

## STONESOFT CORPORATION'S INTERIM REPORT FOR THE PERIOD FROM JANUARY TO JUNE 2003

### SUMMARY

#### January - June 2003

- Net sales were EUR 11,6 million, a reduction of 28% compared to the previous year.
- The net sales of continuing businesses fell by 18% compared to the previous year.
- Operating loss before goodwill depreciation (EBITA) was EUR 8,7 million.
- Business restructuring incurred a total cost of EUR 1,8 million during the reporting period.

Stonesoft has continued adjusting its costs to better match the present level of business. The level of costs for the company will be approximately 16% lower for the last quarter of the current year than it was for the first quarter of the year.

#### April - June 2003

- Net sales were EUR 5,6 million, down 6% from the previous quarter.
- Sales of own software products declined by 11% from the previous quarter. Compared with the previous quarter:
  - Sales of StoneGate increased by 1%
  - Sales of StoneBeat fell by 32%
- Operating loss before goodwill depreciations (EBITA) was EUR 4,4 million, of which EUR 1,2 million was one-time expenses from operational restructuring.
- The co-operation negotiations with employees commenced in May drew to a close in July. The objective was to obtain total cost savings of approximately EUR 1,5 million by quarter.
- The company's liquid assets totalled EUR 34,2 million at the end of the period, equity ratio was 90%.

### Outlook for the future

Stonesoft believes that due to the prospective customer opportunities for StoneGate and the adjustment of costs, the company's operating profit before goodwill depreciation (EBITA) will continue to improve towards the end of the year, but will most likely still be at a loss in the fourth quarter of 2003.

## GROUP FINANCIAL INDICATORS FOR JANUARY - JUNE 2003

The net sales of the Stonesoft Corporation in the period from January to June totalled EUR 11,6 million (EUR 16,2 million). The net sales of continuing businesses were EUR 14,1 million during the same period in the previous year; the comparable net sales have been declined by EUR 2,5 million (18%).

Operating loss for the Group during the period before goodwill depreciation (EBITA) was EUR 8,7 million (an operating loss of EUR 14,2 million), which included 1,8 million (EUR 2,0 million) one-time expenses of operational restructuring.

The loss for the Group before extraordinary items was EUR 8,9 million (a loss of EUR 15,8 million).

The loss for the reporting period was EUR 9,0 million (a loss of EUR 6,1 million). The previous year's result was boosted by the capital gain of EUR 10,2 million that resulted from the sale of Stonesoft e-Solutions Oy. The loss per share was EUR 0,16 (a loss of EUR 0,33).

## GROUP FINANCIAL INDICATORS FOR THE SECOND QUARTER

### Net sales and financial position

Net sales totalled EUR 5,6 million (EUR 6,4 million). Sales of own software products decreased by 11% compared to the previous quarter. Sales of StoneGate rose 1% compared to the previous quarter and totalled 76% of the sales of the Group's own license sales. Sales of the StoneBeat product family decreased by 32% compared to the previous quarter.

The Group posted an operating loss before goodwill depreciation (EBITA) of EUR 4,4 million (a loss of 6,1). One-time expenses of operational restructuring totalled EUR 1,2 million.

Personnel costs for the second quarter were EUR 4,8 million (6,0), down EUR 0,6 million compared to the previous quarter. Other operating costs fell 7% from the previous quarter (the above mentioned figures do not include the costs incurred of operational restructuring).

At the end of the period, the number of personnel totalled 312 (376), of which 35% (38%) were employed outside of Finland.

### Financing and investments

At the end of the reporting period, the Group's balance sheet totalled EUR 49,9 million (EUR 71,3 million). The equity ratio was 90% (91%) and net gearing was -0,84 (-0,78). At the end of the period, the Group's liquid assets stood at EUR 34,2 million (EUR 47,3 million). The liquid assets per share were EUR 0,60.

### Product business

The market for the company's product business remained challenging during the second quarter. The sales of the StoneGate firewall and VPN product increased by 1% compared to the previous quarter, and by 34% compared with the same period of the previous year. StoneGate accounted for 76% of the

sales of own licenses. The sales of StoneBeat products fell by 32% from the previous quarter and 69% compared to the same period of the previous year.

### Highlights for the second quarter were:

- Stonesoft announced a partnership with computer manufacturer Mikrolog Ltd on appliance-based data security solutions. The objective is to produce, in co-operation with Mikrolog, an appliance-based firewall and VPN product family for demanding, distributed enterprise environments. These products will be available in Europe through selected partners in the third quarter.
- For the second year in a row, SC Magazine awarded the company's StoneGate firewall and VPN solution as the Best Buy 2003 in the enterprise firewall market.
- The company delivered its first StoneGate orders for the IBM Z-Series mainframes.
- According to the research published by IDC in April, Stonesoft's share of the domestic market for firewalls and VPNs has risen to 35%.

