

**PRESS RELEASE, JULY 23<sup>rd</sup> at 9.00 a.m.**

## **STONESOFT CORPORATION'S INTERIM REPORT FOR JANUARY–JUNE 2004**

### **SUMMARY**

#### **January-June**

- Net sales for the review period were EUR 10.8 million, down by -7% on Jan-June, 2003.
  - StoneGate sales were EUR 2.8 million, up by +7% on Jan-June, 2003.
  - StoneBeat sales were EUR 0,5 million, down by -51% on Jan-June, 2003.
- Earnings before interest, taxes and amortization (EBITA) were EUR –5.2 million. Comparable EBITA Jan-June, 2003 was EUR –7.0 million.
- Earnings per share were EUR –0.11, (EUR –0.16 on June 30, 2003).
- Liquid assets on June 30, 2004 were EUR 24.7 million.

The company believes that, due to the improving prospects for sales, EBITA will continue to improve during 2004 and will reach a better level in the second half of the year than in the first half. The company continues to evaluate opportunities to accelerate achieving profitability.

#### **April-June**

- Net sales for the second quarter were EUR 5.8 million, up by +3% on April-June, 2003.
  - StoneGate sales were EUR 1.6 million, up by +21% on April-June, 2003.
  - StoneBeat sales were EUR 0.25 million, down by -38% on April-June, 2003.
- Earnings before interest, taxes and amortization (EBITA) were EUR –2.2 million. Comparable EBITA in April-June, 2003 was EUR –3.2 million.

### **NET SALES AND RESULT**

**(figures for the same period of the previous year in parentheses)**

#### **January-June**

The Corporation's net sales in the review period were EUR 10.8 million (EUR 11.6 million), a decrease of EUR 0.8 million or -7% compared with January-June, 2003. Earnings before interest, taxes and amortization (EBITA) for the review period were EUR –5.2 million (EUR –8.7 million).

Net sales in the review period were distributed geographically as follows: EMEA (Europe, Middle East and Africa) 72% (71%), North and South America 21% (21%), and APAC (Asia-Pacific) 7% (8%).

The net loss after taxes for the review period was EUR –6.3 million. During the period, the tax receivables recorded in 2001 were revised to correspond with the change in the corporation tax rate due to come into force in 2005. This revision affected the result by

EUR –0.6 million. The corresponding figure (net loss after taxes) for June 30, 2003 was EUR –9.0 million.

#### Finance and capital expenditure

At the end of the review period, the Corporation's total assets were EUR 37.4 million (EUR 49.9 million). The equity-to-assets ratio was 87% (90%) and the gearing ratio (the ratio of net debt to shareholders' equity) –0.86 (-0.84). The Corporation's liquid assets on June 30 amounted to EUR 24.7 million (EUR 34.2 million). There was no significant capital expenditure.

#### April-June

The Corporation's net sales for the second quarter totaled EUR 5.8 million (EUR 5.6 million), an increase of EUR 0.2 million or +3% compared with April-June, 2003. Earnings before interest, taxes and amortization (EBITA) for the second quarter were EUR –2.2 million (EUR –3.2 million excluding non-recurring items).

### **MARKETS AND COMPETITIVE ENVIRONMENT**

The recent trends affecting Stonesoft's competitive environment include for example the growing popularity of appliance-based security solutions and so-called "all-in-one" solutions.

Today, customers increasingly acquire firewalls as appliance solutions. In 2003, sales of firewall and VPN appliances increased by 16 %, whereas sales of software-based solutions decreased by 6 %. (Source: Infonetics)

Sales of the StoneGate Security Appliances, announced in the fall of 2003, have also grown quicker than sales of StoneGate firewall/VPN software, and the StoneGate Security Appliances sales have met the expected level. The advantage of an appliance-based solution for the customers is, above all, the ease of installation and integration.

Several security vendors have recently launched so called "all-in-one" solutions that combine a number of network security components, such as anti-virus programs, content inspection and spam filters, in one appliance.

Stonesoft views all-in-one solutions as being able to bring some benefits to small network environments, but as not adequate for large, critical network environments. Stonesoft's solution, the StoneGate Security Platform, which combines key network security components (firewall, VPN, IPS), network management and high availability, provides adequate network security and availability for both small and large network environments.

### **BUSINESS HIGHLIGHTS FOR THE SECOND QUARTER OF 2004**

- The StoneGate IPS (Intrusion Detection and Analysis with Active Response) became commercially available on schedule during the second quarter. During the second quarter the product was sold in all market areas (EMEA, AMERICAS, APAC). The first reference customers were confirmed and the prospect base for the product looks promising.

