



STONESOFT CORPORATION STOCK EXCHANGE RELEASE 29 JULY 2002 AT 09:00 AM

STONESOFT CORPORATION'S INTERIM REPORT FOR THE PERIOD JANUARY-JUNE 2002

## SUMMARY

### April-June 2002

- During the second quarter, net sales Eur 6.4 million, down 59% from previous year. In 2001, the comparable net sales were Eur 11.6 million, a decrease of 45%.
- Sales of StoneGate increased by 43% and the sales of StoneBeat decreased by 39% compared to first quarter of 2002.
- The operating loss before goodwill depreciation (EBITA) was Eur 6.1 million.
- The company's cash position stood at Eur 47.3 million and the equity ratio was 91% at the end of the period.
- A plan to cut costs was adopted in April, one time charges made in the first quarter, with the objective of saving Eur 2.5 million per quarter.

### January-June 2002

- Net sales were Eur 16.2 million, down 50% from previous year.
- The consolidated figures include Eur 2.1 million in sales generated by the eSolutions business that was sold at the end of February.
- Net sales of ongoing business adjusted with eSolutions' sales and other discontinuing activities were Eur 14.2 million, down 41% from the previous year.
- The Group posted an operating loss before goodwill depreciation (EBITA) of Eur 14.2 million while the loss for the reporting period was Eur 6.1 million.
- Eur 2.0 million was recognised as one-time expenditure for the reorganisation of the business operations in the first quarter.
- The number of personnel at the end of the period was 376, having been 590 on the previous year.

### Prospects for the entire financial year

- The corporation's comparable net sales will fall from previous year.
- EBITA will be negative, but is expected to improve during the last quarter as a result of the cost savings being fully implemented.

## GENERAL

During 2002, the company continued to pursue its new strategy by transforming itself from a vendor of third-party software and producer of add-on products into a global supplier of independent security platform software. Additionally, Stonesoft sold off Stonesoft e-solutions Oy, a company specialising in IT services, to Novo Group plc. The company will now completely focus on developing its core business.

Sales during the first half of 2002 reflected the challenging market situation, revised strategy and the refocusing of operations. The sales of the StoneBeat product family fell by 69% from last year's figures whereas StoneGate represented 41% of the total sales of own licenses.

In April, the company initiated actions to adjust the level of expenditures in the organisation to better match the present level of business, with the objective of enhancing the process of trying to achieve profitability. It is estimated that the actions taken will accrue savings of Eur 2.5 million per quarter. The estimated cost savings will be realised in full during the last quarter of the year.

The company's cash position remained strong throughout the reporting period.

## RESULT FOR THE REPORTING PERIOD

Net sales by the Stonesoft Corporation Group (hereinafter Group) during the period January-June were Eur 16.2 million (Eur 32.5 million). The decrease in net sales was partly due to the sale of Stonesoft e-eSolutions Oy (with net sales of Eur 3.7 million) to Novo Group plc and the withdrawal from the data security distribution business in the Nordic countries and the data security consultancy business in the USA (Eur 2.6 million). The total net sales of the ongoing business fell by 41% compared with the first half of 2001.

The operating loss before goodwill depreciation (EBITA) was Eur 14.2 million (loss Eur 3.2 million), which includes one-time expenditure of Eur 2.0 million due to the restructuring of operations.

The Group posted an operating loss before extraordinary items of Eur 15.8 million (loss Eur 4.1 million). During the period, the Group made a one-time goodwill depreciation of Eur 1.1 million. Extraordinary income includes a capital gain of Eur 10.2 million for the sale of Stonesoft e-solutions Oy.

The loss for the reporting period was Eur 6.1 million (loss Eur 3.1 million). The loss per share was Eur 0.33 (loss Eur 0.05).

## KEY INDICATORS FOR THE SECOND QUARTER

### Net sales and profitability

Following the sale of Stonesoft e-solutions Oy and the refocusing of other business operations, the company will concentrate solely on network security and high availability software products and solutions for computer networks, i.e. on the Networks business. Net sales by Networks reached Eur 6.4 million (Eur 12.5 million). Sales of our own products fell by 20% compared with the previous quarter, which was due to the 39% decline in the sales of StoneBeat products over the same period. Networks posted an operating loss before goodwill depreciation (EBITA) of Eur 6.1 million (loss Eur 3.3). The fall of the US dollar eroded net sales in the second quarter by causing exchange losses of Eur 0.4 million. The fall of the dollar decreased dollar-denominated expenditure by Eur 0.1 million, so that the net effect of the decline of the dollar on EBITA was Eur -0.3 million.

