

STONESOFT CORPORATION'S INTERIM REPORT FOR JANUARY-MARCH 2010

StoneGate sales back to growth path, net sales clearly improved

Stonesoft Corporation's operating result for the first quarter improved clearly and was MEUR -0.2 or MEUR 0.9 better than during the corresponding period in the previous year. The company's product sales grew to MEUR 3.3, a growth of 38% from the previous year. Total net sales were MEUR 6.2, which is 21% higher than in the corresponding period in the previous year. Cash flow was MEUR 0.7, which is MEUR 0.4 better than in the corresponding period in the previous year.

Summary

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

January-March 2010

- Net sales MEUR 6.2 (5.1), growth 21%
- Product sales MEUR 3.3 (2.4), growth 38%
- Operating result MEUR -0.2 (-1.1)
- Operating result as percentage of net sales -3 % (-22 %)
- Earnings per share -0.00 (-0.02) EUR
- Cash flow 0.7 (0.3) MEUR
- Liquid cash funds at the end of the reporting period MEUR 11.5 (7.4). The corporate had no interest-bearing debts.

CEO Ilkka Hiidenheimo

The positive development of Stonesofts' business continued in the first quarter of year 2010. The company's net sales grew strongly and was MEUR 6.2, which is 21% more than in the previous year. StoneGate product sales returned to positive figures and operating result was MEUR -0.2, which was 81% better than in the previous year and a big step towards better profitability. Cash flow was MEUR 0.7 and positive for already the third consecutive quarter, and with the directed share issue implemented in March the company strengthened its capital structure by MEUR 4.6.

StoneGate products received once again international recognition. In January, we announced that our IPS (intrusion prevention system) appliances had performed well in the tests of the US-based NSS Labs Inc. testing and certification company.

We further strengthened our product offering by introducing new software versions and the StoneGate SSL VPN Virtual Appliance, along which we extended our offering of network security solutions for virtual environments to cover our whole product portfolio.

In March we implemented a directed share issue to strengthen the company's capital structure and to ensure the positive development according to the company's strategy and growth plan. In the share issue, 5,700,000 new shares were subscribed for and released for experienced and professional domestic investors. Due to the share issue, we have now even better conditions for developing our business according to our targets.

We further continued expanding our operations in the emerging markets. In March, we announced that we have signed partnership agreements with four (4) Saubi-Arabian system integrators and that we are going to establish a representative office in Riyadh, Kingdom of Saudi Arabia during spring 2010. In addition, we signed a partnership agreement with Teamsun Technology, which is one of the leading IT service providers in China.

During the first quarter of 2010 we have strengthened our capital structure and competitiveness as well as taken steps in several markets that are significant for the company's business. I believe we have a strong basis and all the prerequisites to make a positive result for the full year 2010.

NET SALES AND RESULT

January-March 2010

The Group's net sales increased by MEUR 1.1 compared to the corresponding period in the previous year, or grew by 21% and were MEUR 6.2 (5.1). The operating result (EBIT) was MEUR -0.2 (-1.1) and the result after taxes was MEUR -0.1 (-1.0).

Product sales were MEUR 3.3 (2.4), or 38% more than in previous year's corresponding quarter.

The geographical distribution of net sales was as follows: Europe 59% (67%), Emerging Markets (Russia, North Africa and Middle East) 21% (10%), Americas (North and South America) 18% (20%) and APAC (Asia-Pacific) 2% (3%).

Finance and investments

At the end of reporting period, the Group's total assets were MEUR 21.2 (14.5). The equity ratio was 63% (44%) and gearing (the ratio of net debt to shareholder's equity) -1.63 (-2.92). Liquid cash funds at the end of the reporting period were MEUR 11.5 (7.4). The corporate had no interest bearing debts. Investments in tangible and intangible assets were MEUR 0.1 (0.1).