- As a result of the co-operation announcement in January, the StoneGate firewall and VPN solution for IBM eServer iSeries servers became generally available during the

second quarter. 12 iSeries partners have agreed to start selling the solution and the first commercial deals have been finalized.

- The sales of the StoneGate firewall and VPN for the IBM eServer zSeries continued. During the second quarter, the solution was sold to an important banking customer in the United States.

- The sales of StoneGate Security Appliances continued to increase during the second quarter according to the expectations. By the end of the review period, Stonesoft had resale agreements with 50 partners (23 agreements at the end the first quarter).

- During the second quarter StoneGate Security Appliances achieved recognition in third party testing and certification. In April, the StoneGate Firewall and VPN appliance achieved a Checkmark Certification for Firewall Levels 1 and 2 plus VPN. StoneGate is the first Firewall/VPN appliance in the world to achieve a certificate in all three levels. In May, SC Magazine gave a full five-star rating for the StoneGate Appliance model SG3000.

- At the same time as the launch of the StoneGate IPS, Stonesoft also announced the availability of the StoneGate Management Center 3.0. The StoneGate Management Center 3.0 seamlessly unifies the management of StoneGate Firewall, StoneGate VPN and the new StoneGate IPS into a single system, the StoneGate Security Platform. That enables companies to create layered defense in their networks. Layered defense, consisting of firewall, VPN and IPS solutions, goes beyond mere perimeter security and also assures and validates the security of the internal networks. An exclusive strength of the StoneGate Platform is the fact that it unifies network management, high availability and security management tasks.

## **PRODUCT DEVELOPMENT EXPENDITURE**

During the second quarter, the company invested EUR 1.3 million (EUR 1.7 million) in product development.

Stonesoft has product development units in Helsinki and Turku in Finland, and in Sophia Antipolis in France. At the end of the second quarter, the company's product development activities employed 69 (97) persons.

In accordance with the Corporation's accounting principles, R&D expenditure is booked as an expense at the moment it occurs.

## **TRANSITION TO THE IFRS**

Stonesoft's financial reporting will comply fully with the IFRS (International Financial Reporting Standards) in 2005. The first interim report to be prepared under the IFRS will be for the first quarter of 2005. Transition to IFRS-based consolidated financial statements has proceeded according to plan. The existing regulations and their effect on the Group's accounting policies, reporting and information systems have been identified and documented. The opening balance sheet for 2004 based on the IFRS has already been produced. The work of monitoring changes and revisions of the standards will continue during the second half of 2004.

## **AUTHORIZATIONS CURRENTLY IN FORCE**

The terms and conditions of the authorization are:

The share capital of the company may be increased in one or several lots in such a way that the shares issued in a rights offering and/or the shares issued on the basis of issued options and/or the shares issued in exchange for convertible bonds can altogether 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 counter book value of EUR 0.02 can be subscribed for in the said rights offering and/or share issue on the basis of the issued options and/or the shares issued in exchange for convertible bonds. Options may only be granted on condition that the shares issued on the basis of these rights may increase the company's share capital by a maximum of EUR 30,000.00. Options can only be granted in conjunction with acquisitions or mergers.

The Board of Directors of the company has the right to decide who is entitled to subscribe for new shares, options or convertible bonds. The new shares and/or options and/or convertible bonds can, in accordance with Chapter 4 Section 6 of the Companies Act (734/1978 with its amendments), be subscribed for with contribution in kind or otherwise under specific terms and conditions.

The new shares issued in the rights offering and/or the shares issued on the basis of the issued options and/or the shares issued in exchange for convertible bonds can be offered for subscription by making an exception to the pre-emptive subscription rights of shareholders referred to in Chapter 4 Section 2 of the Companies Act (734/1978 with its amendments) if the exception can be justified on grounds that are financially significant to the company, such as acquisitions, 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.

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 offering and/or the shares issued on the basis of the issued options and/or the shares issued in exchange for convertible bonds, as well as to decide on the subscription price itself which may not, however, be less than the counter book value of the share.

The Board of Directors of the company is entitled, within the limits set by the Companies Act (734/1978), to decide on all the other issues and conditions related to the rights offering and/or issue of options and/or the issuing of convertible bonds, such as on the interest payable on the convertible bonds.

The authorization will be in force until the following Annual General Meeting, but not, however, for more than one year from the date of this resolution of the Annual General Meeting.

