

STONESOFT CORPORATION'S INTERIM REPORT FOR JANUARY–SEPTEMBER 2004

SUMMARY

January-September

- Net sales for the review period were EUR 16.1 million, down by -3% on Jan-Sept, 2003.
 - StoneGate sales were EUR 4.4 million, up by +21% on Jan-Sept, 2003.
 - StoneBeat sales were EUR 0.7 million, down by -51% on Jan-Sept, 2003.
- Earnings before interest, taxes and amortization (EBITA) were EUR –7.6 million. The comparable EBITA for Jan-Sept, 2003 was EUR –12.0 million.
- Earnings per share were EUR –0.16, (EUR –0.22 on September 30, 2003).
 - Liquid assets on September 30, 2004 were EUR 22.8 million

In the light of the actual sales figures from the three past quarters the company sees slightly positive signs in the sales trend.

The company believes that, due to the improving prospects for sales and the planned and already executed cost saving measures, 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.

July-September

- Net sales for the third quarter were EUR 5.3 million, up by +7% on July-Sept, 2003.
 - StoneGate sales were EUR 1.7 million, up by +55% on July-Sept, 2003.
 - StoneBeat sales were EUR 0.16 million, down by -50% on July-Sept, 2003.
- Earnings before interest, taxes and amortization (EBITA) were EUR –2.4 million. The comparable EBITA for July-Sept, 2003 was EUR –3.3 million.

NET SALES AND RESULT

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

January-September

The Corporation's net sales in the review period were EUR 16.1 million (EUR 16.6 million), a decrease of EUR -0.5 million or -3% compared with January-September, 2003. Earnings before interest, taxes and amortization (EBITA) for the review period were EUR –7.6 million (EUR –12.0 million).

Net sales in the review period were distributed geographically as follows: EMEA (Europe, Middle East and Africa) 72% (70%), North and South America 21% (21%), and APAC (Asia-Pacific) 7% (8%).

The net loss after taxes for the review period was EUR –9.0 million. The net loss after taxes for the corresponding period of the previous year was EUR –12.7 million.

Finance and capital expenditure

At the end of the review period, the Corporation's total assets were EUR 34.6 million (EUR 45.6 million). The equity-to-assets ratio was 85% (89%) and the gearing ratio (the ratio of net debt to shareholders' equity) –0.87 (-0.81). The Corporation's liquid assets on September 30 amounted to EUR 22.8 million (EUR 30.0 million). There was no significant capital expenditure.

July-September

The Corporation's net sales for the third quarter totaled EUR 5.3 million (EUR 5.0 million), an increase of EUR 0.3 million or +7% compared with July-September, 2003. Earnings before interest, taxes and amortization (EBITA) for the third quarter were EUR –1.9 million (EUR – 3.1 million) excluding non-recurring items.

In September, a EUR 1.2 million capital loan granted by Stonesoft Corporation to its Swedish subsidiary was written down. The write-down did not affect the Corporation's results. A similar write-down was made concerning a capital loan granted to the subsidiary, Optiwise Inc, in 2000.

MARKETS AND COMPETITIVE ENVIRONMENT

The market for network security solutions is expected to grow steadily in the coming years. Both firewall/VPN and IDS/IPS markets are estimated to grow on average about 20% annually during 2004-2006. (Sources: IDC, Datamonitor)

During 2004, the sales of StoneGate firewall & VPN have grown 21% compared to 2003, which is slightly faster than the expected market growth for this year.

THE MOST SIGNIFICANT EVENTS OF THE THIRD QUARTER

- In the beginning of August, the Board of Directors of Stonesoft appointed Mr. Ilkka Hiidenheimo (44), the founder and CTO of the company, as President and CEO of Stonesoft Corporation. Mr. Hiidenheimo succeeds Jorma Turunen who resigned. At the same time Mr. Mikael Nyberg, M.Sc. (Finance) and M.Sc. (Mechanical Engineering) was appointed as Stonesoft Corporation's Chief Financial Officer and member of the Management Team.

- The financial result of Stonesoft's business has remained weak. For this reason, Stonesoft started taking measures in August to reduce company expenditures and re-examine the group's organization with the objective of reaching profitability. Through the planned cost saving measures the company is targeting a cost reduction of approximately EUR 1 million per quarter.

