

STONESOFT CORPORATION'S INTERIM REPORT FOR JANUARY-SEPTEMBER 2009

POSITIVE OPERATING RESULT IN THE THIRD QUARTER

The operating result (EBIT) of Stonesoft Corporation was 0.5 million positive during the third quarter whereas it was 0.5 million negative during the corresponding period in the previous year. Also the net sales of the company increased slightly compared to the corresponding period in the previous year and was EUR 6.0 (5.9) million. The development of the net sales met the expectations of the company. The operating profit was better than expected mainly in consequence of the structure of the sales materialized at the end of the period and its impacts to the company's cost structure and gross margin.

Summary

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

July-September 2009

- Net sales EUR 6.0 (5.9) million, growth 2%
- Product sales EUR 3.2 (3.3) million, decrease -3%
- Operating result EUR 0.5 (-0.5) million
- Operating result as percentage of net sales 9% (-9%)
- Earnings per share EUR 0.01 (-0.01)
- Cash flow EUR -1.2 (-0.6) million
- Interest bearing funds exceeded interest bearing debts by EUR 5.5 (7.3) million. The group did not have interest bearing debts.

January-September 2009

- Net sales EUR 17.1 (17.5) million, decrease -2%
- Product sales EUR 9.0 (10.6) million, decrease -15%
- The operating result EUR -1.1 (-2.1) million
- The operating result as percentage of net sales -7% (-12%)
- Cash flow EUR -1.5 (-1.7) million. The last part of the selling price of Embe Systems Oy, EUR 0.8 million has been removed from the total cash flow of the previous year.

Product sales has previously been referred to as "Stonesoft's core business, the sales of the StoneGate product family". The term has been changed because currently the product sales comprises in practice solely of StoneGate sales.

CEO Ilkka Hiidenheimo

Our longstanding efforts to develop the business of the company and to improve the efficiency of sales and cost management brought visible results during the third quarter of the year.

The operating profit (EBIT) of the company was clearly positive during the third quarter, or approximately EUR 0.5 (-0.5) million. Also the net sales of the company increased slightly compared to the corresponding period in the previous year.

I am particularly proud of the fact that despite the difficult market situation we were able to grow our sales and thus also our market share. Thanks to our employees' strong commitment and contribution we also managed to significantly improve the profitability of the company.

In our main market area, Europe, the product sales stayed on the same level as during the previous quarters. Our sales in America developed more positively than expected, but the sales in Russia did not meet our expectations during this quarter.

The success is based on the extremely competitive product offering that has been brought by our strong product development. The performance of our newest StoneGate

products meets the demands of the high capacity networks of enterprises and telecom operators today and in the near future. We have proven our ability to deliver comprehensive network solutions, which meet the exceptionally high demands of critical network environments and enable increased efficiency and flexibility.

NET SALES AND RESULT

July-September 2009 (hereinafter 'reporting period')

The group's net sales in the reporting period were EUR 6.0 (5.9) million. The growth compared to the corresponding period in the previous year was EUR 0.1 (1.8) million, or 2%. The operating result (EBIT) was EUR 0.5 (-0.5) million and the result after taxes was EUR 0.6 (-0.5) million.

The product sales, which consists practically of the sales of the StoneGate product family, were EUR 3.2 (3.3) million, a decrease of -3% compared to the corresponding period in the previous year. The StoneGate product family comprises of a firewall, VPN, SSL VPN and IPS (Intrusion detection and Prevention System) solutions.

The geographical distribution of net sales was as follows: Europe 60% (62%), Emerging Markets (Russia, North Africa and Middle East), 13% (17%) Americas (North and South America) 24% (15%) and APAC (Asia-Pacific) 3% (6%).

January-September 2009 (hereinafter 'fiscal period')

The group's net sales in the fiscal period were EUR 17.1 (17.5) million. The decrease compared with the previous year's corresponding period was EUR -0.4 million, or -2%. The operating result (EBIT) was EUR -1.1 (-2.1) million and the loss after taxes was EUR -1.0 (-1.9) million.

The product sales were EUR 9.0 (10.6) million, a decrease of -15% compared to the corresponding period in the previous year.