Own products and services accounted for 97% (87%) of the total sales of the Networks business. The sales margin was 94% (88 %) during the second quarter. Personnel expenditure in April-June was Eur 6.0 million (Eur 7.6 million), down 19% from the previous quarter. Other operating expenditure increased by 4% from the previous quarter because of the marketing costs for the campaigns launched in the USA and Asia during the summer.

At the end of the period, the Networks business employed 376 (445) people, of which 38% (44%) were employed outside Finland.

### Financing and investments

At the end of the reporting period, the Group's balance sheet total stood at Eur 71.3 million (Eur 89.7 million). The equity ratio was 91% (88%) and net gearing -0.78 (-0.65). At the end of the period, the Group's liquid assets stood at Eur 47.3 million (Eur 48.0 million). The liquid assets per share were Eur 0.83.

During the second quarter, the Group's capital investments were Eur 0.1 million.

### Product business

During the second quarter, the company's product business was affected by the difficult market situation, particularly in the USA, the steep decline in the sales of the StoneBeat product family, and the increase in the sales of the StoneGate Firewall and VPN product. In the second quarter, StoneGate accounted for 41% of the total sales of our own licenses while the corresponding figure of the previous quarter was 27%. The sales of StoneBeat products fell by 39% from the previous quarter and 75% from the 2001 figures for the same

period.

The company is also pursuing a software appliance strategy based on developing relationships with global hardware manufacturers. The company has started to develop relationships with Fujitsu-Siemens, HP and IBM, and of the regional manufacturers, with Flextel (Italy), Dawning (China), Zuken Netwave (Japan), Millinux (Singapore), True North Solutions (USA), and Capax (Sweden).

Stonesoft's StoneGate product and its special features have received recognition. The latest award was received in April when the respected SC-Magazine awarded StoneGate five stars describing it as the "best buy" firewall and VPN solution on the market.

## Market areas

Networks' net sales by geographical area for the second quarter were as follows: North and South America 18%, Europe, the Middle East and Africa 73%, and the Asia-Pacific region 9%.

During the second quarter, the markets remained challenging. The market situation was particularly difficult in the Americas where net sales fell by 41% from the previous quarter. Sales in Europe, the Middle East and Africa decreased by 7% and sales in the Asia-Pacific area decreased by 21% compared with the previous quarter.

By the end of the reporting period, Stonesoft had delivered over 9,000 licenses to about 4,000 customers in 81 countries.

## Level of expenditure in organization adjusted

The Board of Directors of the Stonesoft decided in April to authorise the CEO to commence co-operation negotiations with employees adjusting the company's expenditure and organisation to better match the current level of business activities. The actions taking place included focusing of research and development, centralising training and support functions, streamlining of selected field operation and focusing of marketing activities on lead generation. The actions included 18% headcount reduction mainly in Finland, Italy, France, the USA, and Japan.

The objectives of these actions were to enhance the process of trying to achieve profitability and to preserve the company's cash position and future capability to invest in its core network security infrastructure business.

The actions taken are expected to accrue cost savings totalling about EUR 2.5 million per quarter. The cost savings are expected to materialise in full in the last quarter of the year.

## Other events

Check Point Software Technologies Ltd, an Israeli data security company, gave in April an undertaking to the EU Commission with regard to the conduct of Check Point's operations in the distribution channel. The undertaking was the result of a complaint lodged by Stonesoft with the Commission in June 2001 stating that Check Point was abusing its dominant position with the objective of excluding Stonesoft from the market. Following the undertaking made by Check Point, Stonesoft agreed to withdraw its complaint.

## RESEARCH AND DEVELOPMENT

During the second quarter, the company's R&D expenditure totalled Eur 1.7 million (Eur 2.4 million).

The R&D unit in Florence was closed in April as part of the restructuring of operations. Currently Stonesoft have R&D units in Helsinki, Turku, Oulu, Finland, and in Sophia Antipolis, France. At the end of June 2002, a total of 95 (119) people were involved in R&D activities in the company.

At the end of the second quarter, the company released a new version of its StoneGate firewall and VPN solution. Among other things the company believes the new 2.0 release is the first firewall on the market to support static IP Multicast routing. IP multicasting, a feature that is particularly important to banks, is used in

videoconference applications and online stock and news services that have so far been riddled with security problems. StoneGate 2.0 also addresses data security bottlenecks and passes static routing for IP Multicast traffic through the firewall without any tunnelling protocol.