- So far, Stonesoft's sales success has been geographically relatively fragmented. For this reason, Stonesoft has decided to invest in sales and marketing operations especially on the biggest network security markets. At the same time sales operations in some other market areas have been adjusted to better correspond with the market size, and some of the sales offices have been closed down. The company continues to evaluate opportunities to accelerate business and to adjust the business to better correspond with the market requirements.

- The company believes that the cost saving target of approximately EUR 1 million per quarter will be reflected in an actual change in the cost level mostly in the last quarter of 2004. However, this change will probably not be seen in the income statement to an equivalent extent, because of a seasonal change amounting to approximately EUR 500,000 in holiday pay reservations.

- During the third quarter, the sales of StoneGate increased by 55% compared with the third quarter of 2003. There were no significant changes in the appliance sales.

- In September, Stonesoft announced yet another co-operation project with IBM. Stonesoft will port the StoneGate firewall & VPN for IBM eServer OpenPower servers, which were launched by IBM in September. The new product will be available in early 2005.

- Starting August 3, 2004, Stonesoft's executive management team is as follows: Ilkka Hiidenheimo (CEO, Business Development, Investor Relations, Americas region, APAC region), Tobias Christen (Product Development, Customer Support and Quality Control),

Mikael Nyberg (Financial Administration and Information Management), Saara Laine (Legal Affairs and HR) and Erkki Panula (EMEA region, Global Marketing).

PRODUCT DEVELOPMENT EXPENDITURE

During the third quarter, the company invested EUR 1.2 million (EUR 1.5 million) in product development.

At the end of the third quarter, the company's product development activities employed 72 (68) 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 work of monitoring changes and revisions of the standards will continue during the last quarter 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.

OUTLOOK FOR FUTURE DEVELOPMENT

The company believes that, due to the improving prospects for sales and the planned and already executed cost saving measures, 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 figures in this interim report are unaudited.

For additional information, please contact:

Ilkka Hiidenheimo, Chief Executive Officer, Stonesoft Corporation
Tel. +358-9-47 67 11
E-mail: ilkka.hiidenheimo@stonesoft.com

Mikael Nyberg, Chief Financial Officer, Stonesoft Corporation
Tel. +358-9-47 67 11
E-mail: mikael.nyberg@stonesoft.com

Stonesoft Corporation
Ilkka Hiidenheimo
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 October 22, 2004 at 10.30 a.m. at the Stonesoft headquarters, street address Itälahdenkatu 22A, 00210 Helsinki.

The company will publish the results for the whole of 2004 at the latest in March 2004. The exact date will be informed later.

Distribution:
Helsinki Exchanges
Main media

Stonesoft Corporation**Income Statement****1.1-30.9.2004****1.1-30.9.2003****1.1.-31.12.2003****(EUR 1000)**

Net Sales	16 121	16 566	23 197
Other operating income	411	641	840
Materials and services	1 390	1 157	1 780
Personnel costs	12 671	15 654	20 147
Depreciation	1 026	1 129	1 507
Other operating expenses	9 039	11 268	14 464
Operating Profit/ Loss (EBITA)	-7 595	-12 002	-13 861
Goodwill depreciation	904	904	1 206
Operating Profit/ Loss (EBIT)	-8 499	-12 906	-15 067
Financial income and expenses	354	575	817
Profit/Loss before Extraordinary Items	-8 146	-12 331	-14 250
Extraordinary income	0	37	37
Extraordinary expenses	0	1	1
Profit/Loss before Taxes and Minority Interests	-8 146	-12 295	-14 214
Direct taxes	877	479	573
Profit / Loss for the Accounting period	-9 023	-12 774	-14 787

Stonesoft Corporation
Balance Sheet (EUR 1000)

30.9.2004

30.9.2003

31.12.2003

Assets

Non-Current Assets

Intangible assets	694	1 095	1 038
Consolidated goodwill	603	1 809	1 507
Tangible assets	792	1 517	1 267
Capital expenditure	9	6	6
Non-Current Assets, Total	2 098	4 427	3 818

Current Assets

Inventories	78	88	91
Long-term receivables	3 719	4 374	4 370
Short-term receivables	5 936	6 713	7 570
Investments	21 545	26 484	24 126
Cash on hand and on deposit	1 225	3 477	3 315
Current Assets, Total	32 502	41 137	39 472

