

STONESOFT CORPORATION INTERIM REPORT FOR JANUARY-MARCH 2011

StoneGate product sales grew, cash flow clearly positive in the first quarter of the year

Stonesoft Corporation's StoneGate product sales grew by 10% and net sales by 6% compared to the corresponding period in the previous year. Operating result remained negative and was MEUR -0.8, which is MEUR -0.6 weaker than in the corresponding period in the previous year. The company continued investments in commercializing the research findings related to advanced evasion techniques, which resulted in increased expenses compared to previous year's corresponding period.

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

January-March 2011

- Net sales MEUR 6.5 (6.2), growth 6%
- Product sales MEUR 3.6 (3.3), growth 10%
- Operating result MEUR -0.8 (-0.2)
- Operating result as percentage of net sales -13 (-3)%
- Earnings per share EUR -0.01 (-0.00)
- Operative cash flow MEUR 1.8 (0.7)
- Liquid cash funds at the end of the fiscal period MEUR 9.8 (11.5). The corporate had no interest-bearing debts.

CEO ILKKA HIIDENHEIMO

In the first quarter of the year 2011 the StoneGate product sales grew by 10% and net sales by 6%. Cash flow was strongly positive. This development was according to our expectations.

In February we delivered CERT-FI 124 new recordings of advanced evasion techniques (AETs). We will continue to research the threats posed by AETs to strengthen our unique competitive advantage on the market related to evasion techniques.

As a result of the security breach against RSA, the authentication details of even more than 40 million SecurID users may have gotten into wrong hands. Many organizations have taken measures to strengthen their security. On the other hand, uncertainty about the security of authentication methods has led many to postpone the implementation of cloud services. In March we introduced the dynamic, software based StoneGate Authentication solution, which combines several different authentication methods, enabling secure use of cloud services.

The numerous security breaches targeted especially against security companies that have occurred around the world lately have once again proven that there are organizations and/or individuals who are capable of executing very advanced targeted attacks. Even organizations who should have security systems of a very high level have lost business critical data. These incidents have increased organizations' need to re-evaluate the level of their security and increase investments as well as further strengthen our view about the necessity of dynamic security.

NET SALES AND RESULT

January-March 2011

The Group's net sales in the fiscal period were MEUR 6.5 (6.2). Increase compared to the corresponding period in the previous year was MEUR 0.4, or 6%. The operating result (EBIT) was MEUR -0.8 (-0.2) and the result after taxes was MEUR -0.7 (-0.1).

Product sales were MEUR 3.6 (3.3), growth by 10% compared to the corresponding quarter in the previous year.

The geographical distribution of net sales was as follows: Europe 56 (59)%, Emerging Markets (Russia, North Africa and Middle East) 28 (21)%, Americas (North and South America) 13 (18)% and APAC (Asia-Pacific) 3 (2)%.

FINANCE AND INVESTMENTS

At the end of the fiscal period, Stonesoft's total assets were MEUR 19.5 (21.2). The equity ratio was 46 (63) % and gearing (the ratio of net debt to shareholders' equity) was -2.53 (-1.63).

The comparable cash flow during the fiscal period was MEUR 1.8 (0.7). The Group has no interest-bearing debt. The consolidated liquid assets at the end of the fiscal period totalled MEUR 9.8 (11.5).

Investments in tangible and intangible assets totalled MEUR 0.3 (0.1).

DEVELOPMENT OF BUSINESS OPERATIONS

Main business events in the fiscal period

In January, Stonesoft announced its predictions for the most significant security threats in 2011.

In January, Stonesoft announced its StoneGate™ IPS-1205 and IPS-3205 intrusion prevention system (IPS) appliances were rated excellent in value purchase according to the latest Network Intrusion Prevention System Comparative Test Report from NSS Labs, Inc. Both appliances ranked in the top three in their respective performance categories for best price per Mbps protected and total cost of ownership (TCO) per real world throughput.

In February, Stonesoft announced it has discovered 124 new advanced evasion techniques (AETs).

In March, Stonesoft published advice for organisations to protect themselves against Advanced Evasion Techniques.

In March, Stonesoft announced the availability of its new StoneGate Authentication solution for secure remote access to the cloud services. The solution combines multiple authentication methods, providing secure remote access to cloud services.

Main business events after the fiscal period

In April, Stonesoft announced it has expanded its partnered offering with OptimeSys.

In April, the Annual General Meeting of Shareholders re-elected Ilkka Hiidenheimo, Jukka Manner, Timo Syrjälä and Hannu Turunen as Board members and Harri Koponen as a new Board member.