In March Stonesoft Corporation's Board of Directors implemented, based on the authorization granted by the Annual General Meeting of Shareholders on 26 March 2009, a share issue in deviation from the shareholders' pre-emption rights by offering a maximum number of 5,700,000 new shares to experienced and professional domestic investors for subscription against payment. The company's own capital grew thereby by MEUR 4.4. In the implemented directed share issue the main shareholders of the company, Ilkka Hiidenheimo and Hannu Turunen, did not subscribe for new shares according to their commitment to the AGM held on 26 March, 2009. The commitment is in force until the end of the AGM in 2010.

DEVELOPMENT OF BUSINESS OPERATIONS

Main business events in the reporting period

In January, Stonesoft announced the StoneGate Firewall 5.1 and StoneGate Management Center 5.1 versions.

In January Stonesoft announced that its IPS (intrusion prevention system) appliances had performed well in the tests of the US-based NSS Labs Inc. testing and certification company.

In February, Stonesoft warned organizations about heightened security risks associated with recent trends such as credit card payments, social media, cloud computing and mobility.

In March, Stonesoft introduced the new StoneGate SSL VPN Virtual Appliance, SSL VPN 1.4 and SSL-1060 for secure mobile and remote access.

In March, Stonesoft conducted a directed share issue based on the authorization granted by the Annual General Meeting of Shareholders on 26 March 2009 and offered in deviation from the shareholders' pre-emption rights a maximum number of 5,700,000 new shares for subscription against payment for experienced and professional domestic investors.

In March, Stonesoft announced it had signed partnership agreements with four leading Saudi-Arabian system integrators and is in the process to establish a representative office in Riyadh, Kingdom of Saudi Arabia during spring 2010.

In March, Stonesoft announced it has entered a value added reseller agreement with Teamsun Technology, a leading integrated IT service provider in China.

MAIN BUSINESS EVENTS AFTER THE REPORTING PERIOD

No main events.

Resales channel

The company sales are mainly conducted through an international resales channel.

REVIEW OF MAJOR RESEARCH AND DEVELOPMENT ACTIVITIES

Stonesoft continued its strong investments in R&D. Investments during the reporting period totaled MEUR 1.5 (1.3). This represented 26% (22%) of operating expenses.

R&D employed 70 (66) persons at the end of the reporting period.

SHARE CAPITAL AND STOCK OPTION PROGRAMS

At the end of the reporting period, Stonesoft's share capital recorded in the Trade Register totaled EUR 1 146 054.64. The number of shares was 63 002 732. The share capital remained unchanged.

The Board of Directors of Stonesoft Corporation decided on 19 March 2010, based on the authorization granted by the Annual General Meeting of Shareholders on 26 March 2009, about a directed share issue for a limited number of experienced and professional domestic investors. In the share issue, a maximum number of 5.700.000 new shares were offered for subscription, which corresponds to a maximum of 9.95% of all the shares in the company and the voices attached to said shares prior to implementing the share issue. The directed share issue was subscribed for in full and the new shares were registered in the Finnish Trade Register on 23 March 2010. The new shares were admitted for trading on Main market of NASDAQ OMX Helsinki Ltd on 23 March 2010 together with the existing shares of the company.

Stock option programs

The company has two valid stock option programs, Stock Option Program 2004-2010, the subscription price of which is EUR 0.56, and Stock Option Program 2008-2014, the subscription price of which is EUR 0.30.

During the reporting period 33.750 subscriptions were made on the basis of the stock option program 2004-2010. Shares have not been registered in the Finnish Trade Register during the reporting period or been admitted to public trading.

DEVELOPMENT OF SHARE PRICES AND TURNOVER

In the beginning of the reporting period the price of Stonesoft share was EUR 0.70 (0.32). At the end of the reporting period the price was EUR 0.96 (0.36). The highest price was EUR 1.19 (0.42) and the lowest EUR 0.69 (0.31). During the reporting period the total turnover of Stonesoft shares amounted to MEUR 7.0 (0.5). Based on the share price at the end of the reporting period, Stonesoft's market value was MEUR 60.5 (20.6).

NOTICES IN CHANGE OF OWNERSHIP

The company gave three (3) notices in change of ownership during the reporting period.