### Market areas

The relative volume of business by geographical area was: North and South America 23%, Europe, the Middle East and Africa 71%, and the Asia-Pacific Region 6%.

The company's sales in the Americas area grew by 12% from the previous quarter. The total sales for Europe, the Middle East and Africa fell by 5%. In the Asia-Pacific region, sales fell by 46% compared to the previous quarter.

## RESEARCH AND DEVELOPMENT

During the first quarter, the company's R&D costs totalled EUR 1,7 million (EUR 1,7 million).

Stonesoft's R&D units are located in Helsinki, Turku, Oulu and Sophia Antipolis in France. At the end of June, a total of 97 (95) people were involved in R&D activities in the company.

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

## CURRENT AUTHORIZATIONS

1) 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 229,000.00 euros, so that the aggregate maximum number of shares eligible for subscription on the basis of the above mentioned alternatives is 11,450,000 shares, each with an accounting equivalent value of 0.02 euros. Option rights may only be granted in a manner that the shares to be issued on the basis of the option rights will increase the share capital of the Company with the maximum of 30,000.00 euros. Option rights may only be granted in connection with mergers and acquisitions.

2) The Company's Board of Directors is entitled to decide on who shall have the right to subscribe for new shares in a new share issue, subscribe for option rights or for convertible loan. The new shares and/or option rights and/or convertible loan may, in accordance with Chapter 4 Section 6 of the

Companies Act (734/1978, as amended), be subscribed against contribution in kind or otherwise under specific conditions.

3) The new shares to be issued in a new issue and/or the option rights and/or the convertible loan may be offered for subscription in deviation from the shareholders' pre-emptive subscription right pursuant to Chapter 4, Section 2 of the Companies Act (734/1978, as amended) if the deviation is justified because of a weighty financial reason of the company, such as the financing of an acquisition, the enabling of joint venture transactions and the providing of additional financial alternatives, and/or a part of the incentive program directed to the Company's management and/or other personnel.

4) The Company's Board of Directors is entitled, in a share subscription by way of a new issue and/or on the basis of option rights and/or in connection with a convertible loan, to decide on the grounds on which the subscription price shall be determined and on the subscription price which may not, however, be less than the accounting equivalent value of the shares.

5) The Company's Board of Directors is entitled within the limits as set out in the Companies Act (734/1978) to decide on all other matters and provisions related to a new issue and/or the granting of option rights and/or convertible loans, such as an eventual interest payable on the convertible loan.

6) The authorisation will be in force until the following Annual General Meeting of Shareholders; however, it shall not exceed the maximum period of one year from the Annual General Meeting of Shareholders held in 12.3 2003.

## SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

In May commenced co-operation negotiations were drawn to a close in early July. The measures to be taken will lead globally to cost savings of at least EUR 1,5 million by quarter. The savings will materialize in full in the fourth quarter of this year. Approximately 50 people will be terminated, about half in Finland and half abroad. The one-time costs accrued due to the above mentioned actions totalled EUR 1,2 million and were entered as expenditure for the second quarter.

From the 9.7 2003 the management team of Stonesoft consists of the following persons; Jorma Turunen ( CEO, marketing, business development, investor relations and APAC-region), Ilkka Hiidenheimo ( R&D and customer services), Mikko Hietanen (CFO), Saara Laine ( Legal and HR), Tobias Christen ( Product Management), Markus Björkqvist ( EMEA-region and global partnerships)and Juha Härkönen (Americas-region).

## OUTLOOK FOR THE FUTURE

Jorma Turunen, CEO, Stonesoft Corporation:

“In the short term, the market situation will continue to be uncertain, and customers are very conservative with their data security investments. This is why we have continued adjusting our costs so that they better reflect to the present level of business. The level of costs of the company will be approximately 16% lower for the fourth quarter of the current year than it was for the first quarter of the year.

We have tried to make cost cuts without adversely impacting our capability to react to the inevitable growth of security solution needs that will occur in the long run. In the period under review, we have continued to develop sales training and new operational models to support our sales. In addition, we have continued our emphasis in R&D with the objective of maintaining the technological edge of our existing solutions. We also intend to launch a new generation of integrated data security solutions in the second half of the year.”