RESEARCH AND DEVELOPMENT

Stonesoft continued its strong investments in R&D. Investments during the fiscal period totalled MEUR 1.5 (1.5). This represented 23 (26)% of operating expenses.

R&D employed 74 (70) persons at the end of the fiscal period.

SHARE CAPITAL AND STOCK OPTION PROGRAMS

Stonesoft has one class of shares and all shares have equal rights. At the end of the fiscal period, the share capital recorded in the Trade Register was 1 150 574.64 Euros. The number of shares was 63 312 482. Stonesoft or its daughter companies do not own its shares. There were no changes in the share capital.

Stock Option Programs

The company had one valid stock option program, Stock Option Program 2008-2014, under which the subscription price is EUR 0.30 and the total number of stock options to be granted based on this program is 3 000 000 at the maximum. The subscription period of the shares is graded and will end for all stock options on December 31, 2014.

During the fiscal period no subscriptions were made on the basis of the Stock Option Program 2008-2014.

DEVELOPMENT OF SHARE PRICES AND TURNOVER

In the beginning of the fiscal period on January 3, 2011, the price of Stonesoft share was EUR 0.58 (0.70). At the end of the fiscal period on 31 March 2011 the price was EUR 0.56 (0.96). The highest price was EUR 0.64 (1.19) and the lowest EUR 0.51 (0.69). During the fiscal period the total turnover of Stonesoft shares amounted to MEUR 2.3 (7.0) and 3.8 (11.1) million shares, which is 6.1 (19.4) % of the total amount of the shares. Based on the share price at the end of the fiscal period on March 31, 2011, Stonesoft's market value was MEUR 35.5 (60.5).

The company gave no notices in change of ownership during the fiscal period.

ACQUISITIONS AND CHANGES IN GROUP STRUCTURE

No acquisitions were made during the fiscal period and there were no changes in the Group structure.

PERSONNEL

At the end of the fiscal period, the Group's personnel totalled 195 (185).

ANNUAL GENERAL MEETING AND AUTHORIZATIONS OF THE BOARD OF DIRECTORS

The Annual General Meeting (AGM) of Stonesoft Corporation held on April 13, 2011 confirmed the financial statements of the fiscal year 1.1.2010-31.12.2010 and granted release from liability for the members of the Board of Directors and the Chief Executive Officer (CEO). AGM decided that no dividends are paid for the fiscal year 2010.

AGM re-elected Ilkka Hiidenheimo, Jukka Manner, Timo Syrjälä and Hannu Turunen as a Board member and Harri Koponen as a new Board member.

The Board of Directors did not use the authorization granted by the previous AGM that expired at the end of the AGM 2011. The AGM decided on 13.4.2011 to authorize the Board of Directors of the company to decide about one or more share issues as well as the issuance of option and other special rights so that the total number of new shares may be 12 600 000 at the maximum.

Based on the authorization the Board of Directors may decide on issuance of shares to the shareholders according to the shareholders' pre-emptive subscription rights as well as in a directed issuance of shares or stock options or other special rights in deviation from the shareholders' pre-emptive subscription rights in case the deviation is justified by a weighty financial reason for the company, such as financing of an acquisition, other arrangement concerning the business of the company or development of its capital structure, or incentive to the company's personnel.

The Board of Directors was authorized to decide on other terms and conditions related to the share issues and to the issuance of option or other special rights.

The authorization is in force until the end of the 2012 AGM.

The Board of Directors is not authorized to purchase the company's own shares.

SHORT-TERM RISKS AND BUSINESS UNCERTAINTIES

During the fiscal year 2011, Stonesoft's main risks and business uncertainties relate to the realization timetable of the sales projects and possible production disruption of our subcontractors and suppliers. In addition, the recent political restlessness in North Africa and Middle East may have a negative impact on the company's business operations in these markets. The company has no risks related to the order book, because it normally can process incoming orders within a couple of work days.

FUTURE OUTLOOK

According to the research company Infonetics, the enterprise network equipment and software market is estimated to grow by 4% during 2011.

Stonesoft's products meet the new security challenges brought by cloud services, virtualization and outsourcing of security.

Advanced evasion techniques

In 2010 Stonesoft announced it had discovered a new network security threat category, advanced evasion techniques (AETs). In February 2011 Stonesoft announced it has discovered 124 new advanced evasion techniques.

The most efficient protection against the threat posed by advanced evasions techniques is provided by flexible software-based systems, which can detect advanced evasion techniques and are remotely updated and centrally managed. Stonesoft's network security solutions fulfill these criteria.

The security breaches that have lately been targeted especially against security companies around the world have made many parties understand the importance of security and demand organizations to take additional measures to strengthen their security. Instead of speed or performance, the ability of security systems to protect organizations' critical data capital and systems has become increasingly important.