ACQUISITIONS AND CHANGES IN GROUP STRUCTURE

No acquisitions were made during the reporting period. The subsidiary in Brazil was closed down in March. A subsidiary with the main task of product development was established in Poland.

PERSONNEL

At the end of the reporting period, the Group's personnel totaled 185 (185).

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.

As stated in section "Share capital and stock option programs", the Board of Directors used the authorization on 19 March 2010, based on which 5.700.000 new shares were subscribed for in a directed share issue. In the implemented directed share issue the main shareholders of the company, Ilkka Hiidenheimo and Hannu Turunen, did not subscribe for new shares.

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 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 October 2008, with the exemption of recommendations concerning the establishment of Board committees. The Board of Directors has decided not to establish any Board committees due to the size of the Board and the size of the company. A more detailed description of the Corporate Governance principles of Stonesoft Corporation is available at the corporate website.

Short-term risks and business uncertainties

During the fiscal year 2010, 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.

The company's risk management and risk management principles are discussed more extensively at the company's website and in the Annual Report 2009.

FUTURE OUTLOOK

According to the research company Gartner, Inc. the enterprise network equipment market that declined by 19% during 2009, is estimated to recover to annual growth of 4.7% during 2010.

Stonesoft's products protect large and critical network environments that require advanced network security. During 2009 the company has launched security solutions that meet the capacity needs of 10 Gbps networks. Large enterprises are currently making a transition to 10 Gbps networks, which will fulfill their needs today and in the near future. Large network environments are under constant change pressures, because companies strive for increasingly efficient operations and at the same time need to adapt to rapidly changing competitive situations. This sets special demands to the flexibility and manageability of security solutions. Many traditional security companies and products are not able to adapt to these changes fast enough. Stonesoft has always stood out as a company and with its product through its flexibility and ability to quickly meet its customers' changing needs.

The strong growth of MSSP (Managed Security Service Provider)-, virtualization, SAAS (Software as a Service) and cloud services has created a need for ensuring network security and business continuity also in new environments. The management features of StoneGate, the scalability of the appliance based product family and the excellent suitability of the product for virtual environments offer an optimal system for these environments.

As security threats in the public sector increase, a growing number of government organizations have started improving their protection against network attacks and for example cyber espionage. StoneGate products offer a comprehensive, centrally managed protection and are ideally suited for the needs of the public sector. Currently Stonesoft's network security solutions are used by more than 50 government departments at five continents around the world.

The relative importance of the operability and availability of data networks to business is continuously increasing. This has led to the growth of the demands to network security design and to the need to achieve a comprehensive overview of the state of the network and data communications. This strengthens Stonesoft's competitive position. We are specialized in delivering comprehensive network security solutions, which meet also the exceptionally high demands of critical network environments and enable increased efficiency and flexibility.

Stonesoft will continue its decisive and persistent efforts to increase its net sales and operating result. During the year 2010 the company expects its net sales to grow from the previous year's level and the result to be positive.

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, a relatively big impact of individual deals, and the variation between the quarters in the previous year.

Stonesoft Group
Income Statement
(1000 Euros)

	1-3/2010	1-3/2009	1-12/2009
Continuing operations			
Net sales	6 156	5 084	23 597
Other operating income	241	164	969
Materials and services	-835	-693	-3 539
Personnel expenses	-3 802	-3 603	-14 004
Depreciation	-107	-115	-454
Other operating expenses	-1 848	-1 969	-7 616
Operating result	-195	-1 133	-1 048

Financial income and expenses	151	104	316
Result before taxes	-45	-1 029	-731
Taxes	-29	-35	-240
Result for the accounting period	-73	-1 064	-971
Other comprehensive income			
Exchange differences on translating foreign operations	-10	20	15
Total other comprehensive income	-10	20	15
Total comprehensive income	-83	-1 044	-956
Basic earnings per share (EUR), continuing operations	-0.00	-0,02	-0,02
Diluted earnings per share (EUR), continuing operations	-0.00	-0,02	-0,02