The geographical distribution of net sales was as follows: Europe 63% (61%), Emerging Markets (Russia, North Africa and Middle East) 15% (16%), Americas (North and South America) 19% (19%) and APAC (Asia-Pacific) 3% (4%).

Finance and investments

At the end of the fiscal period, the group's total assets were EUR 14.1 (15.2) million. The equity ratio was 45% (46%) and gearing (the ratio of net debt to shareholder's equity) -2.08 (-1.95). Consolidated liquid assets of the group at the end of the fiscal period totaled EUR 5.5 (7.3) million. Investments in tangible and intangible assets were EUR 0.3 (0.4) million.

In order to strengthen the company's capital structure and to ensure the continuance of the positive development in the future in line with the company's strategy and growth plan, the main shareholders of the company have confirmed to the Annual General Meeting held on March 26, 2009 their readiness to invest at least three (3) million Euros in the company in form of convertible bond or directed issuance of shares. The commitment is in force until the end of the AGM in 2010.

The company has not executed the convertible bond arrangement or directed issuance of shares.

DEVELOPMENT OF BUSINESS OPERATIONS

Main business events in the reporting period

- In July, Stonesoft introduced the new StoneGate FW-5105 firewall/VPN and StoneGate IPS-6105 intrusion prevention system appliances designed for most demanding high capacity environments. The new firewall offers up to 25 Gbit/s and the IPS appliance up to 10 Gbit/s performance.
- In August, Stonesoft introduced the new StoneGate SSL-1030 appliance that has been designed to meet the needs of small and medium-sized organizations. The

solution is also a valuable tool for MSSPs (Managed Security Service Providers), offering them a straightforward, simple way to fulfill the security and mobility requirements of their customers.

- In September, the US based Info Security Products Guide, industry's leading publication on security-related products and technologies named Stonesoft a winner of the 2009 Best Deployment Scenario Awards in the Firewall Solution category.
- In September, Stonesoft announced that its StoneGate VPN Client has passed the "Compatible with Windows 7" testing requirements for compatibility.

MAJOR EVENTS AFTER THE FISCAL PERIOD

In October, Stonesoft published advance information on the operating result of the third quarter, according to which the operating profit (EBIT) of the company was clearly positive during the third quarter, or approximately EUR 0,5 (-0.5) million. According to the advance information also the net sales of the company increased slightly compared to the corresponding period in the previous year.

REVIEW OF MAJOR RESEARCH AND DEVELOPMENT ACTIVITIES

Stonesoft continued its strong investments in R&D. The R&D investments during the fiscal period totaled EUR 3.6 (3.8) million, which represented 22% (22%) of operating expenses.

R&D employed 62 (67) persons at the end of the reporting period.

SHARE CAPITAL AND STOCK OPTION PROGRAMS

At the end of the fiscal period, Stonesoft's share capital recorded in the Trade Register totaled EUR 1 146 054.64. The number of shares was 57 302 732. The share capital remained unchanged.

Stock option programs

The company has two valid stock option programs, the Stock Option Program 2004-2010, the subscription price of which is EUR 0.56, and the Stock Option Program 2008-2014, the subscription price of which is EUR 0.30. During the fiscal period no subscriptions were made on the basis of the stock option programs for the key personnel of the company.

DEVELOPMENT OF SHARE PRICES AND TURNOVER

In the beginning of the fiscal period the price of Stonesoft's share was EUR 0.32 (0.29). At the end of the fiscal period the price was EUR 0.46 (0.38). The highest price was EUR 0.52 (0.50) and the lowest EUR 0.31 (0.24). The share price divided by earnings per share (P/E) at the end of the fiscal period was -27.2 (-10.7). During the fiscal period the total turnover of Stonesoft shares amounted to EUR 2.4 (4.0) million and 6.0 (11.8) million shares, which is 10.5 (20.5) % of the total amount of the shares. Based on the share price at the end of the fiscal period, Stonesoft's market value was EUR 26.4 (21.8) million.

NOTICES IN CHANGE OF OWNERSHIP

During the fiscal period, the company gave no notices of changes in ownership.

ACQUISITIONS AND CHANGES IN GROUP STRUCTURE

No acquisitions were made and no other changes in the group structure were implemented during the reporting period.

