

STONESOFT CORPORATION'S INTERIM REPORT FOR THE PERIOD OF JANUARY – SEPTEMBER 2003

SUMMARY

January - September 2003

- The Group had net sales of EUR 16.6 million, a decrease of 29% compared to the corresponding period in the previous year.
- The net sales of continuing businesses fell by 21% compared to the previous year.
- Operating loss before goodwill depreciation (EBITA) was EUR 12.0 million (EUR 19.3 million in the previous year).
- The sales of own software products decreased by 37% compared to the corresponding period in 2002. The development for the main products was as follows:
 - Sales of StoneGate increased by 8%
 - Sales of StoneBeat declined by 70%
- One-time expenses from operational restructuring amounted to EUR 1.9 million during the reporting period (EUR 2.6 million in the previous year).

July - September 2003

- Net sales were EUR 5.0 million, down 12% from the previous quarter.
- The Group posted an operating loss before goodwill depreciation (EBITA) of EUR 3.3 million, including one-time expenses for operational restructuring amounting to EUR 0.1 million.
- The co-operation negotiations with employees that Stonesoft commenced in May drew to a close in July.
- The Group's liquid assets totalled EUR 30.0 million at the end of the period while the equity ratio was 89%.

Outlook for the future

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

GROUP FINANCIAL INDICATORS FOR JANUARY - SEPTEMBER 2003

The net sales of the Stonesoft Corporation in the period from January to September amounted to EUR 16.6 million (EUR 23.2 million). The net sales of the continuing businesses were EUR 21.1 million during the same period in the previous year, which means that the comparable net sales have decreased by EUR 4.5 million (21%).

The operating loss before goodwill depreciation (EBITA) was EUR 12.0 million in the reporting period (loss of EUR 19.3 million in the previous year), which includes one-time expenses amounting to EUR 1.9 million (EUR 2.6 million) due to the restructuring of operations.

The Group posted an operating loss before extraordinary items of EUR 12.3 million (a loss of EUR 21.1 million).

The loss for the reporting period was EUR 12.8 million (a loss of EUR 11.6 million). In 2002, the result was boosted by the capital gain of EUR 10.2 million resulting from the sale of Stonesoft e-Solutions Oy. The loss per share was EUR 0.22 (a loss of EUR 0.42).

BUSINESS OPERATIONS OF THE GROUP DURING THE THIRD QUARTER

Net sales and profitability

The net sales were EUR 5.0 million (EUR 7.0 million) for the period from July to September. Sales of own software products decreased by 19% compared to the previous quarter. The sales of StoneGate decreased by 18% compared to the preceding quarter, accounting for 77% of the sales of Stonesoft's own licences. Sales of the StoneBeat product family decreased by 22% compared to the previous quarter.

The Group posted an operating loss before goodwill depreciation (EBITA) of EUR 3.3 million (a loss of EUR 5.1 million). One-time expenses for operational restructuring totalled EUR 0.1 million.

Personnel costs for the third quarter were EUR 4.2 million (EUR 5.5 million in the previous year), down EUR 0.5 million compared to the previous quarter. Other operating costs fell 4% from the previous quarter (the figures mentioned above do not include the costs incurred by operational restructuring).

At the end of the period, the number of personnel totalled 268 (353 in the previous year), 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 45.6 million (EUR 66.1 million). The equity ratio was 89% (90%) and net gearing was -0.81 (-0.79). At the end of the period, the Group's liquid assets stood at EUR 30.0 million (EUR 43.4 million). The liquid assets per share were EUR 0.52.

The most significant events that occurred in the third quarter were:

- Stonesoft announced in September its firewall and VPN appliance product family. This product family is marketed and sold directly to Stonesoft's distributors and resellers, making use of the "one-stop-shop" method. As a result, the focus of the Group's operations will shift from being a pure software manufacturer towards providing appliance-based network security solutions. The appliances are manufactured by a Finnish contract manufacturer, Mikrolog Oy. The deliveries of Stonesoft's appliances began in October.
- The Version 2.0.5 of StoneGate, Stonesoft's firewall and VPN solution, received in September Common Criteria Evaluation Assurance Level 4+ (EAL4+) certification. Common Criteria is an ISO standard that has been ratified in 16 countries. It will open new business opportunities within the

public sector, in the United States and Great Britain in particular. In these countries, the Common Criteria standard is often a precondition for network security purchases.

