

STONESOFT CORP. STOCK EXCHANGE RELEASE JULY 29, 2005 AT 9.00 AM

STONESOFT CORP.'S INTERIM REPORT FOR JANUARY-JUNE 2005

SUMMARY

January-June

- Net sales for the reporting period totalled EUR 11.8 million, which was 9% more than in the previous year's corresponding period.
- The company's core business, sales of StoneGate™ product family that includes firewall, VPN and Intrusion Protection and Detection System products, increased to EUR 4.4 million, an increase of 58% compared to corresponding period of the previous year.
- The operating loss was EUR 2.8 million. The comparable loss in the previous year's corresponding period was EUR 5.2 million.
- Earnings per share were EUR -0.05, compared with EUR -0.10 for the last year's corresponding period.
- Equity per share was EUR 0.34 (EUR 0.51).
- Liquid assets totalled EUR 20.7 million at the end of the period (24.8).
- The company's cash flow was EUR -1.7 million. Cash flow in the previous year's corresponding period was EUR -3.4 million.

"During the first half year we have implemented a new sales strategy and go to market model focusing to our strategic key markets. Based on the strong growth of the sales of StoneGate™ products and on reaching the targeted business development on majority of our markets we strongly believe in the chosen business strategy" says Ilkka Hiidenheimo, CEO of the company.

April-June

- Net sales for the quarter totalled EUR 6.2 million, which was 7% more than in the previous year's corresponding quarter.
- The company's main product line is StoneGate™ product family, for which product sales increased to EUR 2.6 million, an increase of 62% compared to corresponding quarter of the previous year.
- The operating loss was EUR 1.5 million. The comparable loss in the previous year's corresponding quarter was EUR 2.2 million.
- Earnings per share were EUR -0.03, compared with EUR -0.05 for the last year's corresponding quarter.
- The company's cash flow was EUR -0.9 million. Cash flow in the previous year's corresponding quarter was EUR -1.6 million.

NET SALES AND RESULT January-June 2005

Stonesoft group's net sales in January-June were EUR 11.8 million (EUR 10.8 million). Compared with the previous year's corresponding period, there was an increase of EUR 1.0 million, or 9%. The operating loss for the review period was EUR 2.8 million (EUR -5.2 million).

The net sales were distributed by the geographical segments as follows: Europe, Middle East and Africa 74% (72%), North and South America 19% (21%), and Asia-Pacific 7% (7%).

The company's operating result was up EUR 2.4 million compared to the corresponding period in the previous year. The loss for the reporting period after taxes was EUR 2.7 million. The previous year's loss was EUR 5.5 million.

April-June

Stonesoft group's net sales in April-June were EUR 6.2 million (EUR 5.8 million). Compared with the previous year's corresponding quarter, there was an increase of EUR 0.4 million, or 7%. The operating loss for the quarter was EUR 1.5 million (EUR -2.2 million).

Finance and investments

At the end of the review period, the group's total assets were EUR 29.1 million (EUR 38.6 million). The equity ratio was 79% (86%) and gearing (the ratio of net debt to shareholders' equity) was -1.05 (-0.82). Consolidated liquid assets at the end of review period totalled EUR 20.7 million (EUR 24.8 million). Investments in tangible and intangible assets totalled EUR 0.08 million (0.13 million).

DEVELOPMENT OF BUSINESS OPERATIONS

Markets

Network security markets are expected to grow steadily in the coming years. The growth of both the firewall/VPN markets and the IDS/IPS markets is expected to continue at an annual rate of about 20%. (Sources: IDC, Datamonitor).

Main business events in the second quarter

Mika Rautila was nominated as a CTO and member of the Management Team. Mr Rautila joined Stonesoft in 1999 and has a PhD in mathematics. In June Stonesoft launched new versions of StoneGate™ Management Center, StoneGate™ Firewall and VPN, StoneGate™ IPS products. It further unified the security components and provided several enhancements to assist the administration of complex security system. In June Stonesoft announced a new IPS appliance product, the SGI-20A that is designed to provide a combination sensor-analyzer for remote offices, permitting both central management and reduced traffic overhead.

REVIEW OF THE SCOPE OF R&D ACTIVITIES

The company's R&D investments in the second quarter totalled EUR 1.2 million (EUR 1.3 million).

R&D employed 68 (69) persons at the end of the review period.

SHARE CAPITAL AND STOCK OPTION PROGRAMS

Stock option programs

During the second quarter of 2005 no subscriptions were made on the basis of the stock option programs for key personnel of the company.

At the end of the review period Stonesoft's share capital entered in the Trade Register was EUR 1,146,054.64. The number of shares was 57,302,732 and the counter book value per share was EUR 0.02. No changes took place in the share capital.

