

STONESOFT CORPORATION INTERIM REPORT FOR JANUARY-JUNE 2010

Stonesoft Corporation's operating result for the first quarter declined and was MEUR -1.2 or MEUR -0.7 less than during the corresponding period in the previous year. The company's product sales were MEUR 2.2 while total net sales were MEUR 5.1. Cash flow was MEUR 0.0 positive, which is MEUR 0.7 better than in the corresponding period in the previous year.

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

April-June 2010

- Net sales MEUR 5.1 (6.0), down by -16%
- Product sales MEUR 2.2 (3.4), down by -35%
- Operating result MEUR -1.2 (-0.6)
- Operating result as percentage of net sales -25% (-9%)
- Earnings per share -0.02 (-0.01) EUR
- Operative cash flow MEUR 0.0 (-0.7)
- Liquid cash funds at the end of the reporting period MEUR 11.5 (6.7). The corporate had no interest-bearing debts.

January-June 2010

- Net sales MEUR 11.2 (11.1), growth 1%
- Product sales MEUR 5.4 (5.7), down by -5%
- Operating result MEUR -1.4 (-1.7)
- Operating result as percentage of net sales -13% (-15%)
- Earnings per share -0.02 (-0.03) EUR
- Operative cash flow MEUR 0.7 (-0.3)

CEO ILKKA HIIDENHEIMO

The development of Stonesoft's product sales did not continue as expected during the second quarter of the year 2010. The net sales and operating result of the period were affected by the postponement of customers' large investment decisions while the economic uncertainty in the company's main market areas increased. In addition, a couple of significantly sized deliveries **moved** to the third and fourth quarters of the year. The company's sales project pipeline is strong, and it has developed positively during the whole first half of the year. We have continued our long-standing investments in significant customer accounts and business growth. The growth and improvement of the result will become visible during the second half of the year.

NET SALES AND RESULT

April-June 2010 (hereinafter 'reporting period')

The Group's net sales in the reporting period were MEUR 5.1 (6.0). Decrease compared to the corresponding period in the previous year was MEUR -1.0, or -16%. The operating result (EBIT) was MEUR -1.2 (-0.6) and the result after taxes was MEUR -1.3 (-0.5).

Product sales were MEUR 2.2 (3.4), down by -35% compared to the corresponding quarter in the previous year.

The geographical distribution of net sales was as follows: Europe 67% (62%), Emerging Markets (Russia, North Africa and Middle East) 11% (22%), Americas (North and South America) 19% (13%) and APAC (Asia-Pacific) 3% (3%).

January-June 2010 (hereinafter 'fiscal period')

The Group's net sales in the fiscal period were MEUR 11.2 (11.1). Decline compared to the corresponding period in the previous year was MEUR 0.1, or 1%. The operating result (EBIT) was MEUR -1.4 (-1.7) and the result after taxes was MEUR -1.3 (-1.6).

Product sales were MEUR 5.4 (5.7), down by -5% compared to the corresponding period in the previous year.

The geographical distribution of net sales was as follows: Europe 62% (65%), Emerging Markets (Russia, North Africa and Middle East) 17% (16%), Americas (North and South America) 19% (16%) and APAC (Asia-Pacific) 2% (3%).

FINANCE AND INVESTMENTS

At the end of the fiscal period, the Group's total assets were MEUR 19.0 (14.5). The equity ratio was 60% (33%) and gearing (the ratio of net debt to shareholder's equity) -1.96 (-3.37). The strong change in the cash balance is due to 5 700 000 new shares subscribed in a directed share issue in March 2010. As a result of the share issue, shareholders' equity grew by MEUR 4.4. The Group's liquid cash funds at the end of the reporting period were MEUR 11.5 (6.7). The corporate had no interest bearing debts. Investments in tangible and intangible assets were MEUR 0.2 (0.2).