Stonesoft believes that due to the prospective customer opportunities for StoneGate and the adjustment of costs, the company’s operating profit before goodwill depreciation (EBITA) will continue to improve towards the end of the year, but will most likely still be at a loss in the fourth quarter of 2003.

## NEXT INTERIM REPORT

The Interim Report for the third quarter will be released on October 24, 2003.

The Financial figures presented in the Interim Report have not been audited.

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Stonesoft Corp.  
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President and CEO

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

Distribution:  
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**Stonesoft Corporation****Income Statement****(Euro 1000)**

	<b>1.1- 30.06.2003</b>	<b>1.1- 30.06.2002</b>	<b>1.1.- 31.12.2002</b>
<b>Net Sales</b>	<b>11 613</b>	<b>16 213</b>	<b>30 173</b>
Other operating income	469	385	755
Materials and services	822	1 332	2 972
Personnel costs	11 417	16 190	27 713
Depreciations	776	959	1 973
Other operating expenses	7 815	12 332	20 979
<b>Operating Profit / Loss (EBITA)</b>	<b>-8 748</b>	<b>-14 215</b>	<b>-22 708</b>
Goodwill depreciations	603	1 867	2 470
<b>Operating Profit / Loss (EBIT)</b>	<b>-9 351</b>	<b>-16 083</b>	<b>-25 178</b>
Financial income and expenses	492	234	480
<b>Profit / Loss before extraordinary items</b>	<b>-8 859</b>	<b>-15 849</b>	<b>-24 699</b>
Extraordinary income	37	10 232	10 160
Extraordinary expenses	1	352	1 426
<b>Profit / Loss before taxes and minority Interest</b>	<b>-8 823</b>	<b>-5 968</b>	<b>-15 965</b>
Direct taxes	193	155	742
<b>Profit / Loss for the Accounting period</b>	<b>-9 016</b>	<b>-6 124</b>	<b>-16 707</b>

**Stonesoft Corporation****Balance Sheet (Euro 1000)**

	<b>30.6.2003</b>	<b>30.6.2002</b>	<b>31.12.2002</b>
<b>Assets</b>			
<b>Non-Current Assets</b>			
Intangible assets	1 219	1 550	1 476
Consolidated goodwill	2 110	3 316	2 713
Tangible assets	1 764	2 730	2 139
Investments	6	4	4
<b>Non-Current Assets Total</b>	<b>5 100</b>	<b>7 601</b>	<b>6 332</b>

**Current assets**

Inventories	76	209	73
Long-term receivables	83	174	147
Short-term receivables	10 441	16 015	12 946
Investments	26 439	40 228	34 955
Cash on hand and on deposit	7 782	7 088	5 462
<b>Current Assets Total</b>	<b>44 820</b>	<b>63 714</b>	<b>53 584</b>
<b>Total</b>	<b>49 920</b>	<b>71 314</b>	<b>59 916</b>

## Liabilities

<b>Shareholders' Equity</b>	<b>40 857</b>	<b>60 485</b>	<b>49 860</b>
<b>Provisions</b>	<b>0</b>	<b>0</b>	<b>30</b>
<b>Liabilities</b>			
Long-term liabilities	0	7	2
Short-term liabilities	9 062	10 823	10 024
<b>Total Liabilities</b>	<b>9 062</b>	<b>10 829</b>	<b>10 026</b>
<b>Total</b>	<b>49 920</b>	<b>71 314</b>	<b>59 916</b>

## Stonesoft Corporation

<b>Key Ratios</b>	<b>1.1.- 30.6.2003</b>	<b>1.1.- 30.6.2002</b>	<b>2002</b>
<b>EURO 1000</b>			
Net Sales	11 613	16 213	30 173
Net Sales Change-%	-28 %	-50 %	-48 %
Operating Profit / Loss Before Goodwill Depreciations (EBITA)	-8 748	-14 215	-22 708
% of Net Sales	-75 %	-88 %	-75 %
Operating Profit / Loss After Goodwill Depreciations (EBIT)	-9 351	-16 083	-25 178
% of Net Sales	-81 %	-99 %	-83 %
Profit / Loss before Extraordinary Items	-8 859	-15 849	-24 699
% of Net Sales	-76 %	-98 %	-82 %
Profit / Loss before taxes and minority Interest	-8 823	-5 968	-15 965
% of Net Sales	-76 %	-37 %	-53 %
ROE - %, annualized	-40 %	-50 %	-44 %
ROI - %, annualized	-39 %	-49 %	-42 %
Equity Ratio-%	90 %	91 %	90 %
Net Gearing	-0.84	-0.78	-0.81
Total Asset	49 920	71 314	59 916
Capital Investments	144	352	699
% of Net Sales	1 %	2 %	2 %
R&D Costs	3 602	3 926	7 436
% of Net Sales	31 %	24 %	25 %

