



STONESOFT CORPORATION STOCK EXCHANGE RELEASE 28 OCT. 2002 AT 09:00 AM

STONESOFT CORPORATION'S INTERIM REPORT FOR THE PERIOD JANUARY – SEPTEMBER 2002

SUMMARY

July - September 2002

- Net sales in the third quarter were Eur 7.0 million. In 2001, the comparable net sales were Eur 8.8 million, a decrease of 21%.
- License sales increased by 13% compared to previous quarter.
 - Sales of StoneGate grew by 79% compared to previous quarter.
 - Sales of StoneBeat declined by 32% compared to previous quarter.
- The operating loss before goodwill depreciation (EBITA) was Eur 5.1 million. The loss includes one time charges of Eur 1.4 million.
- The company's cash position stood at Eur 43.4 million and equity ratio was 90% at the end of the period.

January - September 2002

- Net sales were Eur 23.2 million, down 48% 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 were Eur 21.1 million, down 36% from the previous year.
- The Group posted an operating loss before goodwill depreciation (EBITA) of Eur 19.3 million while the loss for the reporting period was Eur 11.6 million.
- One time charges of Eur 2.6 million was recorded as for the reorganisation of the business operations.
- The number of personnel at the end of the reporting period was 353, having been 572 on the previous year, of which 431 was employed by the Networks business.

Prospects for the entire financial year

- The corporation's comparable net sales will fall from previous year.
- EBITA will be negative, but is expected improve during the last quarter.

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 the IT services, to Novo Group plc. The company will now completely focus on developing its core business.

Sales during the first nine months of 2002 reflected the challenging market situation, revised strategy and the refocusing of operations. The sales of the StoneGate have been growing throughout the year, accounting for 65% of the sales of own licenses during the third quarter. At the same time the sales of the StoneBeat product family fell by 71% from previous year.

In April, the company initiated actions to adjust the cost level 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-September were Eur 23.2 million (Eur 44.3 million). The decrease in net sales was partly due to the sale of the eSolutions business (with net sales of Eur 8.9 million) to Novo Group plc and the closure of 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 businesses fell by 36% compared with the first nine months of 2001.

The operating loss before goodwill depreciation (EBITA) was Eur 19.3 million (Eur 7.4 million), which includes one time charges of Eur 2.6 million due to the restructuring of operations.

The Group posted an operating loss before extraordinary items of Eur 21.1 million (Eur 8.6 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 from the sale of Stonesoft e-solutions Oy.

The loss for the reporting period was Eur 11.6 million (loss Eur 6.9 million). The loss per share was Eur 0.42 (loss Eur 0.10).

KEY INDICATORS FOR THE THIRD 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 7.0 million (Eur 8.8 million). The license sales of own products increased by 13% compared to the previous quarter. Sales of StoneGate grew by 79% from the previous quarter, accounting for 65% of the company's own license sales. The sales of the StoneBeat product family decreased by 32% compared to the previous quarter. Own products and services accounted for 94% (95%) of the total sales.

Networks posted an operating loss before goodwill depreciation (EBITA) of Eur 5.1 million (Eur 4.7 million) for the period. The loss includes the following one time charges:

- Reorganisation expenditure of Eur 0.6 million
- Bad debt expenditure of Eur 0.6 million
- Other one time expenditure of Eur 0.2 million

Personnel expenditure in the third quarter was Eur 5.4 million (Eur 6.0 million), down 9% from the previous quarter. Other operating costs fell by 16% compared to the previous quarter (not including one time charges).

At the end of the period, the number of personnel working in the Networks business was 353 (431), of whom 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 66.1 million (Eur 83.4 million). The equity ratio was 90% (90%) and net gearing -0.79 (-0.67). At the end of the period, the Group's liquid assets stood at Eur 43.4 million (Eur 46.6 million). The liquid assets per share were Eur 0.76.

During the third quarter, the Group's capital investments were Eur 0.3 million.

Product business

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The macro-economic environment for the company's product business continued to be challenging during the third quarter. Despite the challenging market, the company was able to increase the sales of the StoneGate product by 79% from the previous quarter. At the end of the reporting period, StoneGate accounted for 65% of the own license sales while the corresponding figure from the previous quarter was 41%. The sales of StoneBeat products fell by 32% from the previous quarter and 77% from the 2001 figures for the same period.

