

# January-December 2004, Annual Report

February 18th, 2005



# Stonesoft Corporation

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# Results for January-December 2004

- Net sales EUR 22.5 millions, a decrease of -3% compared to 2003.
- StoneGate sales were EUR 6.8 millions, an increase of +18% compared to 2003.
- StoneBeat sales totaled EUR 0.9 millions, a decrease of -51% compared to 2003.
- Operating loss (EBITA) of EUR -9.0 millions, a clear but insufficient improvement compared to the loss in 2003, EUR -13.9 millions.

# Results for October-December 2004

- Net sales EUR 6.4 millions, a decrease of -4% compared to Q4/2003. The decrease was primarily linked to sales of 3rd party products.
- StoneGate sales were EUR 2.3 millions, an increase of +13% compared to Q4/2003.
- StoneBeat sales totaled EUR 0.26 millions, a decrease of -48% compared to Q4/2003.
- Operating loss (EBITA) of EUR -1.4 millions, comparable loss in Q4/2003 EUR -1.9 millions. The improvement was due to 0.5 m euros lower operating costs compared to Q4/2003.

# Highlights Q4

- Closures of loss making units:
  - Dubai, Denmark, Norway
- Re defining of strategy towards a more sales minded, target segment oriented approach
- Reworking of organization - converting marketing and back office resoucrs into sales resources

# Highlights Q4 - Appliances

- Development of the Stonegate IPS (Intrusion Detection and Analysis with Active Response) product was completed in May.
- In the same month, Stonesoft published a new management system, the StoneGate Management Center 3.0. The StoneGate Management Center 3.0 integrates the StoneGate product family - firewall, VPN and the new IPS - into a seamless, easy-to-manage comprehensive network security solution, the StoneGate Security Platform. This solution provides data networks with multi-layer protection. Multi-layer network security that incorporates a firewall, VPN and IPS protects not only the outer part of the organization's network but also the Intranet. The StoneGate Security Platform integrates the most important network security components, network management and high availability.

# Highlights Q4 - StoneGate Platform

- In early August, Stonesoft's Board of Directors appointed Ilkka Hiidenheimo, 44, the company's founder and Chief Technical Officer, as Stonesoft's new CEO. The previous CEO Jorma Turunen resigned. At the same time, Mikael Nyberg, 44, M.Sc. (Eng.) was appointed the company's Chief Financial Officer and member of the Management Team.
- In August, the company commenced measures to adapt its costs and organization to better match the current level of business, with a view to achieving business profitability more rapidly. These measures are expected to create cost savings of approximately EUR 1 million on the global level per quarter.
- The company re-evaluated its strategy during the final quarter, completed the cost saving measures and commenced measures, in line with its strategy, aimed at increasing sales.

# Conclusion

The company believes that, its core business, product sales, will grow significantly faster than the estimated average growth of 20 % in the network security market forecasted by the most distinguished research institutes. The company believes that this growth will help it to reach profitability.