Number of Employees (Weighted Average)	324	461	403
Number of Employees at the end of the period	312	376	336

### Share Specific Ratios

Earnings per Share (EUR)	-0.16	-0.33	-0.49
Equity per Share (EUR)	0.71	1.06	0.87
Dividend per Share (EUR)	0.00	0.00	0.00
Dividend / Profit-%	0 %	0 %	0 %

Weighted Amount of Shares (Option dilution effect included)	57 302 732	57 301 433	57 302 088
Amount of Shares at the End of period	57 302 732	57 302 732	57 302 732

### Stonesoft Corporation

#### Quarterly Development (Euro Millions)

	Q2 / 2003	Q1 / 2003	Q4 / 2002	Q3 / 2002	Q2 / 2002	Q1 / 2002	2002
Net sales	5.6	6.0	7.0	7.0	6.4	9.8	30.2
Net sales change-%	-12 %	-39 %	-48 %	-41 %	-59 %	-42 %	-48 %
Operating profit (EBITA) before restructuring costs	-3.2	-3.8	-3.2	-4.5	-6.1	-6.1	-19.9
% of net sales	-58 %	-63 %	-46 %	-65 %	-95 %	-63 %	-66 %
Operating profit (EBITA)	-4.4	-4.4	-3.4	-5.1	-6.1	-8.1	-22.7
% of net sales	-78 %	-73 %	-49 %	-73 %	-95 %	-83 %	-75 %
Profit / loss before taxes	-4.4	-4.5	-4.7	-5.3	-6.6	0.6	-16.0
% of net sales	-78 %	-75 %	-68 %	-76 %	-103 %	6 %	-53 %
Number of employees at the end of the period	312	324	336	353	376	423	336

#### Networks

(Euro Millions)	Q2 / 2003	Q1 / 2003	Q4 / 2002	Q3 / 2002	Q2 / 2002	Q1 / 2002	2002
Net sales	5.6	6.0	7.0	7.0	6.4	7.7	28.1
Net sales change-%	-12 %	-22 %	-33 %	-21 %	-49 %	-46 %	-48 %
Division net sales of total net sales	100 %	100 %	100 %	100 %	100 %	79 %	93 %
Operating profit (EBITA) before restructuring costs	-3.2	-3.8	-3.2	-4.5	-6.1	-6.4	-20.2
% of net sales	-58 %	-63 %	-46 %	-65 %	-95 %	-83 %	-72 %
Operating profit (EBITA)	-4.4	-4.4	-3.4	-5.1	-6.1	-8.4	-23.0
% of net sales	-78 %	-73 %	-49 %	-73 %	-95 %	-109 %	-82 %
Number of employees at the end of the period	312	324	336	353	376	423	336

eSolutions (Euro Millions)	Q1 / 2002	2002
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Net sales	2.1	2.1
Net sales change-%	-25 %	-25 %
Division net sales of total net sales	21 %	21 %
Operating profit (EBITA)	0.3	0.3
% of net sales	12 %	12 %

Number of employees at the end of the period 161

## **Stonesoft Corporation**

### **Cashflow Statement**

	<b>1.1.- 30.6..2003</b>	<b>1.1.- 30.6.2002</b>	<b>2002</b>
<b>(Euro 1000)</b>			
<b>Business operations</b>			
Operating profit / loss	-9 351	-16 083	-25 178
Adjustments to operating profit / loss	1 348	3 130	4 777
Financial income and expenses	492	234	480
Change in working capital	1 605	2 900	5 331
Extraordinary items	36	-352	-1 426
Taxes paid	-193	-155	-741
<b>Total</b>	<b>-6 063</b>	<b>-10 326</b>	<b>-16 758</b>
<b>Investment activities</b>			
Investments to intangible and tangible assets	-144	-39	-386
Sales of intangible and tangible assets	0	12 034	11 962
Sales of other shares	-3	34	34
<b>Total</b>	<b>-147</b>	<b>12 029</b>	<b>11 609</b>
<b>Financing activities</b>			
Change in long-term loans	-2	-19	-24
Other	13	-27	-69
<b>Total</b>	<b>12</b>	<b>-47</b>	<b>-93</b>
<b>Change in liquid assets</b>	<b>-6 198</b>	<b>1 656</b>	<b>-5 242</b>
Liquid assets at the beginning of the reporting period	40 418	45 659	45 659
Liquid assets at the end of the reporting period	34 220	47 316	40 418