- The negotiations with employees under the statutory co-operation procedure that Stonesoft started in Finland at the end of May were brought to a close at the beginning of July. The measures that have been taken will lead, globally, to cost savings of at least EUR 1.5 million quarterly. These cost savings will become fully effective during the last quarter of the year. The total number of personnel in the Group decreased by approximately 50 employees. This reduction was divided fairly equally between Finland and other countries. The one-time costs due to operational restructuring mentioned above, totalling approximately EUR 1.2 million, were entered as expenditure for the second quarter.

- From the 9th of July, the management team of Stonesoft consists of the following persons: Jorma Turunen (CEO, marketing, APAC region, business development, and investor relations), 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). In September, Mr Jarmo Häämä, M.Sc. (Eng.), was appointed as Executive Vice President responsible for business operations in the APAC region and as member of the management team. Prior to this appointment, he has, among other things, been employed by Tecnomen Corporation as Director of Asia Pacific business operations.

Market areas

The geographical distribution of business operations in terms of net sales was as follows: North and South America 22%, Europe, the Middle East and Africa 69%, and the Asia-Pacific region 9%.

The company's sales in the Americas area decreased by 19% from the previous quarter. The total sales for Europe, the Middle East and Africa decreased by 15%. In the Asia-Pacific region, the sales increased by 49% compared to the previous quarter.

RESEARCH AND DEVELOPMENT

During the third quarter, the Group's R&D investments totalled EUR 1.5 million (EUR 1.7 million).

Stonesoft's R&D units are located in Helsinki, Turku, and Sophia Antipolis, France. At the end of June, a total of 68 (96) people were involved in R&D activities within the Group.

In accordance with the Group's accounting policy, R&D costs are entered as expenditure for the period during which they are actually incurred.

CURRENT AUTHORISATIONS

1) The share capital of the company may be increased in one or several lots in such a way that the shares issued in the rights issue and/or the shares issued on the basis of the issued option rights and/or the shares issued in connection with the exchange of bonds can all together increase the share capital of the company by a maximum of EUR 229,000.00, so that a maximum of 11,450,000 shares, with a book parity of EUR 0.02 each, can be subscribed in the said rights issue and/or shares issue on the basis of the issued option rights and/or the shares issue in connection with the exchange of bonds. Option rights may only be granted so that the shares issued on the basis of these rights can only increase the company's share capital by a maximum of EUR 30,000.00. Option rights can only be granted in connection with corporate acquisitions or mergers.

2) The Board of Directors of the company has the right to decide on who is entitled to subscribe new shares, option rights or convertible bonds. The new shares and/or option rights and/or convertible bond

loan can, in accordance with Chapter 4, Section 6 of the Finnish Companies Act (734/1978, as amended), be subscribed against contribution in kind or otherwise under specific terms and conditions.

3) The new shares issued in the rights issue and/or the shares issued on the basis of the issued option rights and/or the shares issued in connection with the exchange of bonds can be offered for subscription by making an exception to the preferential subscription rights of shareholders stipulated in Chapter 4, Section 2 of the Finnish Companies Act (734/1978, as amended) if the exception can be justified on grounds that are financially significant to the company, such as corporate acquisition, implementation of co-operation arrangements or an increase in the number of financing options, or as a part of an incentive scheme for the company's management and/or other members of the personnel.

4) The Board of Directors of the company is entitled to decide on the grounds for determining the subscription price of the new shares issued in the rights issue and/or the shares issued on the basis of the issued option rights and/or the shares issued in connection with the exchange of bonds, as well as on the subscription price itself which may not, however, be less than the book parity value of the share.

5) The Board of Directors of the company is entitled, within the limits set by the Finnish Companies Act (734/1978), to decide on all the other issues and conditions related to the rights issue and/or issue of option rights and/or the flotation of the convertible bonds, such as on the interest possibly payable on the convertible bond 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 date of the resolution of the Annual General Meeting of Shareholders held on 12 March 2003.

