

STONESOFT CORPORATION INTERIM REPORT FOR JANUARY-SEPTEMBER 2010

Result of the third quarter according to previous announcement

Stonesoft Corporation's operating result for the third quarter declined according to previous announcement and was MEUR -0.6 or MEUR -1.1 weaker than during the corresponding period in the previous year. The company's product sales were MEUR 2.9 while total net sales were MEUR 5.6. Cash flow was MEUR -1.0, which is MEUR 0.2 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.

July-September 2010

- Net sales MEUR 5.6 (6.0), down by -6%
- Product sales MEUR 2.9 (3.2), down by -11%
- Operating result MEUR -0.6 (0.5)
- Operating result as percentage of net sales -10% (9%)
- Earnings per share -0.01 (0.01) EUR
- Operative cash flow MEUR -1.0 (-1.2)
- Liquid cash funds at the end of the reporting period MEUR 10.5 (5.5). The corporate had no interest-bearing debts.

January-September 2010

- Net sales MEUR 16.8 (17.1), down by -1%
- Product sales MEUR 8.3 (9.0), down by -7%
- Operating result MEUR -2.0 (-1.1)
- Operating result as percentage of net sales -12% (-7%)
- Earnings per share -0.03 (-0.02) EUR
- Operative cash flow MEUR -0.2 (-1.5)

CEO ILKKA HIIDENHEIMO

Stonesoft's product sales developed as announced during the third quarter of the year 2010. As expected, several customers continued to postpone their large investment decisions. The company's sales project pipeline is strong and we have continued our long-standing investments in significant markets and customers accounts as well as business growth.

Stonesoft's StoneGate products were granted the FSTEK certificate in Russia, which means they can now be used to protect the critical information systems of the Russian government, authorities and also commercial organizations. Without the certificate, this would not be possible for a foreign vendor in the Russian market.

After the accounting period we announced (Stock Exchange Release 4 October 2010, Stock Exchange Release and Press Release on 18 October 2010) that we have discovered a significant network security threat category, advanced evasion techniques (AET), which put the functionality of organizations' data capital and systems at risk. Evasion techniques indicate, that the security field has focused too much on the speed and marketability of products while compromising the most important - real security. The discovery has received global publicity in IT and financial media.

Unlike most traditional network security solutions, Stonesoft's software-based solutions offer comprehensive protection also against these previously unknown and constantly evolving advanced evasion techniques. This will improve our competitiveness on the market, open new business opportunities and have a positive effect on the company's net sales and profitability. However, at this point it is too early to estimate the magnitude nor the schedule of this effect.

NET SALES AND RESULT

July-September 2010 (hereinafter 'reporting period')

The Group's net sales in the reporting period were MEUR 5.6 (6.0). Decrease compared to the corresponding period in the previous year was MEUR -0.3, or -6%. The operating result (EBIT) was MEUR -0.6 (0.5) and the result after taxes was MEUR -0.4 (0.6).

Product sales were MEUR 2.9 (3.2), down by -11% compared to the corresponding quarter in the previous year.

The geographical distribution of net sales was as follows: Europe 55% (60%), Emerging Markets (Russia, North Africa and Middle East) 17% (13%), Americas (North and South America) 20% (24%) and APAC (Asia-Pacific) 8% (3%).

January-September 2010 (hereinafter 'fiscal period')

The Group's net sales in the fiscal period were MEUR 16.8 (17.1). Decrease compared to the corresponding period in the previous year was MEUR -0.3, or -1%. The operating result (EBIT) was MEUR -2.0 (-1.1) and the result after taxes was MEUR -1.8 (-1.0).

Product sales were MEUR 8.3 (9.0), down by -7% compared to the corresponding period in the previous year.

The geographical distribution of net sales was as follows: Europe 60% (63%), Emerging Markets (Russia, North Africa and Middle East) 17% (15%), Americas (North and South America) 19% (19%) and APAC (Asia-Pacific) 4% (3%).

#### FINANCE AND INVESTMENTS

At the end of the fiscal period, the Group's total assets were MEUR 17.9 (14.1). The equity ratio was 60% (45%) and gearing (the ratio of net debt to shareholder's equity) -1.96 (-2.08). The Group's liquid cash funds at the end of the reporting period were MEUR 10.5 (5.5). The corporate had no interest bearing debts. Investments in tangible and intangible assets were MEUR 0.4 (0.3).