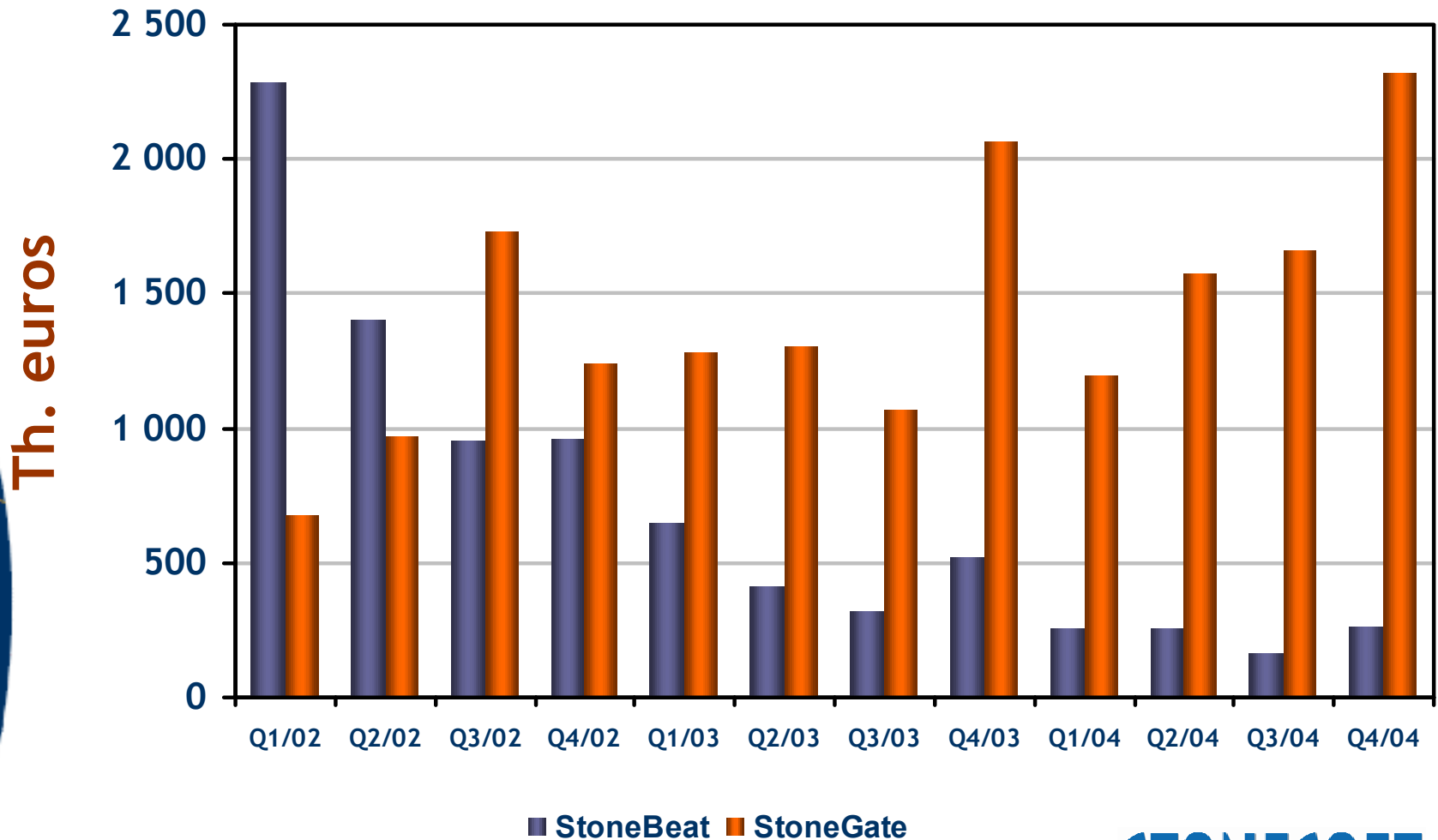
Due to normal seasonality effects, sales in the first quarter is expected to be sequentially lower than in the last quarter of 2004. The company expects however, that the year-on-year growth from 2004 will be clearly positive. According to the current plans of the company EBITA will be positive as of the last quarter of the year.