StoneGate 2.0 includes the 2.0 version of VPN Client. VPN Client also supports 2.5G networks enabling VPN connections over GPRS networks.

Stonesoft has 28 patents or pending patent applications related to the technologies it has developed.

R&D expenditure is recorded as expenses when they incurred, in accordance with the Group's accounting policy.

## CURRENT AUTHORISATIONS

The Company's share capital may be increased in one or more lots in a manner whereby the shares to be issued in the new issue and/or on the basis of option rights and/or in connection with a convertible loan may altogether increase the Company's share capital with the maximum of Eur 229.204,52, so that the aggregate maximum number of shares eligible for subscription on the basis of the aforementioned alternatives is 11.460,226 shares, each with an accounting equivalent value of Eur 0.02 . Option rights may solely be given to increase the share capital in connection with mergers and acquisitions. The share capital of the Company may be increased by giving option rights with the total maximum of Eur 30.000 .

## SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

In July, Stonesoft appointed Marc Winn as a new Vice President of Sales for US region. Mr. Winn, age 40, has 13 years experience in sales and marketing in the software business in the US market. He has been in various sales management positions with Harbinger, Sterling Commerce and eSoft.

## OUTLOOK FOR THE FUTURE

Esa Korvenmaa, CEO, Stonesoft Corporation:

"The challenging market situation that prevailed during the first half of 2002 seems to be extending into the rest of the year. This is why we decided to implement the restructuring of operations to reduce our costs, without, however, jeopardising the long-term growth prospects. We shall continue to pursue the chosen strategy by investing in growing markets. We will focus on the vertical markets that we know best and where we can offer the best network security solutions available in the market. Our target customers will continue to be governments, banks and financial institutions, teleoperators and companies offering computer network and data security services. Our aim is to increase co-operation with hardware manufacturers, both with global partners and strong regional players. If the difficult situation in the market persists to the end of the year, our strong cash balance and debt free position will make it possible for us to address a longer recession, while we work to achieve ongoing profitability."

The company believes that its net sales in 2002 will not reach the 2001 level and expects the financial result before goodwill depreciation (EBITA) to be negative. However, financial performance is expected to improve during the fourth quarter when the full impact of cost savings is effective.

## THE NEXT INTERIM REPORT

The company will release its interim report for the third quarter of 2002 on 28 October 2002.

The figures presented in the interim report and the financial statements have not been audited.

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# STONESOFT

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This release and the material related to the interim report are also available on Stonesoft's Web site at <http://www.stonesoft.com>

Distribution:  
Helsinki Stock Exchange  
Main Media

Stonesoft Corporation			
Income Statement	1.1-30.6.2002	1.1-30.6.2001	2001
(Euro 1000)			
Net Sales	16 213	32 490	57 703
Other operating income	385	1 447	2 054
Materials and services	1 332	4 069	5 826
Personnel costs	16 190	18 708	36 537
Depreciations	959	1 269	2 564
Other operating expenses	12 332	13 080	25 247
Operating Profit/Loss (EBITA)	-14 215	-3 189	-10 417
Goodwill depreciations	1 867	1 241	2 449
Operating Profit/Loss (EBIT)	-16 083	-4 430	-12 866
Share of associated companies result	0	-41	
Financial income and expenses	234	1 049	
Profit/Loss before extraordinary items	-15 849	-4 081	-11 858
Extraordinary income	10 232	113	0
Extraordinary expenses	352	414	1 236
Profit before taxes and minority Interest	-5 968	-4 382	-13 094
Direct taxes	155	-1 206	-2 579
Minority Interest	0	122	253
Profit/Loss for the Accounting period	-6 124	-3 054	-10 263

# STONESOFT

Stonesoft Corporation

Balance Sheet 30.6.2002 30.6.2001 31.12.2001

(Euro 1000)

Assets

## Non-Current Assets

Intangible assets	1 550	1 688	1 821
Consolidated goodwill	3 316	8 708	6 985
Change in net working capital	2 730	5 403	3 379
Investments	4	105	342
Non-Current Assets Total	7 601	15 905	12 528

## Current assets

Inventories	209	304	277
Long-term receivables	174	200	188
Short-term receivables	16 015	25 231	23 386
Investments	40 228	43 706	37 222
Cash on hand and on deposit	7 088	4 336	8 437
Current Assets Total	63 714	73 778	69 511

Total	71 314	89 683	82 039
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## Liabilities