#### DEVELOPMENT OF BUSINESS OPERATIONS

Main business events in the reporting period

In July, Stonesoft announced it expects the net sales for the second quarter of 2010 to decline by about 15% compared to the corresponding period in the previous year and expects the operating result to be negative. The company announced it maintains its full year estimate regarding the net sales and operating result for now and still expects its net sales to grow from the previous year's level and the result to be positive.

In August, Stonesoft announced the extended availability of the StoneGate MobileID authentication software token for five additional platforms: Apple Mac OS, iPod, iPhone, iPad and Google Android.

In August, Stonesoft announced a selection of new modular network security appliances. The key benefits offered by the modular appliances are scalability, connectivity and ease of maintenance. Thanks to the modularity, the capacity of StoneGate 5.2 firewall and intrusion prevention system appliances can be raised flexibly to meet network connectivity needs.

In September, Stonesoft announced it estimates its net sales to grow the previous year's level but the operating result for the full year 2010 to be negative.

In September, Stonesoft announced it has extended its strategic partnership with the US-based IT service provider Accuvant.

In September, Stonesoft announced its StoneGate Firewall/VPN and IPS network security solutions have received FSTEK certifications in Russia. FSTEK is one of the main government authorities regulating information security in the Russian Federation. As a

result, Stonesoft's StoneGate solutions are now approved to secure highly critical information systems in state and commercial organizations as well as government authorities.

#### Main business events after the reporting period

In October, Stonesoft announced it has discovered a new and significant security threat category, which enables intruding into organizations' data systems. This puts the uninterrupted functionality of organizations' data capital and systems at risk. The new threat category comprises of so-called Advanced Evasion Techniques (AET), which can bypass current network security devices without leaving a trace. Advanced Evasion Techniques can also transport already known malware or phishing programs, worms and viruses, which otherwise would be detectable and stoppable by network security systems.

#### RESEARCH AND DEVELOPMENT

Stonesoft continued its strong investments in R&D. Investments during the reporting period totaled MEUR 4.0 (3.6). This represented 24% (22%) of operating expenses.

R&D employed 71 (62) persons at the end of the fiscal 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 1 147 929.64. The number of shares was 63 140 232. The share capital did not increase by subscriptions through stock option programs.

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 and 43 750 subscriptions were made on the basis of the stock option program 2008-2014. 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 0.59 (0.46). The highest price was EUR 1.19 (0.52) and the lowest EUR 0.56 (0.31). During the fiscal period the total turnover of Stonesoft shares amounted to MEUR 19.5 (2.4) and 22.0 (6.0) million shares, which is 34.9 (10.5)% of the total amount of the shares. Based on the share price at the end of the fiscal period, Stonesoft's market value was MEUR 37.3 (26.4).

#### 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 195 (173).

#### 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 is estimated to grow 5% 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 operationality and availability of data networks to business is continuously increasing. This had 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.

#### Advanced evasion techniques

In the stock exchange release published on 4 October 2010 Stonesoft Corporation announced it has discovered a new network security threat category. More detailed information was given in the stock exchange release and press release published on 18 October, which announced the threat is about the so-called advanced evasion techniques (AET), which are capable of bypassing current network security systems without leaving a trace. Advanced Evasion Techniques can also transport to the IT systems already known malware or phishing programs, worms and viruses, which otherwise would be detectable and stoppable by network security systems.

Stonesoft has reported the threat posed by these advanced evasion techniques to the national computer security incident team of Finland, CERT-FI for vulnerability coordination, and ICSA Labs, a US-based security product testing and certification laboratory has confirmed the severity of the discovery. The subject has received a lot of coverage in global media.

In addition to testing their own network security solutions, Stonesoft has extended their research to cover also solutions by other leading vendors in the field. The test results show that most of current network security solutions do not detect attacks that utilize 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.

More information about advanced evasion techniques and how to protect against them is available at [www.antievation.com](http://www.antievation.com).

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. However, at this point the company cannot estimate the magnitude nor the scale of this effect.