Stonesoft Group			
Balance Sheet (1000 Euros)	31.3.2010	31.3.2009	31.12.2009

ASSETS

Non-Current Assets

Tangible assets	516	633	494
Intangible assets	165	181	176
Other investments	10	10	10
Total	691	824	680

Current assets

Inventories	565	828	673
Trade and other receivables	8 347	5 353	8 383
Prepayments	119	72	67
Marketable securities	10 477	6 666	5 240
Cash and cash equivalents	991	717	970
Total	20 499	13 637	15 333

Total assets	21 190	14 461	16 013
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EQUITY AND LIABILITIES

Equity attributable to equity holders of the parent company

Share capital	1 146	1 146	1 146
Issue of shares	19	0	0
Share premium account	76 821	76 821	76 821
Conversion differences	-946	-931	-936
Reserve for invested unrestricted equity fund	4 392	0	0
Retained earnings	-74 407	-74 511	-74 346
Total	7 025	2 525	2 685

Long-term liabilities

Prepayments *)	2 635	2 398	2 606
Total	2 635	2 398	2 606
Short-term liabilities			
Trade and other payables	4 020	2 893	3 943
Prepayments *)	7 386	6 340	6 660
Tax liability	76	101	81
Provisions	49	204	37
Short-term interest bearing liabilities	0	1	0
Total	11 531	9 538	10 722
Total liabilities	14 165	11 937	13 328
Total equity and liabilities	21 190	14 461	16 013
*) Prepayments contain customers advance payment of support and maintenance contracts	10 021	8 739	9 267

Stonesoft Group
Statement of changes in equity
(1000 Euros)

	Share capital	Issue of shares	Share premium	Conversion differences	Reserve for invested unrestricted equity fund	Retained earnings	Total
Shareholders' equity at 1.1.2009	1 146	0	76 821	-951	0	-73 473	3 543
Comprehensive income				20		-1 064	-1 044
Directed share issue					0		0
Transaction costs from equity					0		0
Stock options exercised		0					0
Stock option expenses						25	25
Shareholders' equity at 31.3.2009	1 146	0	76 821	-931	0	-74 511	2 525

	Share capital	Issue of shares	Share premium	Conversion differences	Reserve for invested unrestricted equity fund	Retained earnings	Total
Shareholders' equity at 1.1.2010	1 146	0	76 821	-936	0	-74 346	2 685
Comprehensive income				-10		-73	-83
Directed share issue					4 560		4 560
Transaction costs from equity					-168		-168
Stock options exercised		19					19
Stock option expenses						12	12
Shareholders' equity at 31.3.2010	1 146	19	76 821	-946	4 392	-74 407	7 025

Stonesoft Group			
Cash flow statement (1000 Euros)	1.1.-31.3.2010	1.1.-31.3.2009	1.1.-31.12.2009
Cash flow from operating activities			
Operating Result	-195	-1 133	-1 048

Adjustments			
Non-cash transactions	-285	105	644
Financial expenses	0	-30	-129
Financial incomes	127	82	336
Change in net working capital	1 334	1 410	-226
Taxes paid	-29	-35	-210
Total cash flow from operating activities	952	399	-632
Cash flow from investing activities			
Investments in tangible assets	-114	-44	-202
Investments in intangible assets	-4	-90	-126
Investments in other shares	0	0	0
Total cash flow investing activities	-118	-134	-328
Cash flow from financing activities			
Proceeds from issue of share capital	4 392	0	0
Stock options exercised	19	0	0
Payments of financial leasing liabilities	0	-1	-2
Total cash flow from financing activities	4 411	-1	-2
Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period	6 210	7 048	7 048
Conversion differences	35	20	15
Changes in the market value of investments	-21	52	109
Total cash and cash equivalents at end of period *)	11 469	7 383	6 210
*) Total cash and cash equivalents at end of the period contains pledged securities	471	333	452

Stonesoft Group			
Geographical segments	1.1.-31.3.2010	1.1.-31.3.2009	1.1.-31.12.2009
(1000 Euros)			