PERSONNEL

At the end of the fiscal period, the group's personnel totaled 173 (188).

AUTHORIZATIONS OF THE BOARD OF DIRECTORS

The Annual General Meeting held on March 26, 2009 decided to grant the Board of Directors an authorization, according to which the Board of Directors may decide to issue new shares in one or several issues and to grant option and other special rights. The total number of shares or rights to the shares issued may be 11.450.000 at the maximum.

Based on the authorization, the Board of Directors may decide to issue new shares for subscription according to the shareholders' pre-emptive subscription rights or in deviation from the shareholders' pre-emptive subscription right, or in a directed issue of option rights or other special 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 issue may be directed in whole or in part to the main shareholders of the company Ilkka Hiidenheimo and Hannu Turunen, who have confirmed still to be ready to invest at least three (3) million Euros in the company in form of convertible bond or directed issuance of shares 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 2010.

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 2010 AGM.

The Board of Directors has not used the granted authorization.

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

CORPORATE GOVERNANCE

Stonesoft Corporation complies with the Corporate Governance Recommendations for listed companies issued by the Confederation of Finnish Industries EK, the NASDAQ OMX Helsinki Ltd and the Central Chamber of Commerce in October 2008, as described on the web pages of the company.

RISKS AND BUSINESS UNCERTAINTIES IN THE NEAR FUTURE

In the current fiscal period, Stonesoft's main risks and business uncertainties relate to the realization timetable of the sales projects and possible productions disruption of our subcontractors and suppliers. In addition to these factors, the general economical uncertainty that has previously grown strongly seems to be diminishing.

With regard to the development of the turnover and the operating result, there is significant variation 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's risk management as well as internal control and internal audit are described in the company's Annual Report of 2008 and in the company's web site in the Corporate Governance section.

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 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 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' products because they are based on software solutions.

As security threats in the public sector increase, growing number of government organizations have started improving their protection against network attacks and for example 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 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.

Based on the existing sales pipeline and the already realized operating result and net sales, the company expects the annual operating result (EBIT) to be better than in the previous year (EUR -2.3 million) and the annual net sales to remain at the previous year's level. The net sales are expected to be EUR 24.3 million, +/- EUR 1.5 million.

Stonesoft Group

Income Statement (1000 Euro)	7- 9/2009	7-9/2008	1- 9/2009	1-9/2008	1- 12/2008
Continuing operations					
Net sales	5 965	5 861	17 087	17 491	24 427
Other operating income	188	299	694	871	1 275
Materials and services	-872	-792	-2 686	-2 686	-3 547
Personnel expenses	-3 055	-3 511	-10 344	-10 797	-14 796
Depreciation	-113	-135	-341	-364	-483
Other operating expenses	-1 568	-2 234	-5 548	-6 622	-9 161
Operating result	546	-511	-1 137	-2 108	-2 286
Financial income and expenses	131	97	280	216	276
Result before taxes	677	-415	-857	-1 892	-2 010
Taxes	-36	-51	-116	-150	-219
Result from continuing operations	640	-466	-973	-2 042	-2 229

Result from discontinued operations	0	0	0	186	186
Result for the accounting period	640	-466	-973	-1 856	-2 043
Other comprehensive income					
Exchange differences on translating foreign operations	-3	35	7	-23	-30
Total other comprehensive income	-3	35	7	-23	-30
Total comprehensive income	637	-431	-966	-1 879	-2 068
Basic earnings per share (EUR), continuing operations	0,01	-0,01	-0,02	-0,04	-0,04
Diluted earnings per share (EUR), continuing operations	0,01	-0,01	-0,02	-0,04	-0,04
Basic earnings per share (EUR), discontinued operations	0,00	0,00	0,00	0,00	0,00
Diluted earnings per share (EUR), discontinued operations	0,00	0,00	0,00	0,00	0,00

Stonesoft Group
Balance Sheet (1000 Euro)

30.9.2009 30.9.2008 31.12.2008

ASSETS

Non-Current Assets

Tangible assets	552	724	692
Intangible assets	162	114	104
Other investments	10	10	10
Deferred tax assets	0	0	0
Total	725	848	806