Other recent highlights include;

- Number of new distribution and reselling agreements for StoneGate, the most important of the new partners being Unipalm Plc, the biggest data security software distributor in the UK.
- Major new Managed Service Provision (MSP) customers gained during the third quarter including Telia, Sonera, NTT Singapore, and Tunisia Telecom.
- An IDC study published recently named StoneGate as the fastest growing firewall and VPN-solution in the Spanish market, positioning the company as second in the firewall and VPN market, a year after the product launch.
- StoneGate product and its special features have received widespread recognition and the highest marks in tests. Networks Computing awarded StoneGate as the "Best Preferred" VPN solution in September. The latest distinction was received in October, when SC-Magazine awarded StoneGate highest five stars describing it as the "Best Buy" VPN solution on the market.

Market areas

The geographical distribution of business operations was as follows: North and South America 27%, Europe, the Middle East and Africa 63%, and the Asia-Pacific region 10%.

Net sales increased in the USA by 67% from the previous quarter. Sales in Europe, the Middle East and Africa decreased by 8% and sales in the Pacific area increased by 29% compared with the previous quarter.

By the end of the reporting period, Stonesoft had delivered over 9,000 licenses to about 4,500 customers in 106 countries.

Other events

In July, the Stonesoft Corporation appointed Mr Marc Winn as Vice President of sales for US region. Mr Winn, 41, 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.

RESEARCH AND DEVELOPMENT

During the period, the company's R&D investments totalled Eur 1.7 million (Eur 2.2 million).

Currently Stonesoft have R&D units in Helsinki, Turku, and Oulu, Finland, and in Sophia Antipolis, France. At the end of September 2002, a total of 96 (119) people were involved in R&D activities in the company.

During the third quarter, the company released the first firewall and VPN solution on the market for the IBM zSeries mainframes. The StoneGate firewall and VPN solution for the IBM mainframe environment will be commercially available in the last quarter. Additionally, Stonesoft announced the release of the StoneGate 2.0 version for the Sun Sparc servers.

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

CURRENT AUTHORISATIONS

The share capital of the company 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 option rights and/or in connection with a convertible loan may all together 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 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 October 2002, the Board of Directors of the Stonesoft Corporation appointed Mr Jorma Turunen, 45, M.Sc.(Eng.), eMBA, as the new CEO of Stonesoft. The current CEO Esa Korvenmaa recently resigned.

Jorma Turunen joined Stonesoft from Comptel Corporation where he was Executive Vice President responsible for Comptel's global sales and marketing. Previously he served in PCA Infocom Finance Oy as Managing Director and Partner, in Foreign Trade Association as Senior Vice President responsible for Infocom unit and in Sonera Corporation in various senior management positions.

OUTLOOK FOR THE FUTURE

Jorma Turunen, CEO, Stonesoft Corporation:

"The macro-economic environment will remain challenging until the end of the year. However, we can be pleased with the increase in the sales of the StoneGate product in this tough market situation. We will continue to pursue the chosen strategy by investing in growing markets. We will focus on the vertical markets that we know best and to which 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 deepen co-operation with our existing global hardware partners as well as with our strong regional players. If the difficult market conditions persist in the following 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 assumed to improve during the fourth quarter when the full impact of cost savings is effective.

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

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

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Main Media

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Stonesoft Corporation Income Statement

1.1- 1.1- 2001
30.9.2002 30.9.2001

(Euro 1000)

Net Sales	23 182	44 300	57 703
Other operating income	562	1 455	2 054
Materials and services	2 126	4 752	5 826
Personnel costs	22 272	27 512	36 537
Depreciations	1 469	1 919	2 564
Other operating expenses	17 191	18 927	25 247
Operating Profit / Loss (EBITA)	-19 314	-7 355	-10 417
Goodwill depreciations	2 169	1 861	2 449
Operating Profit / Loss (EBIT)	-21 483	-9 216	-12 866
Share of associated companies result	0	-157	-41
Financial income and expenses	415	801	1 049
Profit/Loss before extraordinary items	-21 068	-8 572	-11 858
Extraordinary income	10 221	113	0
Extraordinary expenses	385	950	1 236
Profit/Loss before taxes and minority Interest	-11 232	-9 409	-13 094
Direct taxes	360	-2 226	-2 579
Minority Interest	0	253	253
Profit/Loss for the period	-11 591	-6 931	-10 263

Stonesoft Corporation Balance Sheet (Euro 1000)

30.9.2002 30.9.2001 31.12.2002

Assets

Non-Current Assets

Intangible assets	1 454	1 745	1 821
Consolidated goodwill	3 015	7 573	6 985
Change in net working capital	2 577	4 821	3 379
Investments	4	226	342
Non-Current Assets Total	7 049	14 365	12 528