## **EVENTS AFTER THE PERIOD UNDER REVIEW**

- Starting August 15, 2004, the Corporation's executive management team will be as follows: Jorma Turunen (CEO, Business Development and Investor Relations), Ilkka Hiidenheimo (Product Development, Customer Support and Quality Control), Veikko Ikäläinen (Financial Administration and Information Management), Saara Laine (Legal Affairs, HR and Partnership Programs), Tobias Christen (Product Management), Juha

Härkönen (Americas region), Jarmo Häärä (APAC region) and Erkki Panula (EMEA region, global marketing).

- Stonesoft Corporation complies with the new Corporate Governance Recommendation for Listed Companies issued by HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers.

## **OUTLOOK FOR FUTURE DEVELOPMENT**

During the second quarter, Stonesoft launched two new products, StoneGate IPS and StoneGate for IBM eServer iSeries. As a result of these releases, Stonesoft's product portfolio and target market are wider than ever before. The new products have been well received in the market. Sales of the StoneGate firewall and VPN are also expected to develop positively.

The company believes that, due to the improving prospects for sales, EBITA will continue to improve during 2004 and will reach a better level in the second half of the year than in the first half. The company continues to evaluate opportunities to accelerate achieving profitability.

The figures in this interim report are unaudited.

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Stonesoft Corporation

Jorma Turunen

CEO

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

The company will organize a press conference on July 23, 2004 at 10.30 a.m. at the Stonesoft headquarters, street address Itälahdenkatu 22A, 00210 Helsinki.

The company will publish the results for January–September on October 22, 2004 at 9.00 a.m.

Distribution:

Helsinki Exchanges

Main media

**Stonesoft Corporation**  
**Income Statement**

**1.1-30.6.2004    1.1-30.6.2003    1.1.-31.12.2003**

**(Euro 1000)**

<b>Net Sales</b>	<b>10,829</b>	<b>11,613</b>	<b>23,197</b>
Other operating income	314	469	840
Materials and services	899	822	1,780
Personnel costs	8,427	11,417	20,147
Depreciations	642	776	1,507
Other operating expenses	6,399	7,815	14,464
<b>Operating Profit / Loss (EBITA)</b>	<b>-5,225</b>	<b>-8,748</b>	<b>-13,861</b>
Goodwill depreciations	603	603	1,206
<b>Operating Profit / Loss (EBIT)</b>	<b>-5,827</b>	<b>-9,351</b>	<b>-15,067</b>
Financial income and expenses	312	492	817
<b>Profit / Loss before extraordinary items</b>	<b>-5,516</b>	<b>-8,859</b>	<b>-14,250</b>
Extraordinary income	0	37	37
Extraordinary expenses	0	1	1
<b>Profit / Loss before taxes and minority Interest</b>	<b>-5,516</b>	<b>-8,823</b>	<b>-14,214</b>
Direct taxes	830	193	573
<b>Profit / Loss for the Accounting period</b>	<b>-6,346</b>	<b>-9,016</b>	<b>-14,787</b>

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

**30/06/2004      30/06/2003      31/12/2003**

**Assets**

**Non-Current Assets**

Intangible assets	820	1,219	1,038
Consolidated goodwill	904	2,110	1,507
Tangible assets	963	1,764	1,267
Investments	6	6	6
<b>Non-Current Assets Total</b>	<b>2,694</b>	<b>5,100</b>	<b>3,818</b>

**Current assets**

Inventories	66	76	91
Long-term receivables	44	83	60
Short-term receivables	9,863	10,441	11,880
Investments	22,396	26,439	24,126
Cash on hand and on deposit	2,334	7,782	3,315
<b>Current Assets Total</b>	<b>34,703</b>	<b>44,820</b>	<b>39,472</b>

<b>Total</b>	<b>37,397</b>	<b>49,920</b>	<b>43,291</b>
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**Liabilities**

<b>Shareholders' Equity</b>	<b>28,816</b>	<b>40,857</b>	<b>35,121</b>
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<b>Provisions</b>	<b>164</b>	<b>0</b>	<b>159</b>
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**Liabilities**

Short-term liabilities	8,417	9,062	8,011
<b>Total Liabilities</b>	<b>8,417</b>	<b>9,062</b>	<b>8,011</b>