Current assets

Inventories	541	852	911
Trade and other receivables	7 249	6 115	7 371
Prepayments	64	110	19
Marketable securities	4 742	6 543	6 310
Cash and cash equivalents	779	711	738
Total	13 376	14 331	15 348

Total assets	14 100	15 179	16 154
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EQUITY AND LIABILITIES

Equity attributable to equity holders of the parent company

Share capital	1 146	1 146	1 146
Share premium account	76 821	76 821	76 821
Conversion differences	-945	-950	-951
Retained earnings	-74 372	-73 295	-73 473
Total	2 650	3 722	3 543

Long-term liabilities

Provisions		0	36	26
Other long-term liabilities	(*)	2 626	2 160	2 336
Total		2 626	2 196	2 363
Short-term liabilities				
Trade and other payables	(*)	8 634	9 090	9 991
Tax liability		80	39	41
Provisions		110	127	214
Short-term interest bearing liabilities		0	5	2
Total		8 824	9 261	10 248
Total liabilities		11 450	11 457	12 611
Total equity and liabilities		14 100	15 179	16 154
*) Other liabilities include customers' pre-paid maintenance agreements periodicity				
		8 187	7 097	8 372

Stonesoft Group
Statement of changes in equity
(1000 Euro)

	Share capital	Share premium	Conversion differences	Retained earnings	Total
Shareholders' equity at 1.1.2008	1 146	76 821	-927	-71 461	5 579
Comprehensive income			-23	-1 856	-1 879
Stock options		23			23
At the closing on 31.12.2008 transferred stock option expenses accumulated retained earnings					
Shareholders' equity at 30.6.2008		-23		23	0
	1 146	76 821	-950	-73 295	3 722
	Share capital	Share premium	Conversion differences	Retained earnings	Total
Shareholders' equity at 1.1.2009	1 146	76 821	-951	-73 473	3 543
Comprehensive income			7	-973	-966
Stock options				73	73
Shareholders' equity at 30.6.2009	1 146	76 821	-945	-74 372	2 650

Stonesoft Group

Cash flow statement (1000 Euro)	1.1.- 30.9.2009	1.1.- 30.9.2008	1.1.- 31.12.2008
Cash flow from operating activities			
Operating Result	-1 137	-2 108	-2 286
Adjustments			
Non-cash transactions	-7	134	319
Financial expenses	-94	-43	-93
Financial incomes	248	259	375
Change in net working capital	-307	639	614
Taxes paid	-101	-149	-218
Total cash flow from operating activities	-1 398	-1 268	-1 288
Cash flow from investing activities			
Investments in tangible assets	-163	-345	-422
Investments in intangible assets	-97	-66	-66
Investments in affiliated company	0	0	0

Investments in other shares	0	-10	-10
Net cash flow investing activities continuing operations	-259	-421	-498
Net cash flow investing activities discontinued operations	0	761	761
Total cash flow investing activities	-259	340	263
Cash flow from financing activities			
Payments of financial leasing liabilities	-2	-69	-72
Total cash flow from financing activities	-2	-69	-72
Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period	7 048	8 210	8 210
Conversion differences	7	-23	-30
Changes in the market value of investments	126	64	-34
Total cash and cash equivalents at end of period *)	5 521	7 254	7 048
*) Total cash and cash equivalents at end of the period contains pledged securities	316	282	315

Stonesoft Group
Geographical segments 1.1.-30.9.2009 1.1.-30.9.2008 1.1.-31.12.2008
(1000 Euro)

Net sales			
Europe	10 737	10 593	14 740
Emerging Market	2 589	2 864	4 123
Americas	3 275	3 262	4 495
APAC	487	772	1 069
Total net sales	17 087	17 491	24 427

Operating profit			
Europe	40	-1 025	-1 061
Emerging Market	-10	78	338
Americas	-1 074	-1 097	-1 532
APAC	-93	-63	-31
Total operating profit	-1 137	-2 108	-2 286

Stonesoft Group
Contingent liabilities 1.1.-30.9.2009 1.1.-30.9.2008 1.1.-31.12.2008
(1000 Euro)

Contingent off-balance sheet			
Non-cancelable other leases			
Contingent liabilities for the Company	2 683	3 711	3 377
	27	27	63