The company has previously announced it expects its net sales to grow from the previous year's level. Now the company estimates its net sales will be at the same level as in the previous year. The company has previously estimated to make a negative result for the full fiscal year 2010 and at this point does not see any reason to change its estimate.

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)	7-9/2010	7-9/2009	1-9/2010	1-9/2009	1-12/2009
Continuing operations					
Net sales	5 616	5 965	16 832	17 087	23 597
Other operating income	160	188	620	694	969
Materials and services	-885	-872	-2 330	-2 686	-3 539
Personnel expenses	-3 306	-3 055	-10 646	-10 344	-14 004
Depreciation	-110	-113	-325	-341	-454
Other operating expenses	-2 036	-1 568	-6 147	-5 548	-7 616
Operating result	-561	546	-1 997	-1 137	-1 048

Financial income and expenses	151	131	323	280	316
Result before taxes	-410	677	-1 674	-857	-731
Taxes	-38	-36	-110	-116	-240
Result for the accounting period	-448	640	-1 784	-973	-971
Other comprehensive income					
Exchange differences on translating foreign operations	-41	-3	-15	7	15
Total other comprehensive income	-41	-3	-15	7	15
Total comprehensive income	-489	637	-1 799	-966	-956
Basic earnings per share (EUR), continuing operations	-0,01	0,01	-0,03	-0,02	-0,02
Diluted earnings per share (EUR), continuing operations	-0,01	0,01	-0,03	-0,02	-0,02

Stonesoft Group  
Balance Sheet (1000 Euros)

#### ASSETS

##### Non-Current Assets

Tangible assets	624	552	494
Intangible assets	117	162	176
Other investments	10	10	10
Total	751	725	680

##### Current assets

Inventories	1 038	541	673
Trade and other receivables	5 475	7 249	8 383
Prepayments	77	64	67
Marketable securities	9 313	4 742	5 240
Cash and cash equivalents	1 231	779	970
Total	17 134	13 376	15 333
Total assets	17 885	14 100	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	2	0	0
Share premium account	76 533	76 821	76 821
Conversion differences	-951	-945	-936
Reserve for invested unrestricted equity fund	4 739	0	0
Retained earnings	-76 084	-74 372	-74 346
Total	5 386	2 650	2 685

##### Long-term liabilities

Prepayments *)	2 568	2 626	2 606
Total	2 568	2 626	2 606

##### Short-term liabilities

Trade and other payables	3 443	3 073	3 943
Prepayments *)	6 362	5 561	6 660
Tax liability	68	80	81
Provisions	56	110	37
Short-term interest bearing liabilities	0	0	0
Total	9 930	8 824	10 722

Total liabilities	12 499	11 450	13 328
Total equity and liabilities	17 885	14 100	16 013

\*) Prepayments contain customers advance  
payment of support and maintenance contracts

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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				7		-973	-966
Share premium termination		0			0		0
Directed share issue					0		0
Transaction costs from equity			0		0		0
Stock options exercised	0	0	0		0		0
Stock option expenses						73	73
Shareholders' equity at 30.9.2009	1 146	0	76 821	-945	0	-74 372	2 650

	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				-15		-1 784	-1 799
Share premium termination			-338		338		0
Directed share issue					4 560		4 560
Transaction costs from equity			-1		-172		-173
Stock options exercised	2	2	51		13		68
Stock option expenses						46	46
Shareholders' equity at 30.9.2010	1 148	2	76 533	-951	4 739	-76 084	5 386

#### Stonesoft Group

Cash flow statement (1000 Euros) 1.1.-30.9.2010 1.1.-30.9.2009 1.1.-31.12.2009

Cash flow from operating activities			
Operating Result		-1 997	-1 137
Adjustments			
Non-cash transactions		-116	-7
Financial expenses		-71	-94
Financial incomes		308	248
Change in net working capital		2 198	-307
Taxes paid		-81	-101
Total cash flow from operating activities		241	-1 398
Cash flow from investing activities			
Investments in tangible assets		-413	-163
Investments in intangible assets		-22	-97
Investments in other shares		0	0
Total cash flow investing activities		-434	-259
Cash flow from financing activities			
Proceeds from issue of share capital		4 391	0
Stock options exercised		64	0
Payments of financial leasing liabilities		0	-2
Total cash flow from financing activities		4 455	-2
Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period		6 210	7 048
Conversion differences		29	7
Changes in the market value of investments		43	126
Total cash and cash equivalents at end of period *)		10 544	5 521