Total	34 600	45 564	43 291
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Liabilities

Shareholders' Equity	26 145	37 117	35 121
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Provisions	95	0	159
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Liabilities

Short-term liabilities	8 360	8 446	8 011
Total Liabilities	8 360	8 446	8 011

Total	34 600	45 564	43 291
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Stonesoft Corporation**Key Ratios****1.1.-30.9.2004****1.1.-30.9.2003****2003****EUR 1000**

Net sales	16 121	16 566	23 197
Net sales change-%	-3%	-29%	-23%
Operating profit/loss before goodwill depreciation (EBITA)	-7 595	-12 002	-13 861
% of net sales	-47%	-72%	-60%
Operating profit/loss after goodwill depreciation (EBIT)	-8 499	-12 906	-15 067
% of net sales	-53%	-78%	-65%
Profit / loss before extraordinary items	-8 146	-12 331	-14 250
% of net sales	-51%	-74%	-61%
Profit / loss before taxes and minority interests	-8 146	-12 295	-14 214
% of net sales	-51%	-74%	-61%
ROE - %, annualized	-39%	-39%	-35%
ROI - %, annualized	-32%	-37%	-33%
Equity ratio-%	85%	89%	90%
Net gearing	-0,87	-0,81	-0,78
Total assets	34 600	45 564	43 291
Capital investments	208	127	197
% of net sales	1%	1%	1%
R&D costs	3 759	5 097	6 541
% of net sales	23%	31%	28%
Number of employees (weighted average)	263	309	298
Number of employees at end of period	255	268	264

Share-Specific Ratios

Earnings per share (EUR)	-0,16	-0,22	-0,26
Equity per share (EUR)	0,46	0,65	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 end of period	57 302 732	57 302 732	57 302 732

Stonesoft Corporation
Quarterly Development
(EUR millions)

	Q3 / 2004	Q2 / 2004	Q1 / 2004	Q4 / 2003	Q3 / 2003	Q2 / 2003	Q1 / 2003
Security software and appliances	1,8	1,8	1,5	2,6	1,4	1,7	1,9
Services	3,3	3,8	3,5	3,8	3,4	3,8	3,9
Other products	0,1	0,1	0,1	0,3	0,1	0,2	0,1
Net sales	5,3	5,8	5,0	6,6	5,0	5,6	6,0
Net sales change-% from previous year	7%	3%	-16%	-5%	-29%	-12%	-39%
Sales margin	4,8	5,3	4,6	6,0	4,6	5,2	5,6
Sales margin %	91%	92%	92%	91%	93%	93%	93%
Operative expenses	7,2	7,7	7,6	7,9	7,9	9,6	9,9
Operating profit (EBITA) Before restructuring costs	-1,9	-2,2	-3,0	-1,9	-3,1	-3,2	-3,8
% of net sales	-35%	-39%	-59%	-28%	-64%	-58%	-63%
Operating profit (EBITA) % of net sales	-2,4	-2,2	-3,0	-1,9	-3,3	-4,4	-4,4
	-45%	-39%	-59%	-28%	-66%	-78%	-73%
Profit / loss before taxes	-2,6	-2,4	-3,1	-1,9	-3,5	-4,4	-4,5
% of net sales	-50%	-42%	-62%	-29%	-70%	-78%	-75%
Number of employees at end of period	255	268	266	264	268	312	324

Stonesoft Corporation**Cash Flow Statement****1.1.-30.9.2004****1.1.-30.9.2003****2003****(EUR 1000)****Business Operations**

Operating profit / loss	-8 499	-12 906	-15 067
Adjustments to operating profit / loss	1 867	2 004	2 842
Financial income and expenses	354	575	817
Change in working capital	2 016	254	-1 036
Extraordinary items	0	36	35
Taxes paid	-245	-320	-415
Total	-4 508	-10 357	-12 823

Investment Activities

Investments in intangible and tangible assets	-208	-127	-197
Sales of other shares	-3	-3	-3
Total	-210	-129	-200

Financing Activities

Change in long-term loans	0	-2	-2
Other	47	31	48
Total	47	29	46

Change in Liquid Assets

Liquid assets at beginning of the reporting period	-4 671	-10 457	-12 977
Liquid assets at end of the reporting period	27 441	40 418	40 418
	22 770	29 961	27 441