# Q4/2004 Financials



# StoneGate and StoneBeat Sales by Quarter

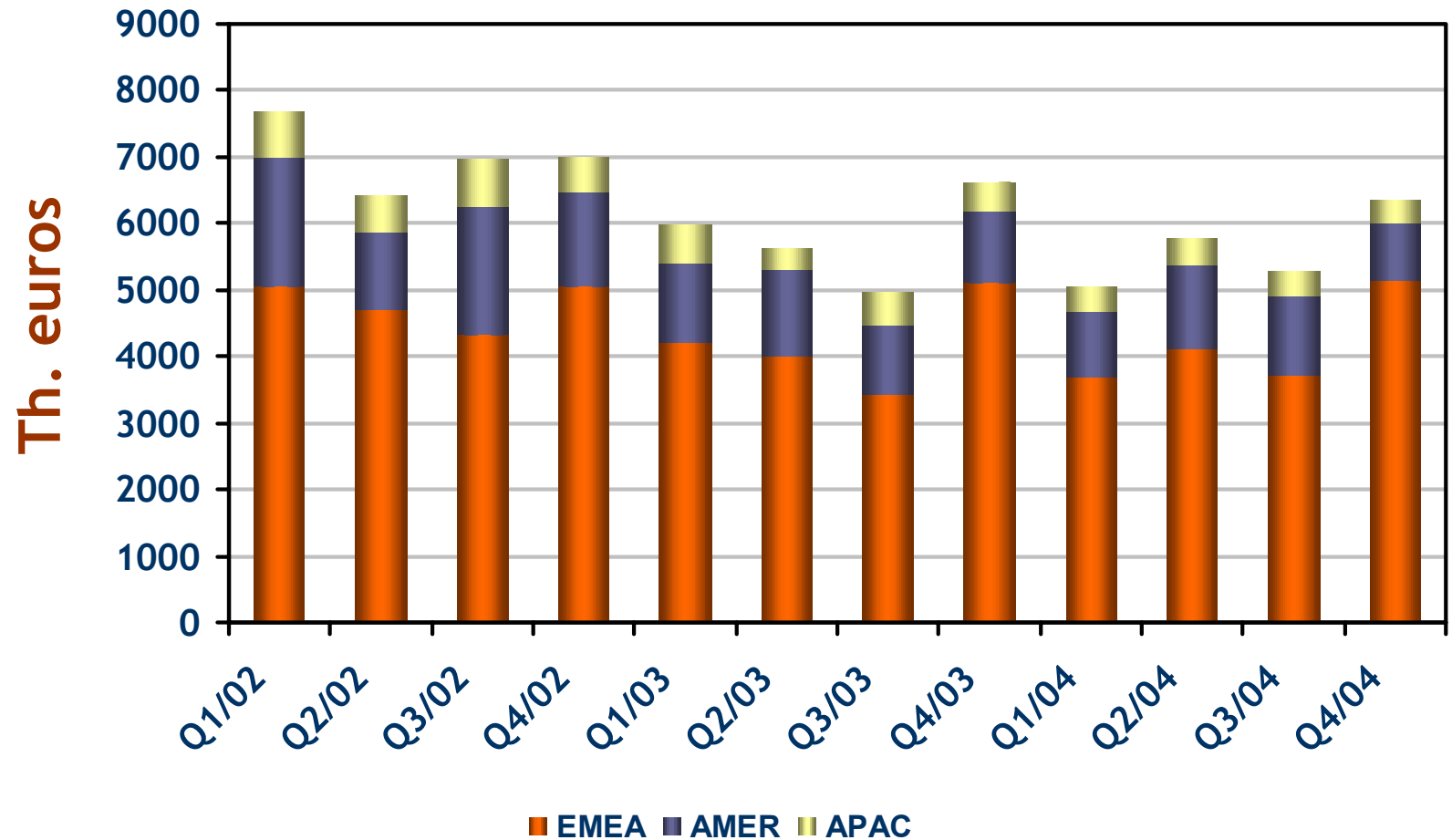


## Comment

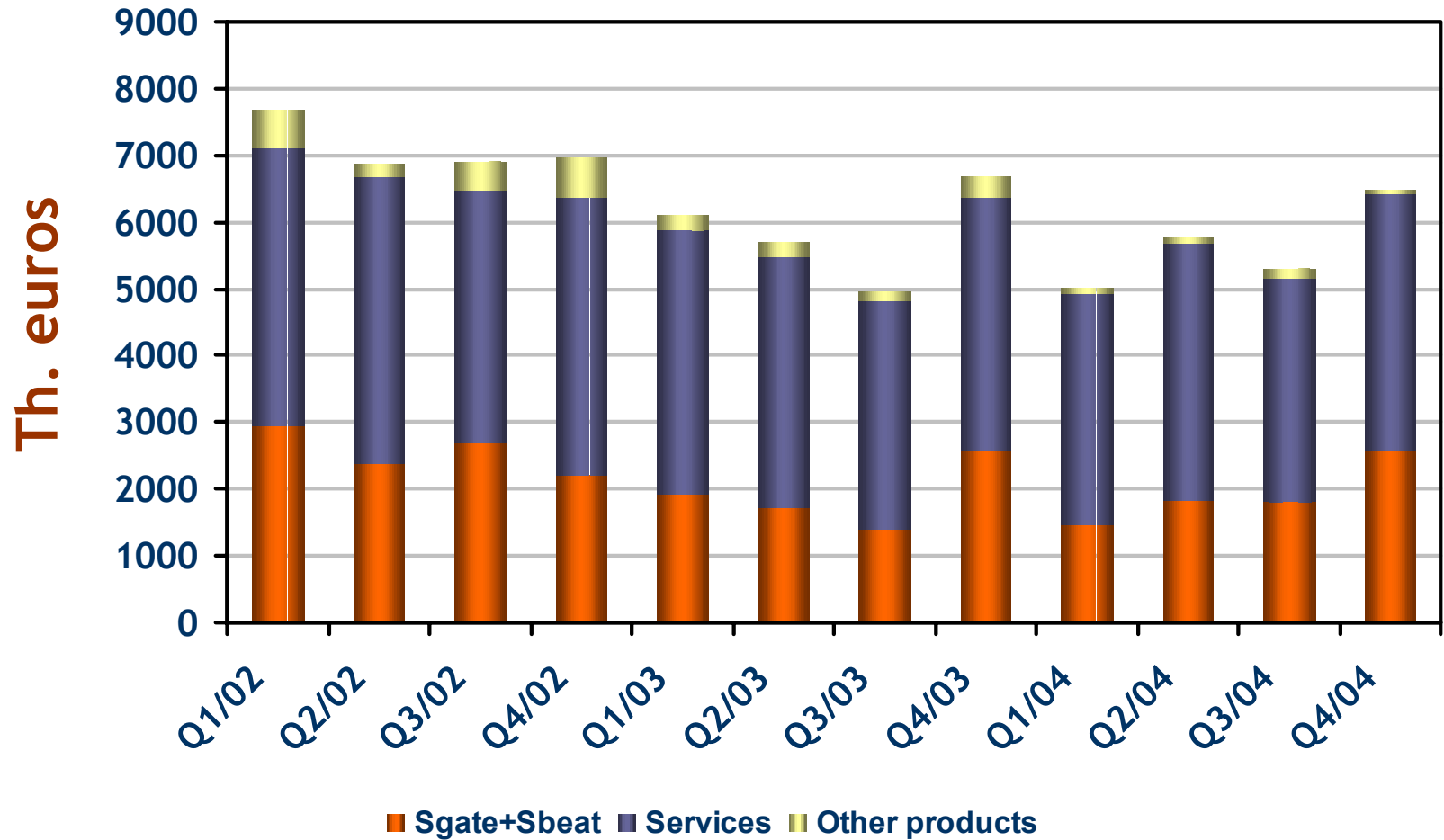
“The development of the sale of StoneGate Product family during 2004 was clearly positive. This development and the improving cash flow trend enable the transition to a new stage in which the main focus will be on substantial growth in StoneGate sales still keeping in mind the importance of cost effectiveness”