OUTLOOK FOR THE FUTURE

Jorma Turunen, CEO, Stonesoft Corporation:

"We see a clear growth potential for our sales. In the short term, our new Firewall/VPN appliances, the increased opportunities relating to the firewalls of IBM Z Series computers, our improved opportunities within the public sector due to the EAL4+ certification we received and several potential projects, will provide opportunities for growth. Based on these factors, we believe that our sales will begin to increase during the last quarter of the year.

In the medium term, we also believe that our co-operation with security service providers as well as the totally new IPS product (Intrusion Detection and Analysis for Active Response), to be launched early next year, will increase our sales."

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

RELEASE OF 2003 RESULTS

Stonesoft will announce its result for the entire year 2003 on 2 February 2004.

The figures presented in the interim report release have not been audited.

For further details, please contact:

CEO Jorma Turunen, Stonesoft Corp.
 Tel. (09) 47 67 11
 E-mail: jorma.turunen@stonesoft.com

CFO Mikko Hietanen, Stonesoft Corp.
 Tel. (09) 47 67 11
 E-mail: mikko.hietanen@stonesoft.com

Stonesoft Corp.
 Jorma Turunen
 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>.

Stonesoft Corporation

Income Statement	1.1-30.09.2003	1.1-30.09.2002	1.1.-31.12.2002
(Euro 1000)			
Net Sales	16 566	23 182	30 173
Other operating income	641	562	755
Materials and services	1 157	2 126	2 972
Personnel costs	15 654	22 272	27 713
Depreciations	1 129	1 469	1 973
Other operating expenses	11 268	17 191	20 979
Operating Profit / Loss (EBITA)	-12 002	-19 314	-22 708
Goodwill depreciations	904	2 169	2 470
Operating Profit / Loss (EBIT)	-12 906	-21 483	-25 178
Financial income and expenses	575	415	480
Profit / Loss before extraordinary items	-12 331	-21 068	-24 699
Extraordinary income	37	10 221	10 160
Extraordinary expenses	1	385	1 426
Profit / Loss before taxes and minority Interest	-12 295	-11 232	-15 965
Direct taxes	479	360	742
Profit / Loss for the Accounting period	-12 774	-11 591	-16 707

Stonesoft Corporation

Balance Sheet (Euro 1000)	30.9.2003	30.9.2002	31.12.2002
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Assets**Non-Current Assets**

Intangible assets	1 095	1 454	1 476
Consolidated goodwill	1 809	3 015	2 713
Tangible assets	1 517	2 577	2 139
Investments	6	4	4
Non-Current Assets Total	4 427	7 049	6 332

Current assets

Inventories	88	160	73
Long-term receivables	64	154	147
Short-term receivables	11 023	15 321	12 946
Investments	26 484	38 351	34 955
Cash on hand and on deposit	3 477	5 054	5 462
Current Assets Total	41 137	59 040	53 584

Total	45 564	66 090	59 916
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Liabilities

Shareholders' Equity	37 117	54 977	49 860
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Provisions	0	0	30
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Liabilities

Long-term liabilities	0	4	2
Short-term liabilities	8 446	11 109	10 024
Total Liabilities	8 446	11 113	10 026

Total	45 564	66 090	59 916
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Stonesoft Corporation**Key Ratios
(Euro 1000)****1.1.-30.9.2003 1.1.-30.9.2002 2002**

Net Sales	16 566	23 182	30 173
Net Sales Change-%	-29 %	-48 %	-48 %
Operating Profit / Loss Before Goodwill Depreciations (EBITA)	-12 002	-19 314	-22 708
% of Net Sales	-72 %	-83 %	-75 %
Operating Profit / Loss After Goodwill Depreciations (EBIT)	-12 906	-21 483	-25 178
% of Net Sales	-78 %	-93 %	-83 %
Profit / Loss before Extraordinary Items	-12 331	-21 068	-24 699
% of Net Sales	-74 %	-91 %	-82 %
Profit / Loss before taxes and minority Interest	-12 295	-11 232	-15 965
% of Net Sales	-74 %	-48 %	-53 %
ROE - %, annualized	-39 %	-47 %	-44 %

