	0	73

Stonesoft Group

Quarterly development (Euro Millions)	Q4 / 2008	Q3 / 2008	Q2 / 2008	Q1 / 2008	2008	Q4 / 2007	Q3 / 2007	Q2 / 2007	Q1 / 2007	2007
Security software and appliances	4,3	3,3	4,1	3,2	14,9	3,7	2,0	2,7	2,3	10,7
Services	2,6	2,4	2,3	2,2	9,5	2,2	2,1	2,1	2,0	8,4
Other products	0,0	0,1	0,0	-0,1	0,1	-0,1	0,0	0,0	0,0	-0,1
Net sales continuing operations	6,9	5,9	6,4	5,3	24,4	5,8	4,0	4,8	4,3	19,0
Change-% from previous year	19	45	32	22	28	35	-9	32	7	15
Net sales discontinuing operations	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0

Change-% from previous year	-	-	-	-	-	-	-	-	-	-
Net sales total	6,9	5,9	6,4	5,3	24,4	5,8	4,0	4,8	4,3	19,0
Change-% from previous year	19	45	32	22	28	0	-27	-4	-22	-13
Sales margin	6,1	5,1	5,4	4,3	20,9	4,7	3,4	4,1	3,8	16,0
Sales margin %	88	86	85	82	85	80	84	85	87	84
Operative expenses	6,6	5,9	6,0	5,8	24,4	6,2	5,4	5,8	6,0	23,4
Operating profit (EBITA)	-0,2	-0,5	-0,4	-1,2	-2,3	-1,2	-1,6	-1,5	-2,1	-6,5
% of net sales	-3	-9	-6	-24	-9	-21	-41	-32	-48	-34
Result before taxes	-0,1	-0,4	-0,3	-1,2	-2,0	-1,2	-1,7	-1,4	-2,0	-6,3
% of net sales	-2	-7	-4	-23	-8	-20	-43	-30	-46	-33

Stonesoft Group

Key ratios (1000 Euro)	1.1.- 31.12.2008	1.1.- 31.12.2007
Net sales total	24 427	19 020
Net sales change-%	28	-13
Net sales, continuing operations	24 427	19 020
Net sales change-%	28	15
Net sales, discontinued operations	0	0
Net sales change-%	-	-
Operating result total	-2 286	-6 514
% of net sales	-9	-34
Operating result, continuing operations	-2 286	-6 514
% of net sales	-9	-34
Operating result, discontinued operations	0	0
% of net sales	-	-
Operating result before taxes	-2 010	-6 312
% of net sales	-8	-33
ROE - %, annualized, continuing operations	-49	-85
ROI - %, annualized	-40	-78
Equity ratio-%	46	52
Net gearing	-1,99	-1,46
Total Assets	16 154	17 666
Capital expenditure	488	500
Capital disposals	0	-5
R&D costs	5 230	5 285
% of net sales	21	28
Number of employees (weighted average)	183	181
Number of employees (end of the period	185	181

Share Specific Ratios

Earnings per share, continuing operations	-0,04	-0,11
Earnings per share, discontinued operations	0,00	0,04

Equity per share	0,06	0,10
Dividend	0,00	0,00
Dividend per share (EUR)	0,00	0,00
Dividend / Profit-%	0	0

Calculation of indicators

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

FORWARD-LOOKING STATEMENTS

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

The figures presented in this release are unaudited.

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This release and the presentation material related to this report are also available on Stonesoft's website at www.stonesoft.com.

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