\*) Total cash and cash equivalents at end of the period contains pledged securities 498 316 452

#### Stonesoft Group

Geographical segments (1000 Euros) 1.1.-30.9.2010 1.1.-30.9.2009 1.1.-31.12.2009

Net sales			
Europe	10 079	10 737	15 182
Emerging Markets	2 792	2 589	3 162
Americas	3 223	3 275	4 605
APAC	738	487	648
Total net sales	16 832	17 087	23 597
Operating profit			
Europe	-542	40	546
Emerging Markets	-56	-10	-327
Americas	-1 152	-1 074	-1 180
APAC	-247	-93	-87

Total operating profit	-1 997	-1 137	-1 048
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Stonesoft Group Contingent liabilities (1000 Euros)	1.1.-30.9.2010	1.1.-30.9.2009	1.1.-31.12.2009
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Contingent off-balance sheet Non-cancellable other leases	2 234	2 683	2 541
Contingent liabilities for the Company	70	27	117

Stonesoft Group Quarterly development (Euro Millions)	Q3 / 2010	Q2 / 2010	Q1 / 2010	Q4 / 2009	Q3 / 2009	Q2 / 2009	Q1 / 2009	2009
Software	0,4	0,3	0,3	0,6	0,4	0,3	0,4	1,6
Security appliances	2,5	1,9	2,9	3,1	2,9	3,1	2,0	11,0
Services	2,9	2,8	2,9	2,8	2,7	2,7	2,6	10,9
Other products	-0,1	0,1	0,1	0,0	0,0	0,0	0,1	0,1
Net sales continuing operations	5,6	5,1	6,2	6,5	6,0	6,0	5,1	23,6
Change-% from previous year	-6	-16	21	-6	2	-5	-3	-3
Sales margin	4,7	4,4	5,3	5,7	5,1	4,9	4,4	20,1
Sales margin %	84	88	86	87	85	81	86	85
Operative expenses	5,4	5,9	5,7	5,8	4,7	5,8	5,7	22,0
Operating profit (EBITA)	-0,6	-1,2	-0,2	0,1	0,5	-0,6	-1,1	-1,0
% of net sales	-10	-25	-3	1	9	-9	-22	-4
Result before taxes	-0,4	-1,2	0,0	0,1	0,7	-0,5	-1,0	-0,7
% of net sales	-7	-24	-1	2	11	-8	-20	-3

Stonesoft Group Key ratios (1000 Euros)	1.1.-30.9.2010	1.1.-30.9.2009	1.1.-31.12.2009
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Net sales, continuing operations	16 832	17 087	23 597
Net sales change-%	-1	-2	-3
Operating result, continuing operations	-1 997	-1 137	-1 048
% of net sales	-12	-7	-4
Operating result before taxes	-1 674	-857	-731
% of net sales	-10	-5	-3,10
ROE - %, annualized, continuing operations	-59	-42	-31
ROI - %, annualized	-52	-31	-19
Equity ratio-%	60	45	40
Net gearing	-1,96	-2,08	-2,31
Total Assets	17 885	14 100	16 013
Capital expenditure	434	259	328
Capital disposals	0	20	19
R&D costs	4 041	3 614	4 918
% of net sales	24	21	21
Number of employees (weighted average)	188	180	178
Number of employees (end of the period)	195	173	174
Share Specific Ratios			
Earnings per share, continuing operations	-0,03	-0,02	-0,02
Equity per share	0,08	0,05	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)% =  $\frac{(\text{Profit before extraordinary items} + \text{interest and other financial expenses})}{\text{x100}}$



## Balance sheet total - 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. 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 22 October, 2010 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](mailto:ilkka.hiidenheimo@stonesoft.com)

Mikael Nyberg, CFO, Stonesoft Corporation  
Tel. +358 9 476 711  
E-mail: [mikael.nyberg@stonesoft.com](mailto: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](http://www.stonesoft.com).

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