Based on Stonesoft's view, the above mentioned issues will open new business opportunities for the company, have a positive effect on its net sales and profitability and strengthen its competitiveness and market position as general understanding and knowledge about advanced evasion techniques grow. In 2011, Stonesoft aims for faster-than-market growth of net sales and improved profitability.

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.

SUMMARY OF FINANCIAL STATEMENTS AND NOTES JANUARY 1 - MARCH 31, 2011

Basis of preparation

The Interim Report has been prepared in accordance with the IAS 34 Interim Reports standard.

The company has adopted certain new or revised IFRS standards and IFRIC interpretations at the beginning of the financial period as described in the Financial Statements for 2010. However, the adoption of these new and amended standards has not yet had an effect on the reported figures in practice. In other respects, the same accounting policies have been followed as in the Financial Statements for 2010. Key indicator calculations remain unchanged.

The figures presented in this release are unaudited.

Stonesoft Group Income Statement (1000 Euros)	1-3/2011	1-3/2010	1-12/2010
Net sales	6 509	6 156	24 341
Other operating income	118	241	847
Materials and services	-1 078	-835	-3 640
Personnel expenses	-4 031	-3 802	-14 744
Depreciation	-124	-107	-437
Other operating expenses	-2 222	-1 848	-9 052
Operating result	-827	-195	-2 685
Financial income and expenses	183	151	217
Result before taxes	-644	-45	-2 468
Taxes	-32	-29	-221
Result for the accounting period	-676	-73	-2 689
Other comprehensive income			
Exchange differences on translating foreign operations	-13	-10	-15
Total other comprehensive income	-13	-10	-15
Total comprehensive income	-689	-83	-2 704
Basic earnings per share (EUR), continuing operations	-0,01	0,00	-0,04
Diluted earnings per share (EUR), continuing operations	-0,01	0,00	-0,04

Stonesoft Group Balance Sheet (1000 Euros)	31.3.2011	31.3.2010	31.12.2010
ASSETS			
Non-Current Assets			
Tangible assets	804	516	649
Intangible assets	163	165	112
Other investments	10	10	10
Total	977	691	771
Current assets			
Inventories	908	565	953
Trade and other receivables	7 792	8 347	10 106
Prepayments	53	119	69
Marketable securities	8 432	10 477	0
Cash and cash equivalents	1 384	991	8 016
Total	18 569	20 499	19 144
Total assets	19 546	21 190	19 915

EQUITY AND LIABILITIES

Equity attributable to equity holders of the parent company			
Share capital	1 151	1 146	1 151
Issue of shares	0	19	0
Share premium account	76 602	76 821	76 603
Conversion differences	-964	-946	-951
Reserve for invested unrestricted equity fund	4 751	4 392	4 751
Retained earnings	-77 654	-74 407	-76 986
Total	3 886	7 025	4 567
Long-term liabilities			
Prepayments *)	2 946	2 635	2 976
Total	2 946	2 635	2 976
Short-term liabilities			
Trade and other payables	4 338	4 020	4 571
Prepayments *)	8 214	7 386	7 687
Tax liability	123	76	76
Provisions	40	49	37
Total	12 714	11 531	12 372
Total liabilities	15 660	14 165	15 348
Total equity and liabilities	19 546	21 190	19 915

*) Prepayments contain customers advance payment of support and maintenance contracts	11 160	10 021	10 663
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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 1.1.2010	1 146	0	76 821	-936	0	-74 346	685
Comprehensive income	0	0	0	-10	0	-73	-83
Share premium termination	0	0	0	0	0	0	0
							4
Directed share issue	0	0	0	0	4 560	0	560
Transaction costs from equity	0	0	0	0	-168	0	-168
Stock options exercised	0	19	0	0	0	0	19
Stock option expenses	0	0	0	0	0	12	12
							7
Shareholders' equity at 31.3.2010	1 146	19	76 821	-946	4 392	-74 407	025

	Share capital	Issue of shares	Share premium	Conversion differences	Reserve for invested unrestricted equity fund	Retained earnings	Total
Shareholders' equity at 1.1.2011	1 151	0	76 603	-951	4 751	-76 986	567
Comprehensive income	0	0	0	-13	0	-676	-689
Share premium termination	0	0	0	0	0	0	0
Directed share issue	0	0	0	0	0	0	0
Transaction costs from equity	0	0	0	0	0	0	-1
Stock options exercised	0	0	0	0	0	0	0
Stock option expenses	0	0	0	0	0	9	9
							3
Shareholders' equity at 31.3.2011	1 151	0	76 602	-964	4 751	-77 654	886