<b>Total</b>	<b>37,397</b>	<b>49,920</b>	<b>43,291</b>
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<b>Stonesoft Corporation</b>			
<b>Key Ratios</b>	<b>1.1.-30.6.2004</b>	<b>1.1.-30.6.2003</b>	<b>2003</b>
<b>EURO 1000</b>			
Net Sales	10,829	11,613	23,197
Net Sales Change-%	-7%	-28%	-23%
Operating Profit / Loss Before Goodwill Depreciations (EBITA)	-5,225	-8,748	-13,861
% of Net Sales	-48%	-75%	-60%
Operating Profit / Loss After Goodwill Depreciations (EBIT)	-5,827	-9,351	-15,067
% of Net Sales	-54%	-81%	-65%
Profit / Loss before Extraordinary Items	-5,516	-8,859	-14,250
% of Net Sales	-51%	-76%	-61%
Profit / Loss before taxes and minority Interest	-5,516	-8,823	-14,214
% of Net Sales	-51%	-76%	-61%
ROE - %, annualized	-40%	-40%	-35%
ROI - %, annualized	-30%	-39%	-33%
Equity Ratio-%	87%	90%	90%
Net Gearing	-0.86	-0.84	-0.78
Total Asset	37,397	49,920	43,291
Capital Investments	121	144	197
% of Net Sales	1%	1%	1%
R&D Costs	2,548	3,602	6,541
% of Net Sales	24%	31%	28%
Number of Employees (Weighted Average)	265	324	298
Number of Employees at the end of the period	268	312	264
<b>Share Specific Ratios</b>			
Earnings per Share (EUR)	-0.11	-0.16	-0.26
Equity per Share (EUR)	0.50	0.71	0.61
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	57,302,732	57,302,732
Amount of Shares at the End of period	57,302,732	57,302,732	57,302,732



**Stonesoft Corporation**  
**Quarterly Development**  
**(Euro Millions)**

	<b>Q2 / 2004</b>	<b>Q1 / 2004</b>	<b>Q4 / 2003</b>	<b>Q3 / 2003</b>	<b>Q2 / 2003</b>	<b>Q1 / 2003</b>	<b>2003</b>
Security software and appliances	1.8	1.5	2.6	1.4	1.7	1.9	7.6
Services	3.8	3.5	3.8	3.4	3.8	3.9	14.9
Other products	0.1	0.1	0.3	0.1	0.2	0.1	0.7
Net sales	5.8	5.0	6.6	5.0	5.6	6.0	23.2
Net sales change-% from previous year	3%	-16%	-5%	-29%	-12%	-39%	-23%
Sales Margin	5.3	4.6	6.0	4.6	5.2	5.6	21.4
Sales Margin %	92%	92%	91%	93%	93%	93%	92%
Operative expenses	7.7	7.6	7.9	7.9	9.6	9.9	35.3
Operating profit (EBITA) before restructuring costs	-2.2	-3.0	-1.9	-3.1	-3.2	-3.8	-12.0
% of net sales	-39%	-59%	-28%	-64%	-58%	-63%	-52%
Operating profit (EBITA)	-2.2	-3.0	-1.9	-3.3	-4.4	-4.4	-13.9
% of net sales	-39%	-59%	-28%	-66%	-78%	-73%	-60%
Profit / loss before taxes	-2.4	-3.1	-1.9	-3.5	-4.4	-4.5	-14.2
% of net sales	-42%	-62%	-29%	-70%	-78%	-75%	-61%
Number of employees at the end of the period	268	266	264	268	312	324	264

**Stonesoft Corporation****Cashflow Statement****1.1.-30.6.2004 1.1.-30.6.2003****2003****(Euro 1000)****Business operations**

Operating profit / loss	-5,827	-9,351	-15,067
Adjustments to operating profit / loss	1,250	1,348	2,842
Financial income and expenses	312	492	817
Change in working capital	1,832	1,606	-1,036
Extraordinary items	0	36	35
Taxes paid	-198	-194	-415
<b>Total</b>	<b>-2,632</b>	<b>-6,063</b>	<b>-12,823</b>

**Investment activities**

Investments to intangible and tangible assets	-121	-144	-197
Sales of other shares	0	-3	-3
<b>Total</b>	<b>-121</b>	<b>-147</b>	<b>-200</b>

**Financing activities**

Change in long-term loans	0	-2	-2
Other	41	13	48
<b>Total</b>	<b>41</b>	<b>12</b>	<b>46</b>

**Change in liquid assets**

	-2,711	-6,198	-12,977
Liquid assets at the beginning of the reporting period	27,441	40,418	40,418
Liquid assets at the end of the reporting period	24,730	34,220	27,441