Net sales			
Europe	3 622	3 402	15 182
Emerging Market	1 296	497	3 162
Americas	1 110	1 013	4 605
APAC	128	171	648
Total net sales	6 156	5 084	23 597
Operating profit			
Europe	-135	-461	546
Emerging Market	304	-102	-327
Americas	-348	-569	-1 180
APAC	-16	-1	-87
Total operating profit	-195	-1 133	-1 048

Stonesoft Group			
Contingent liabilities	1.1.-31.3.2010	1.1.-31.3.2009	1.1.-31.12.2009
(1000 Euros)			
Contingent off-balance sheet			
Non-cancelable other leases	2 386	2 987	2 541
Contingent liabilities for the Company	121	63	117

Stonesoft Group Quarterly development (Euro Millions)	Q1 / 2010	Q4 / 2009	Q3 / 2009	Q2 / 2009	Q1 / 2009	2009
Software	0,3	0,6	0,4	0,3	0,4	1,6
Security appliances	2,9	3,1	2,9	3,1	2,0	11,0
Services	2,9	2,8	2,7	2,7	2,6	10,9
Other products	0,1	0,0	0,0	0,0	0,1	0,1
Net sales continuing operations	6,2	6,5	6,0	6,0	5,1	23,6
Change-% from previous year	21	-6	2	-5	-3	-3
Sales margin	5,3	5,7	5,1	4,9	4,4	20,1
Sales margin %	86	87	85	81	86	85
Operative expenses	5,7	5,8	4,7	5,8	5,7	22,0
Operating profit (EBITA)	-0,2	0,1	0,5	-0,6	-1,1	-1,0
% of net sales	-3	1	9	-9	-22	-4
Result before taxes	0,0	0,1	0,7	-0,5	-1,0	-0,7
% of net sales	-1	2	11	-8	-20	-3

Stonesoft Group Key ratios (1000 Euros)	1.1.-31.3.2010	1.1.-31.3.2009	1.1.-31.12.2009
Net sales, continuing operations	6 156	5 084	23 597
Net sales change-%	21	-3	-3
Operating result, continuing operations	-195	-1 133	-1 048
% of net sales	-3	-22	-4
Operating result before taxes	-45	-1 029	-731
% of net sales	-1	-20	-3,10
ROE - %, annualized, continuing operations	-6	-140	-31
ROI - %, annualized	-4	-125	-19
Equity ratio-%	63	44	40
Net gearing	-1,63	-2,92	-2,31
Total Assets	21 190	14 461	16 013
Capital expenditure	118	134	328
Capital disposals	0	20	19
R&D costs	1 481	1 261	4 918
% of net sales	24	25	21
Number of employees (weighted average)	181	185	178
Number of employees (end of the period)	185	185	174
Share Specific Ratios			
Earnings per share, continuing operations	0,00	-0,02	-0,02
Equity per share	0,11	0,04	0,05
Dividend	0,00	0,00	0,00
Dividend per share (EUR)	0,00	0,00	0,00
Dividend / Profit-%	0	0	0

Calculation of indicators

Return on equity (ROE) % =
$$\frac{(\text{Profit before taxes} - \text{income taxes}) \times 100}{\text{Shareholders' equity} + \text{minority}}$$

interest (average)

Return on invested capital (ROI) % =
$$\frac{(\text{Profit before extraordinary items} + \text{interest and other financial expenses}) \times 100}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$$

Equity ratio % =
$$\frac{(\text{Equity} + \text{minority interest}) \times 100}{\text{Balance sheet total} - \text{advances received}}$$

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

Earning per share (EPS) =
$$\frac{\text{Profit before taxes} - \text{minority interest} - \text{income taxes}}{\text{Average number of shares adjusted for dilutive effect of options}}$$

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

ACCOUNTING PRINCIPLES

This Interim Report Release has been prepared in accordance with IAS 34 standard.

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 April 22, 2010 at 10.30 am at the Stonesoft headquarters, street address Itälahdenkatu 22 A, 00210 Helsinki.

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