Ilkka Hiidenheimo, the CEO of the company

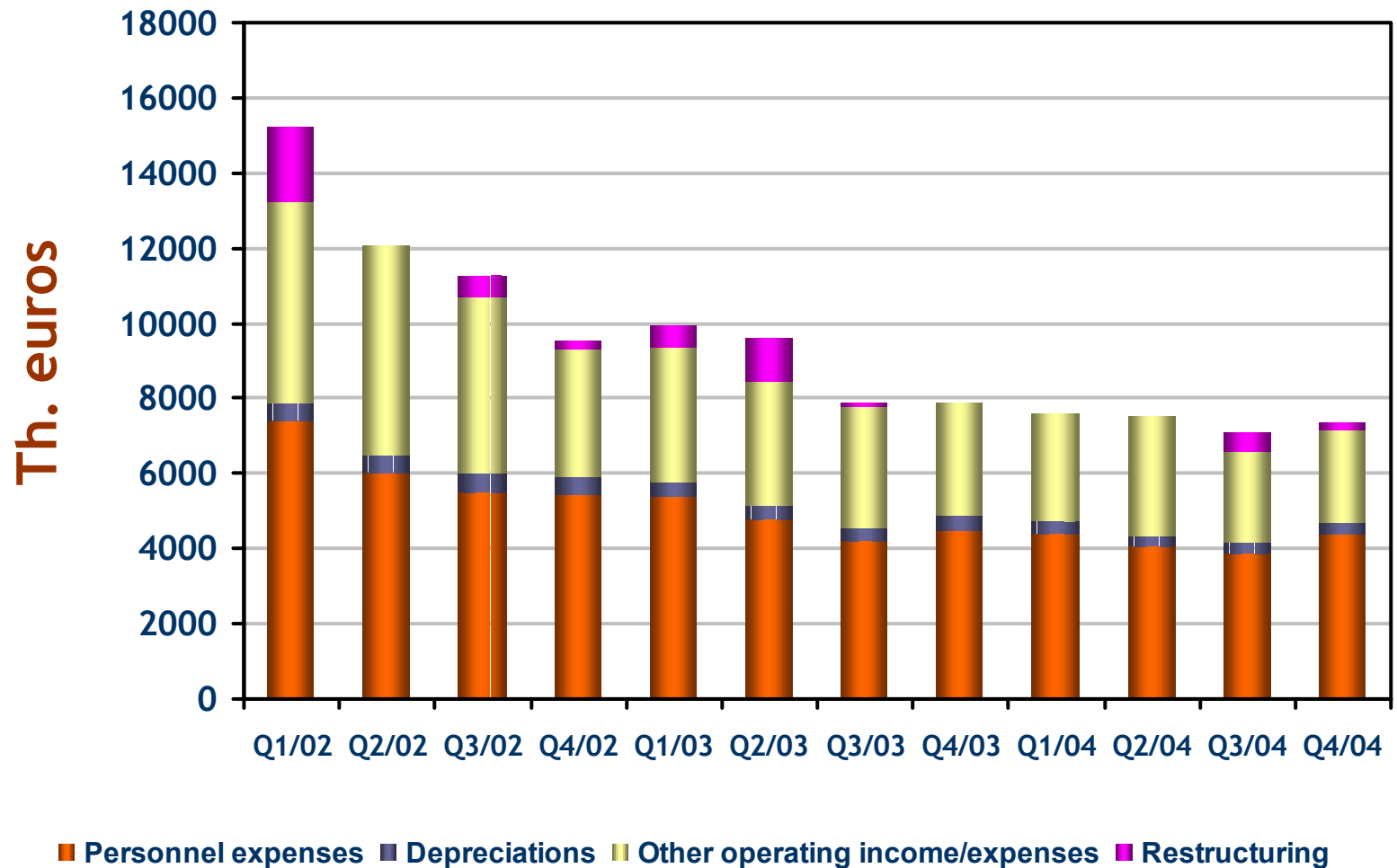
# Net Sales by Area