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Current assets

Inventories	160	413	277
Long-term receivables	154	497	188
Short-term receivables	15 321	21 479	23 386
Investments	38 351	38 527	37 222
Cash on hand and on deposit	5 054	8 099	8 437
Current Assets Total	59 040	69 014	69 511
Total	66 090	83 379	82 039

Liabilities

Shareholders' Equity	54 977	70 049	66 636
Liabilities			
Long-term liabilities	4	33	26
Short-term liabilities	11 109	13 297	15 377
Total Liabilities	11 113	13 330	15 403
Total	66 090	83 379	82 039

Key Ratios	1.1- 31.9.2002	1.1.- 30.9.2001	2001
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EURO 1000			
Net Sales	23 182	44 300	57 703
Net Sales Change-%	-48 %	9 %	-3 %
Operating Profit / Loss Before Goodwill Depreciations (EBITA)	-19 314	-7 355	-10 417
% of Net Sales	-83 %	-17 %	-18 %
Operating Profit / Loss After Goodwill Depreciations (EBIT)	-21 483	-9 216	-12 866
% of Net Sales	-93 %	-21 %	-22 %
Profit / Loss before Extraordinary Items	-21 068	-8 572	-11 858
% of Net Sales	-91 %	-19 %	-21 %
Profit / Loss before taxes and minority Interest	-11 232	-9 409	-13 094
% of Net Sales	-48 %	-21 %	-23 %
ROE - %, annualized	-47 %	-9 %	-13 %
ROI - %, annualized	-46 %	-10 %	-15 %
Equity Ratio-%	90 %	90 %	88 %
Net Gearing	-0.79	-0.67	-0.68
Total Asset	66 090	83 379	82 039
Capital Investments	612	1 448	727
% of Net Sales	3 %	3 %	1 %
R&D Costs	5 577	6 871	9 086
% of Net Sales	24 %	16 %	16 %
Number of Employees (Weighted Average)	425	584	581
Number of Employees at the end of the period	353	572	571

Share Specific Ratios

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Earnings per Share (EUR)	-0.42	-0.10	-0.15
Equity per Share (EUR)	0.96	1.22	1.16
Dividend per Share (EUR)	0.00	0.00	0.00
Dividend/Profit-%	0 %	0 %	0 %

Weighted Amount of Shares 57 301 870 57 274 563 57 643 083
(Option dilution effect included)

Amount of Shares at the End of 57 302 732 57 301 132 57 301 132
period

Quarterly development

Stonesoft Corporation (Euro 1000)	7-9/2002	4-6/2002	1-3/2002	10-12/2001
Net sales	6 969	6 416	9 797	13 403
Net sales change-%	-41%	-59%	-42%	-30%
Operating profit (EBITA) before restructuring costs	-4 525	-6 083	-6 133	-3 062
% of net sales	-65%	-95%	-63%	-23%
Operating profit (EBITA)	-5 099	-6 083	-8 133	-3 062
% of net sales	-73%	-95%	-83%	-23%
Profit/loss before taxes	-5 264	-6 590	622	-3 685
% of net sales	-76%	-103%	6 %	-27%

Number of employees at 353 376 423 571
the end of the period

Stonesoft Corporation (Euro 1000)	7-9/2001	4-6/2001	1-3/2001	2001
Net sales	11 810	15 553	16 937	57 703
Net sales change-%	-22%	6 %	59 %	-3 %
Operating profit (EBITA) before restructuring costs	-4 166	-1 490	-1 699	-10 417
% of net sales	-35%	-10%	-10%	-18 %
Operating profit (EBITA)	-4 166	-1 490	-1 699	-10 417
% of net sales	-35%	-10%	-10%	-18 %
Profit / loss before taxes	-5 029	-1 326	-3 055	-13 094
% of net sales	-43%	-9%	-18%	-23%

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

Networks 7-9/2002 4-6/2002 1-3/2002 10-12/2001

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(Euro 1000)

Net sales	6 696	6 416	7 702	10 362
Net sales change-%	-21%	-49%	-46%	-35%
Division net sales of total net sales	100%	100%	79 %	77 %
Operating profit (EBITA) before restructuring costs	-4 525	-6 083	-6 393	-3 480
% of net sales	-65%	-95%	-83%	-34%
Operating profit (EBITA)	-5 099	-6 083	-8 393	-3 480
% of net sales	-73%	-95%	-109%	-34%
Number of employees at the end of the period	353	376	423	417

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