DEVELOPMENT OF BUSINESS OPERATIONS

Main business events in the reporting period

In April, Stonesoft shared five tactics organizations can use to protect themselves against security threats and attacks related to cloud services and to improve their IT strategy.

In May, Stonesoft introduced StoneGate IPS-1205 for advanced gigabit network protection.

In June, Stonesoft announced its StoneGate IPS (Intrusion Prevention System) provides efficient protection against the latest critical vulnerability that exists in Adobe Flash Player, Adobe Reader and Acrobat as well as the Microsoft vulnerability.

Main business events after the reporting period

In July, Stonesoft announced it expects net sales for the second quarter of 2010 to decline by compared to the corresponding period in the previous year and the operating result to be negative.

In July, Stonesoft introduced the StoneGate 5.2 network security solution, comprising of the StoneGate Firewall/VPN, StoneGate IPS intrusion prevention system and StoneGate Management Center management tool.

RESEARCH AND DEVELOPMENT

Stonesoft continued its strong investments in R&D. Investments during the reporting period totaled MEUR 2.9 (2.7). This represented 25% (23%) of operating expenses.

R&D employed 70 (65) persons at the end of the fiscal period. Personnel resources have grown in the R&D department in Poland.

SHARE CAPITAL AND STOCK OPTION PROGRAMS

At the end of the fiscal period, Stonesoft's share capital recorded in the Trade Register totaled EUR 1.147.929,64. The number of shares was 63.140.232. The share capital increased by EUR 1.875,00 by subscriptions through stock option programs.

The new shares have been entered in the Finnish Trade Register on 3 May, 2010 and 28 May, 2010. The new shares were admitted for trading on Main market of NASDAQ OMX

Helsinki Ltd on 7 May, 2010 and 31 May, 2010 together with the existing shares of the company.

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

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 fiscal period 93 750 subscriptions were made on the basis of the stock option program 2004-2010, of which 60 000 subscriptions were made during the reporting period. During the fiscal period 43 750 subscriptions were made on the basis of the stock option program 2008-2014. All subscriptions were made during the reporting period. Shares have been registered in the Finnish Trade Register during the reporting period and admitted to public trading.

Development of share prices and turnover

In the beginning of the fiscal period the price of Stonesoft share was EUR 0.70 (0.32). At the end of the fiscal period the price was EUR 0.72 (0.40). The highest price was EUR 1.19 (0.50) and the lowest EUR 0.69 (0.31). During the fiscal period the total turnover of Stonesoft shares amounted to MEUR 17.0 (1.6). Based on the share price at the end of the fiscal period, Stonesoft's market value was MEUR 45.5 (22.9).

ACQUISITIONS AND CHANGES IN GROUP STRUCTURE

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

PERSONNEL

At the end of the reporting period, the Group's personnel totaled 192 (180).

AUTHORIZATIONS OF THE BOARD OF DIRECTORS

The Annual General Meeting held on April 22, 2010 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 company does not own its shares and the Board of Directors does not have an authorization to acquire its own shares.

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. 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 too static 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 dynamic security challenges and its customers' changing needs.

The strong growth of MSSP (Managed Security Service Provider)-, virtualization, SAAS (Software as a Service) and cloud services as well as the spreading of social media services have continued to create a need for ensuring network security and business continuity also in new environments. In addition, illicit acquisition of confidential data to obtain financial benefits has to a large extent **surpassed** non-professional operations. 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 cyber espionage. The amount of confidential material that is handled in the net such as patient data and juridical documents is constantly growing. In addition, various interest groups, political extremist groups and governmental intelligence agencies are searching for information more and more from the net. 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. The company has announced it expects its net sales to grow from the previous year's level and to make a positive result in 2010. Based on the current view, the company still estimates its net sales to grow, but reaching a positive result is uncertain due to increased investments in new business opportunities.

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.