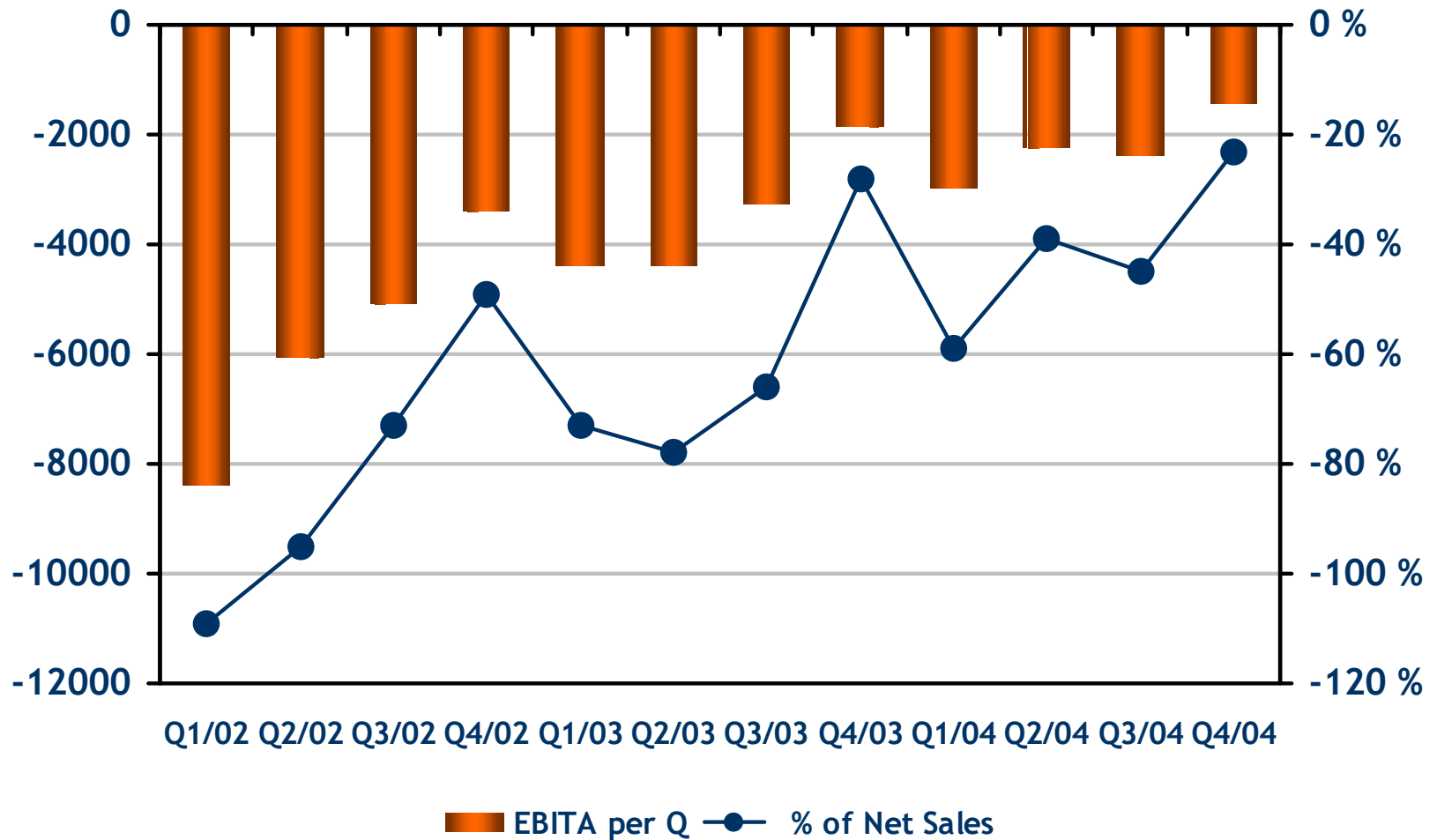
# Sales by Product



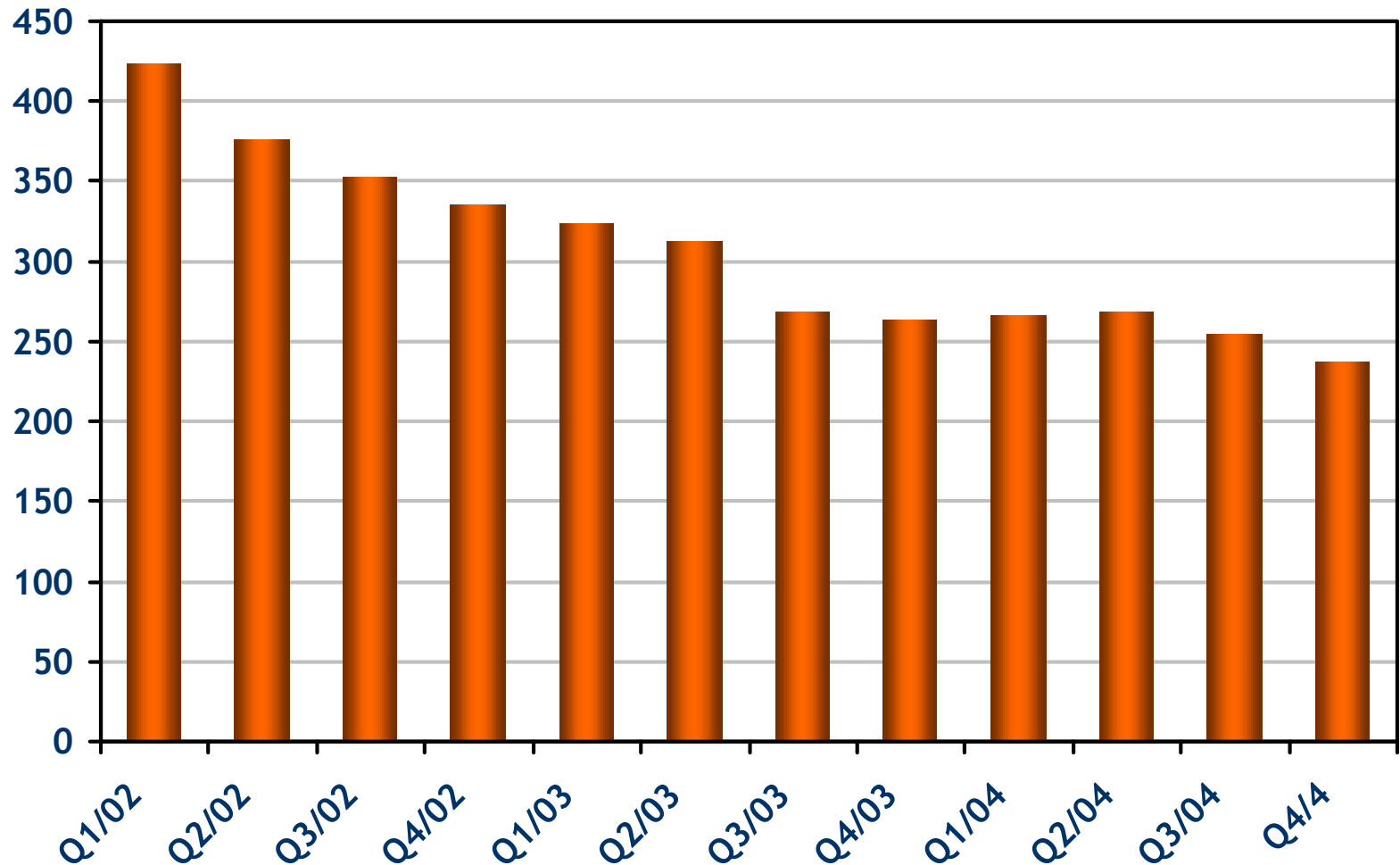