Shareholders' Equity	60 485	73 860	66 636
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Minority Interest	0	133	0
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## Liabilities

Long-term liabilities	7	40	26
Short-term liabilities	10 823	15 650	15 377
Total Liabilities	10 829	15 690	15 403

Total	71 314	89 683	82 039
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Key Ratios 1.1-31.6.2002 1.1.-30.6.2001 2001

EURO 1000

Net Sales	16 213	32 490	57 703
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Net Sales Change-%	-50 %	28 %	-3 %
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Operating Profit/Loss

Before Goodwill

Depreciations (EBITA)	-14 215	-3 189	-10 417
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% of Net Sales	-88 %	-10 %	-18 %
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Operating Profit/Loss

After Goodwill

Depreciations (EBIT)	-16 083	-4 430	-12 866
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% of Net Sales	-99 %	-14 %	-22 %
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Profit / Loss before

Extraordinary Items	-15 849	-4 081	-11 858
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% of Net Sales	-98 %	-13 %	-21 %
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Profit/Loss before

taxes and minority

Interest	-5 968	-4 382	-13 094
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# STONESOFT

% of Net Sales	-37 %	-13 %	-23 %
ROE-%, annualized	-50 %	-8 %	-13 %
ROI-%, annualized	-49 %	-9 %	-15 %
Equity Ratio-%	91 %	88 %	88 %
Net Gearing	-0.78	-0.65	-0.68
Total Asset	71 314	89 683	82 039
Capital Investments	352	1 323	727
% of Net Sales	2 %	4 %	1 %
R&D Costs	3 926	4 480	9 086
% of Net Sales	24 %	14 %	16 %
Number of Employees (Weighted Average)	461	560	581
Number of Employees at the end of the period	376	590	571

## Share Specific Ratios

Earnings per Share (EUR)	-0.33	-0.05	-0.15
Equity per Share (EUR)	1.06	1.29	1.16
Divident per Share (EUR)	0.00	0.00	0.00
Dividend/Profit-%	0 %	0 %	0 %

Weighted Amount of Shares	57 301 433	57 977 519	57 643 083
(Option dillution effect included)			
Amount of Shares at the End of period	57 302 732	57 270 132	57 301 132

## Quarterly development figures

Stonesoft Corporation	4-6/	1-3/	10-12/
(Euro 1000)	2002	2002	2001
Net sales	6 416	9 797	13 403
Net sales change-%	-59 %	-42 %	-30 %
Operating profit (EBITA) before restructuring costs	-6 083	-6 133	-3 062
% of net sales	-95 %	-63 %	-23 %
Operating profit (EBITA)	-6 083	-8 133	-3 062
% of net sales	-95 %	-83 %	-23 %
Number of employees at the end of the period	376	423	571
Stonesoft Corporation	7-9/	4-6/	1-3/
(Euro 1000)	2001	2001	2001
Net sales	11 810	15 553	16 937
Net sales change-%	-22 %	6 %	59 %
Operating profit (EBITA) before restructuring costs	-4 166	-1 490	-1 699
% of net sales	-35 %	-10 %	-10 %
Operating profit (EBITA)	-4 166	-1 490	-1 699
% of net sales	-35 %	-10 %	-10 %

# STONESOFT

Number of employees at  
the end of the period      572      590      588      571

Networks      4-6/      1-3/      10-12/  
(Euro 1000)      2002      2002      2001

Net sales	6 416	7 702	10 362	
Net sales change-%	-49 %	-46 %	-35 %	
Division net sales of total net sales	100 %	79 %	77 %	
Operating profit (EBITA) before restructuring costs	-6 083		-6 393	-3 480
% of net sales	-95 %		-83 %	-34 %
Operating profit (EBITA)	-6 083		-8 393	-3 480
% of net sales	-95 %	-109 %	-34 %	

Number of employees at  
the end of the period      376      423      417

Networks      7-9/      4-6/      1-3/      2001  
(Euro 1000)      2001      2001      2001

Net sales	8 785	12 522	14 143	45 812
Net sales change-%	-31 %	11 %		96 %      -3 %
Division net sales of total net sales	74 %	81 %		84 %      79 %
Operating profit (EBITA) before restructuring costs	-4 724		-3 349	-1 863      -13 416
% of net sales	-54 %		-27 %	-13 %      -29 %
Operating profit (EBITA)	-4 724		-3 349	-1 863      -13 415
% of net sales	-54 %	-27 %		-13 %      -29 %

Number of employees at  
the end of the period      431      445      435      417