Net sales	5 060	6 039	11 216	11 122	23 597
Other operating income	219	341	460	505	969
Materials and services	-610	-1 120	-1 445	-1 814	-3 539
Personnel expenses	-3 538	-3 686	-7 340	-7 289	-14 004
Depreciation	-108	-113	-215	-228	-454
Other operating expenses	-2 264	-2 011	-4 112	-3 980	-7 616
Operating result	-1 240	-550	-1 436	-1 683	-1 048
Financial income and expenses	21	45	172	150	316
Result before taxes	-1 219	-505	-1 264	-1 533	-731
Taxes	-44	-44	-73	-80	-240
Result for the accounting period	-1 263	-549	-1 336	-1 613	-971
Other comprehensive income					
Exchange differences on translating foreign operations	37	-10	27	10	15
Total other comprehensive income	37	-10	27	10	15
Total comprehensive income	-1 226	-559	-1 310	-1 603	-956
Basic earnings per share (EUR), continuing operations	-0,02	-0,01	-0,02	-0,03	-0,02
Diluted earnings per share (EUR), continuing operations	-0,02	-0,01	-0,02	-0,03	-0,02

Stonesoft Group			
Balance Sheet (1000 Euros)	30.6.2010	30.6.2009	31.12.2009

ASSETS

Non-Current Assets			
Tangible assets	506	556	494
Intangible assets	116	174	176
Other investments	10	10	10
Total	632	740	680
Current assets			
Inventories	1 106	730	673
Trade and other receivables	5 699	6 313	8 383
Prepayments	101	44	67
Marketable securities	21	5 546	5 240
Cash and cash equivalents	11 487	1 156	970
Total	18 415	13 789	15 333
Total assets	19 047	14 529	16 013

EQUITY AND LIABILITIES

Equity attributable to equity holders of the parent company			
Share capital	1 148	1 146	1 146
Issue of shares	0	0	0
Share premium account	76 871	76 821	76 821
Conversion differences	-910	-941	-936
Reserve for invested unrestricted equity fund	4 404	0	0
Retained earnings	-75 654	-75 038	-74 346
Total	5 859	1 988	2 685
Long-term liabilities			
Prepayments *)	2 589	2 594	2 606
Total	2 589	2 594	2 606
Short-term liabilities			
Trade and other payables	3 692	3 699	3 943
Prepayments *)	6 758	5 997	6 660
Tax liability	91	125	81
Provisions	59	126	37
Short-term interest bearing liabilities	0	0	0
Total	10 599	9 946	10 722
Total liabilities	13 188	12 541	13 328
Total equity and liabilities	19 047	14 529	16 013

*) Prepayments contain customers advance payment of support and maintenance contracts	9 346	8 591	9 267
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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 1.1.2009	1 146	0	76 821	-951	0	-73 473	3 543
Comprehensive income				10		-1 613	-1 603
Directed share issue					0		0
Transaction costs from equity			0		0		0
Stock options exercised	0	0	0		0		0
Stock option expenses						48	48
Shareholders' equity at 30.6.2009	1 146	0	76 821	-941	0	-75 038	1 988

	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				27		-1 336	-1 310
Directed share issue					4 560		4 560
Transaction costs from equity			0		-170		-170
Stock options exercised	2	0	51		13		66
Stock option expenses						28	28
Shareholders' equity at 30.6.2010	1 148	0	76 871	-910	4 404	-75 654	5 859

Stonesoft Group
Cash flow statement (1000 Euros)

	1.1.-30.6.2010	1.1.-30.6.2009	1.1.-31.12.2009
Cash flow from operating activities			
Operating Result	-1 436	-1 683	-1 048
Adjustments			
Non-cash transactions	-104	-52	644
Financial expenses	-5	-67	-129
Financial incomes	282	165	336
Change in net working capital	2 423	1 459	-226
Taxes paid	-73	-65	-210
Total cash flow from operating activities	1 088	-243	-632
Cash flow from investing activities			
Investments in tangible assets	-199	-67	-202
Investments in intangible assets	32	-95	-126
Investments in other shares	0	0	0
Total cash flow investing activities	-166	-162	-328
Cash flow from financing activities			
Proceeds from issue of share capital	4 391	0	0
Stock options exercised	65	0	0
Payments of financial leasing liabilities	0	-2	-2
Total cash flow from financing activities	4 456	-2	-2
Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period	6 210	7 048	7 048
Conversion differences	70	10	15
Changes in the market value of investments	-148	52	109
Total cash and cash equivalents at end of period *)	11 509	6 702	6 210