# Operating Costs by Quarter



# EBITA by Quarter

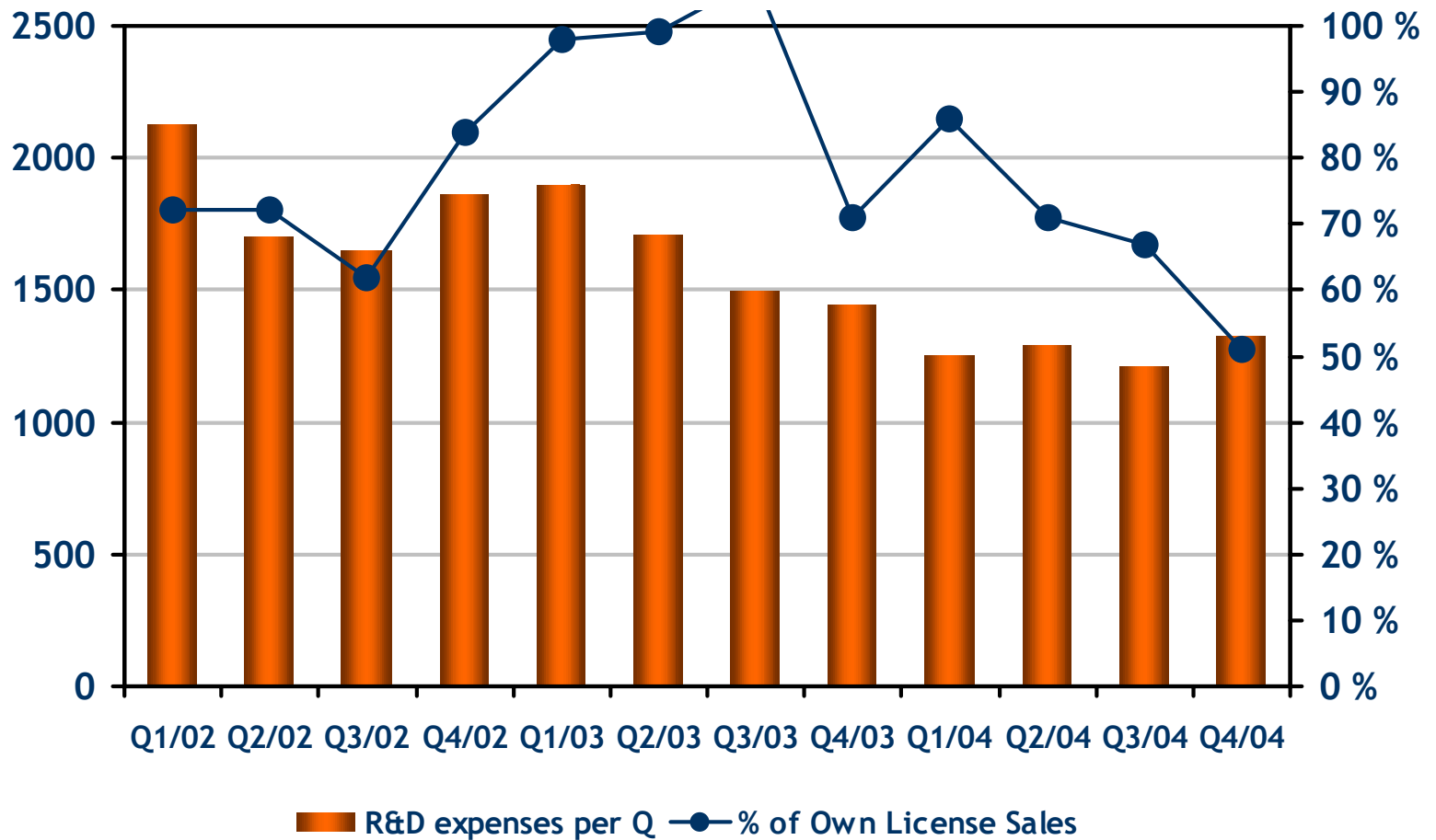