Stonesoft Group

	1.1.-31.3.2011	1.1.-31.3.2010	1.1.-31.12.2010
Cash flow statement (1000 Euros)			
Cash flow from operating activities			
Operating Result	-827	-195	-2 685
Adjustments			
Non-cash transactions	64	-285	58
Financial expenses	-51	0	-96
Financial incomes	9	127	464
Change in net working capital	2 777	1 334	481
Taxes paid	-53	-29	-221
Total cash flow from operating activities	1 918	952	-1 999
Cash flow from investing activities			
Investments in tangible assets	-261	-114	-537
Investments in intangible assets	-68	-4	-30
Total cash flow investing activities	-330	-118	-566
Cash flow from financing activities			
Proceeds from issue of share capital	0	4 392	4 391
Stock options exercised	-1	19	146
Payments of financial leasing liabilities	0	0	0
Total cash flow from financing activities	-1	4 411	4 537
Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period	8 016	6 210	6 210
Conversion differences	-14	35	-17
Changes in the market value of investments	226	-21	-148
Total cash and cash equivalents at end of period *)	9 816	11 469	8 016
*) Total cash and cash equivalents at end of the period contains pledged securities	467	471	477

Stonesoft Group

Geographical segments	1.1.-31.3.2011	1.1.-31.3.2010	1.1.-31.12.2010
(1000 Euros)			

Net sales

Europe	3 613	3 622	14 599
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Emerging Markets	1 852	1 296	4 255
Americas	875	1 110	4 525
APAC	170	128	961
Total net sales	6 509	6 156	24 341

Operating profit			
Europe	-328	-135	-661
Emerging Markets	-100	304	-169
Americas	-320	-348	-1 479
APAC	-79	-16	-375
Total operating profit	-827	-195	-2 685

Stonesoft Group			
Contingent liabilities	1.1.-31.3.2011	1.1.-31.3.2010	1.1.-31.12.2010
(1000 Euros)			

Contingent off-balance sheet			
Non-cancellable other leases			
Contingent liabilities for the Company	2 238	2 386	2 327
	123	121	94

Stonesoft Group						
Quarterly development	Q1 /	Q4 /	Q3 /	Q2 /	Q1 /	
(Euro Millions)	2011	2010	2010	2010	2010	2010
Software	0,4	0,5	0,4	0,3	0,3	1,5
Security appliances	3,2	3,9	2,5	1,9	2,9	11,2
Services	3,0	3,1	2,8	2,8	2,8	11,6
Other products	-0,1	0,0	-0,1	0,1	0,1	0,0
Net sales continuing operations	6,5	7,5	5,6	5,1	6,2	24,3
Change-% from previous year	6	15	-6	-16	21	3
Sales margin	5,4	6,2	4,7	4,4	5,3	20,7
Sales margin %	83	83	84	88	86	85
Operative expenses	6,4	7,1	5,4	5,9	5,7	24,2
Operating profit (EBITA)	-0,8	-0,7	-0,6	-1,2	-0,2	-2,7
% of net sales	-13	-9	-10	-25	-3	-11
Result before taxes	-0,6	-0,8	-0,4	-1,2	0,0	-2,5
% of net sales	-10	-11	-7	-24	-1	-10

Stonesoft Group			
Key ratios	1.1.-31.3.2011	1.1.-31.3.2010	1.1.-31.12.2010
(1000 Euros)			

Net sales	6 509	6 156	24 341
Net sales change-%	6	21	3
Operating result	-827	-195	-2 685
% of net sales	-13	-3	-11
Operating result before taxes	-644	-45	-2 468
% of net sales	-10	-1	-10
ROE - %, annualized	-64	-6	-74
ROI - %, annualized	-56	-4	-65
Equity ratio-%	46	63	49
Net gearing	-2,53	-1,63	-1,75
Total Assets	19 546	21 190	19 915
Capital expenditure	330	118	566
Capital disposals	0	0	0
R&D costs	1 497	1 481	5 639
% of net sales	23 %	24 %	23
Number of employees (weighted average)	197	181	191
Number of employees (end of the period)	195	185	201

Share Specific Ratios			
Earnings per share	-0,01	0,00	-0,04
Equity per share	0,06	0,11	0,07
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 =	$\frac{\text{Equity}}{\text{Number of shares at end of period}}$

FORWARD-LOOKING STATEMENTS

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

PRESS CONFERENCE

A press conference for analysts and investors will be held on 6 May, 2011 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 stock exchange release and the presentation material related to this report are also available at the Stonesoft web site www.stonesoft.com.

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