Stonesoft Group
Related party information 1.1.-30.9.2009 1.1.-30.9.2008 1.1.-30.9.2008
(1000 Euro)

Consultation fees paid to the Board of Directors	0	0	0
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Stonesoft Group Quarterly development (Euro Millions)	Q3 / 2009	Q2 / 2009	Q1 / 2009	Q4 / 2008	Q3 / 2008	Q2 / 2008	Q1 / 2008	2008
Software	0,4	0,3	0,4	1,0	0,5	0,7	0,4	2,6
Security appliances	2,9	3,1	2,0	3,4	2,8	3,4	2,8	12,3
Services	2,7	2,7	2,6	2,6	2,4	2,3	2,2	9,5
Other products	0,0	0,0	0,1	0,0	0,1	0,0	-0,1	0,1

Net sales continuing operations	6,0	6,0	5,1	6,9	5,9	6,4	5,3	24,4
Change-% from previous year	2	-5	-3	19	45	32	22	28
Sales margin	5,1	4,9	4,4	6,1	5,1	5,4	4,3	20,9
Sales margin %	85	81	86	88	86	85	82	85
Operative expenses	4,7	5,8	5,7	6,6	5,9	6,0	5,8	24,4
Operating profit (EBITA)	0,5	-0,6	-1,1	-0,2	-0,5	-0,4	-1,2	-2,3
% of net sales	9	-9	-22	-3	-9	-6	-24	-9
Result before taxes	0,7	-0,5	-1,0	-0,1	-0,4	-0,3	-1,2	-2,0
% of net sales	11	-8	-20	-2	-7	-4	-23	-8

Stonesoft Group

Key ratios (1000 Euro)	1.1.-30.9.2009	1.1.-30.9.2008	1.1.-31.12.2008
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Net sales, continuing operations	17 087	17 491	24 427
Net sales change-%	-2	32	28
Operating result, continuing operations	-1 137	-2 108	-2 286
% of net sales	-7	-12	-9
Operating result before taxes	-857	-1 892	-2 010
% of net sales	-5	-11	-8
ROE - %, annualized, continuing operations	-42	-59	-49
ROI - %, annualized	-31	-51	-40
Equity ratio-%	45	46	46
Net gearing	-2,08	-1,95	-1,99
Total Assets	14 100	15 179	16 154
Capital expenditure	259	411	488
Capital disposals	20	0	0
R&D costs	3 614	3 849	5 230
% of net sales	21	22	21
Number of employees (weighted average)	180	182	183
Number of employees (end of the period)	173	188	185

Share Specific Ratios

Earnings per share, continuing operations	-0,02	-0,04	-0,04
Earnings per share, discontinued operations	0,00	0,00	0,00
Equity per share	0,05	0,06	0,06
Dividend	0,00	0,00	0,00
Dividend per share (EUR)	0,00	0,00	0,00
Dividend / Profit-%	0	0	0

Calculation of indicators

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

Earning per share (EPS) =	Profit before taxes - minority interest - income taxes / Average number of shares adjusted for dilutive effect of options
Equity per share =	Equity / Number of shares at end of period

ACCOUNTING PRINCIPLES

This Interim Report is prepared in accordance with IAS 34 standard.

Stonesoft Group has changed its bookkeeping practice regarding consulting fees for consultants working full-time for Stonesoft sales and presales functions starting from January 1, 2008. According to the new practice these fees are included in the other operating expenses. The figures of the previous year have been adjusted to be comparable with the new bookkeeping practice. In all other aspects the Group has adapted the same accounting principles and reporting standards as in the Financial Statement for 2007.

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 presented figures are unaudited.

PRESS CONFERENCE

A press conference for analysts and investors will be held on October 23, 2009 at 10.30 am at the Stonesoft headquarters, street address Itälahdenkatu 22 A, 00210 Helsinki.

For additional information, please contact:
Ilkka Hiidenheimo, CEO, Stonesoft Corporation
Tel. +358 9 476 711
E-mail: ilkka.hiidenheimo@stonesoft.com

Mikael Nyberg, CFO, Stonesoft Corporation
Tel. +358 9 476 711
E-mail: mikael.nyberg@stonesoft.com

Stonesoft Corporation
Ilkka Hiidenheimo
CEO

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

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