# Personnel in the End of Quarter

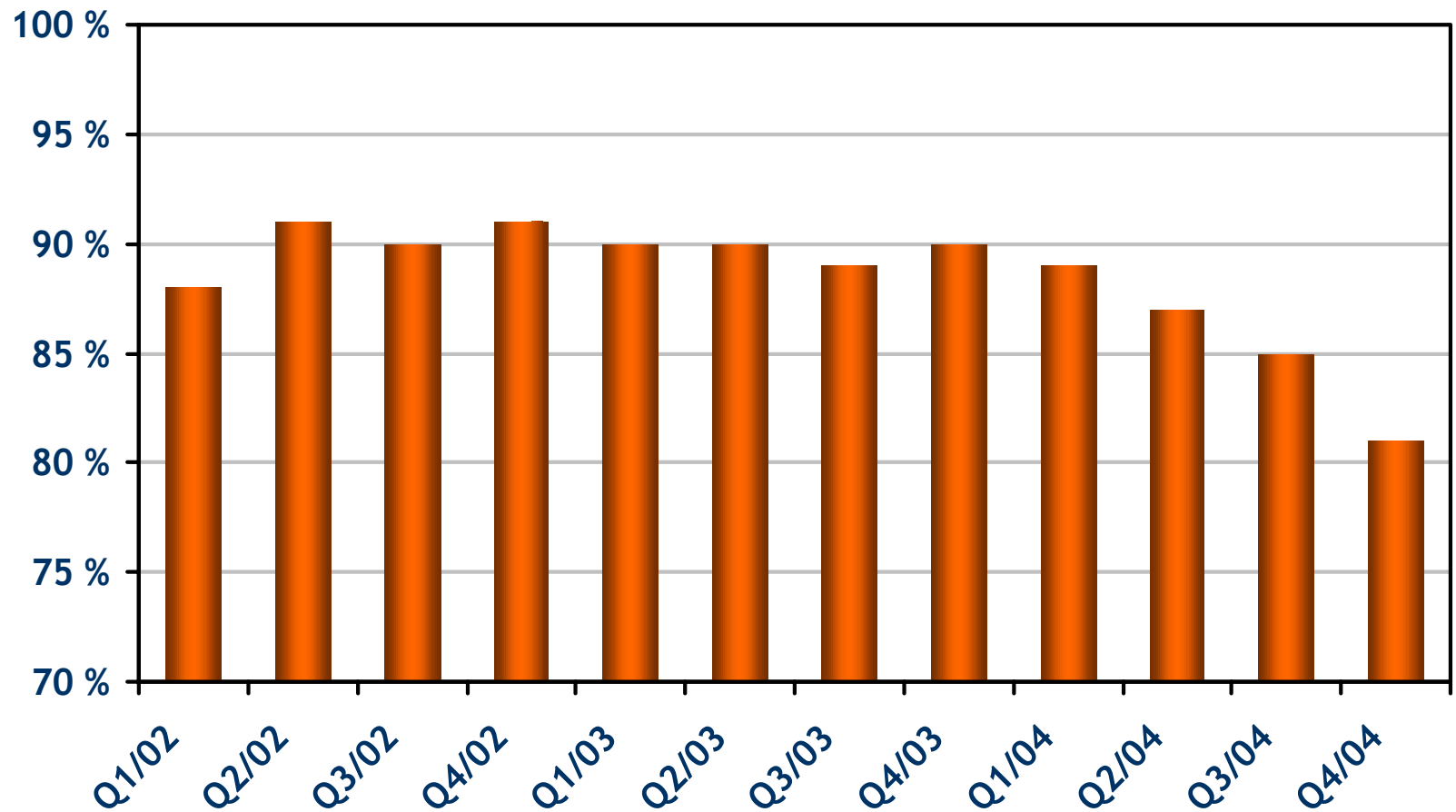




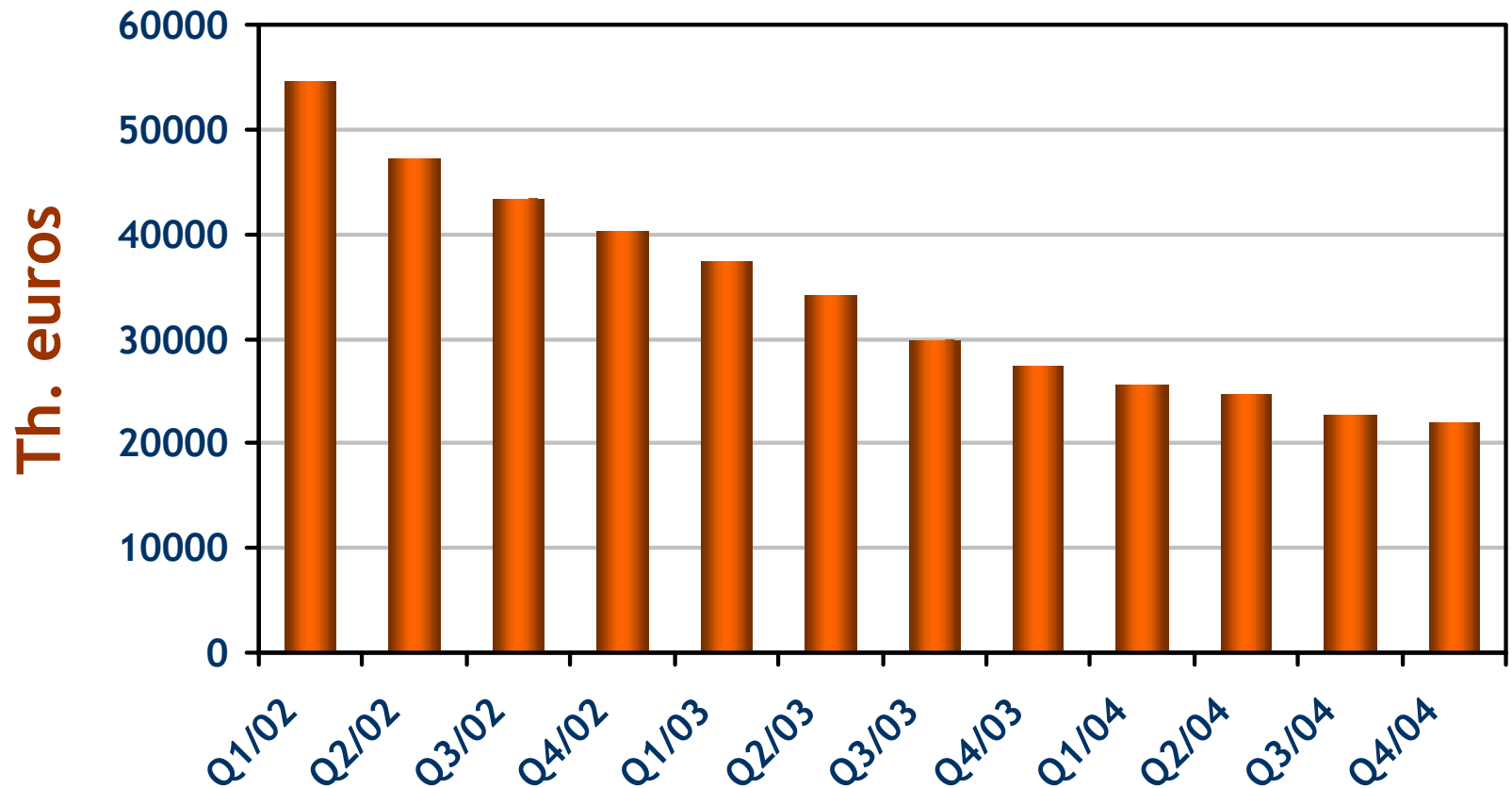
# R&D Expenses



# Equity Ratio in the End of Quarter



# Liquid Funds



# Shareholders Equity/Share