*) Total cash and cash equivalents at end of the period contains pledged securities

498 316 452

Stonesoft Group
Geographical segments (1000 Euros)

	1.1.-30.6.2010	1.1.-30.6.2009	1.1.-31.12.2009
Net sales			
Europe	6 996	7 164	15 182
Emerging Markets	1 849	1 814	3 162
Americas	2 103	1 817	4 605
APAC	268	327	648
Total net sales	11 216	11 122	23 597

Operating profit

Europe	-535	-520	546
Emerging Market	35	-102	-327
Americas	-799	-986	-1 180
APAC	-137	-74	-87
Total operating profit	-1 436	-1 683	-1 048

Stonesoft Group
Contingent liabilities
(1000 Euros)

1.1.-30.6.2010 1.1.-30.6.2009 1.1.-31.12.2009

Contingent off-balance sheet

Non-cancellable other leases	2 245	2 926	2 541
Contingent liabilities for the Company	66	63	117

Stonesoft Group
Quarterly development
(Euro Millions)

	Q2 / 2010	Q1 / 2010	Q4 / 2009	Q3 / 2009	Q2 / 2009	Q1 / 2009	2009
Software	0,3	0,3	0,6	0,4	0,3	0,4	1,6
Security appliances	1,9	2,9	3,1	2,9	3,1	2,0	11,0
Services	2,8	2,9	2,8	2,7	2,7	2,6	10,9
Other products	0,1	0,1	0,0	0,0	0,0	0,1	0,1
Net sales continuing operations	5,1	6,2	6,5	6,0	6,0	5,1	23,6
Change-% from previous year	-16	21	-6	2	-5	-3	-3
Sales margin	4,4	5,3	5,7	5,1	4,9	4,4	20,1
Sales margin %	88	86	87	85	81	86	85
Operative expenses	5,9	5,7	5,8	4,7	5,8	5,7	22,0
Operating profit (EBITA)	-1,2	-0,2	0,1	0,5	-0,6	-1,1	-1,0
% of net sales	-25	-3	1	9	-9	-22	-4
Result before taxes	-1,2	0,0	0,1	0,7	-0,5	-1,0	-0,7
% of net sales	-24	-1	2	11	-8	-20	-3

Stonesoft Group
Key ratios
(1000 Euros)

1.1.-30.6.2010 1.1.-30.6.2009 1.1.-31.12.2009

Net sales, continuing operations	11 216	11 122	23 597
Net sales change-%	1	-4	-3
Operating result, continuing operations	-1 436	-1 683	-1 048
% of net sales	-13	-15	-4
Operating result before taxes	-1 264	-1 533	-731
% of net sales	-11	-14	-3,10
ROE - %, annualized, continuing operations	-63	-117	-31
ROI - %, annualized	-58	-99	-19
Equity ratio-%	60	33	40
Net gearing	-1,96	-3,37	-2,31
Total Assets	19 047	14 529	16 013
Capital expenditure	166	162	328
Capital disposals	0	20	19
R&D costs	2 879	2 657	4 918
% of net sales	26	24	21
Number of employees (weighted average)	185	183	178
Number of employees (end of the period)	192	176	174
Share Specific Ratios			
Earnings per share, continuing operations	-0,02	-0,03	-0,02
Equity per share	0,09	0,03	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)% =	(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
Earnings 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 Release has been prepared in accordance with IAS 34 standard. The presented figures are unaudited.

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

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Ilkka Hiidenheimo

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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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