ROI - %, annualized	-37 %	-46 %	-42 %
Equity Ratio-%	89 %	90 %	90 %
Net Gearing	-0.81	-0.79	-0.81
Total Asset	45 564	66 090	59 916
Capital Investments	127	612	699
% of Net Sales	1 %	3 %	2 %

R&D Costs	5 097	5 577	7 436
% of Net Sales	31 %	24 %	25 %
Number of Employees (Weighted Average)	309	425	403
Number of Employees at the end of the period	268	353	336

Share Specific Ratios

Earnings per Share (EUR)	-0.22	-0.42	-0.49
Equity per Share (EUR)	0.65	0.96	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	57 301 870	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)	Q3 / 2003	Q2 / 2003	Q1 / 2003	Q4 / 2002	Q3 / 2002	Q2 / 2002	Q1 / 2002	2002
Net sales	5.0	5.6	6.0	7.0	7.0	6.4	9.8	30.2
Net sales change-%	-29 %	-12 %	-39 %	-48 %	-41 %	-59 %	-42 %	-48 %
Operating profit (EBITA) before restructuring costs	-3.1	-3.2	-3.8	-3.2	-4.5	-6.1	-6.1	-19.9
% of net sales	-64 %	-58 %	-63 %	-46 %	-65 %	-95 %	-63 %	-66 %
Operating profit (EBITA)	-3.3	-4.4	-4.4	-3.4	-5.1	-6.1	-8.1	-22.7
% of net sales	-66 %	-78 %	-73 %	-49 %	-73 %	-95 %	-83 %	-75 %
Profit / loss before taxes	-3.5	-4.4	-4.5	-4.7	-5.3	-6.6	0.6	-16.0
% of net sales	-70 %	-78 %	-75 %	-68 %	-76 %	-103 %	6 %	-53 %
Number of employees at the end of the period	268	312	324	336	353	376	423	336

Networks (Euro Millions)	Q3 / 2003	Q2 / 2003	Q1 / 2003	Q4 / 2002	Q3 / 2002	Q2 / 2002	Q1 / 2002	2002
Net sales	5.0	5.6	6.0	7.0	7.0	6.4	7.7	28.1
Net sales change-%	-29 %	-12 %	-22 %	-33 %	-21 %	-49 %	-46 %	-48 %
Division net sales of total net sales	100 %	100 %	100 %	100 %	100 %	100 %	79 %	93 %
Operating profit (EBITA) before restructuring costs	-3.1	-3.2	-3.8	-3.2	-4.5	-6.1	-6.4	-20.2
% of net sales	-64 %	-58 %	-63 %	-46 %	-65 %	-95 %	-83 %	-72 %
Operating profit (EBITA)	-3.3	-4.4	-4.4	-3.4	-5.1	-6.1	-8.4	-23.0
% of net sales	-66 %	-78 %	-73 %	-49 %	-73 %	-95 %	-109 %	-82 %
Number of employees at the end of the period		312	324	336	353	376	423	336

eSolutions	Q1 /	2002
(Euro Millions)	2002	2002
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

(Euro 1000)

	1.1.-30.9.2003	1.1.-30.9.2002	2002
Business operations			
Operating profit / loss	-12 906	-21 483	-25 178
Adjustments to operating profit / loss	2 004	3 942	4 777
Financial income and expenses	575	415	480
Change in working capital	254	3 949	5 331
Extraordinary items	36	-385	-1 426
Taxes paid	-320	-360	-741
Total	-10 357	-13 922	-16 758
Investment activities			
Investments to intangible and tangible assets	-127	-299	-386
Sales of intangible and tangible assets	0	12 023	11 962
Sales of other shares	-3	34	34
Total	-129	11 758	11 609
Financing activities			
Change in long-term loans	-2	-22	-24
Other	31	-68	-69
Total	29	-90	-93
Change in liquid assets	-10 457	-2 254	-5 242
Liquid assets at the beginning of the reporting period	40 418	45 659	45 659
Liquid assets at the end of the reporting period	29 961	43 405	40 418