The company's valid stock option programs and their subscription prices are as follows:

- Stock Option program 2000-2006, subscription price EUR 14.16
- Stock Option program 2001-2006, subscription price EUR 2.43
- Stock Option program 2004-2010, subscription price EUR 0.56

PERSONNEL

At the end of the review period, Stonesoft's personnel numbered 252 (268).

MAJOR EVENTS AFTER THE REVIEW PERIOD

In July Stonesoft received a U.S. patent for the VPN (virtual private network) component of the Multi-Link™ technology. Multi-Link VPN reduces costs, improves

network security, reliability and provides better fault tolerance to network connections.

FUTURE OUTLOOK

The company believes that its core business, sales of Stone Gate products, will continue to grow significantly faster than the estimated average annual growth of 20% in the network security market forecasted by some of the key research institutes, IDC and Datamonitor. Due to seasonal variations, the growth percentage may vary by quarter.

Stonesoft Group
Income Statement
(Euro 1000)

1.1-30.6.2005 1.1-30.6.2004 1.1-31.12.2004

Net Sales	11 758	10 829	22 490
Other operating income	219	314	545
Materials and services	1 021	899	1 859
Personnel costs	8 461	8 427	17 214
Depreciation	611	791	1 603
Other operating expenses	4 637	6 237	11 348
Operating Profit / Loss	-2 752	-5 212	-8 988
Financial income and expenses	212	301	456
Profit / Loss before taxes	-2 540	-4 911	-8 532
Direct taxes	185	631	4 448
Profit / Loss for the accounting period	-2 724	-5 542	-12 981
Earnings per share, EUR	-0.05	-0.10	-0.23
Earnings per share (diluted), EUR	-0.05	-0.10	-0.23

Stonesoft Group
Balance Sheet (Euro 1000)

30.6.2005 30.6.2004 31.12.2004

ASSETS

Non-Current Assets

Tangible assets	981	1 815	1 340
Goodwill	1 507	1 507	1 507
Intangible assets	296	538	404
Other investments	9	6	9
Receivables	33	44	38
Deferred tax assets	0	3 679	0
Total	2 826	7 588	3 299

Current assets

Inventories	243	74	194
Trade and other receivables	5 240	6 129	5 992
Advance payments	77	0	0
Marketable securities	19 215	22 441	20 815
Cash on hand and on deposit	1 486	2 334	1 372

Total	26 261	30 979	28 373
Total assets	29 087	38 567	31 671

EQUITY AND LIABILITIES

Shareholders' equity			
Share capital	1 146	1 146	1 146
Share premium account	76 835	76 821	76 821
Conversion difference	-850	-939	-892
Retained earnings	57 737	-47 573	-55 012
Total	19 394	29 454	22 063

Long-term liabilities			
Deferred tax liability	102	13	59
Interest bearing liabilities	219	326	268
Other long-term liabilities	806	724	762
Total	1 127	1 064	1 089

Short-term liabilities			
Trade and other payables	8 295	7 665	8 172
Tax liability	38	27	109
Provisions	23	116	23
Short-term interest bearing liabilities	210	241	217
Total	8 566	8 049	8 520

Total liabilities	9 693	9 113	9 609
-------------------	-------	-------	-------

Total equity and liabilities	29 087	38 567	31 671
------------------------------	--------	--------	--------

Stonesoft Group

Statement of changes in equity (Euro 1000)	Share capital	Share premium	Conversion difference	Retained earnings account	Total
---	------------------	------------------	--------------------------	---------------------------------	-------

Shareholders' equity at 31.12.2003	1 146	76 821	-1 078	-41 768	35 121
Change in IFRS conversion			98	-264	-166
Shareholders' equity at 1.1.2004	1 146	76 821	-980	-42 032	34 955
Conversion difference			41		41
Profit/loss for the period				-5 542	-5 542
Shareholders' equity at 30.6.2004	1 146	76 821	-939	-47 573	29 454

	Share capital	Share premium	Conversion difference	Retained earnings account	Total
--	------------------	------------------	--------------------------	---------------------------------	-------

Shareholders' equity at 1.1.2005	1 146	76 821	-892	-55 012	22 063
Share option		14			14
Conversion difference			42		42
Profit/loss for the period				-2 724	-2 724
Shareholders' equity at 30.6.2005	1 146	76 835	-850	-57 737	19 394

Stonesoft Group

Cash flow statement (Euro 1000)	1.1-30.6.2005	1.1-30.6.2004	1.1-31.12.2004
------------------------------------	---------------	---------------	----------------

Cash flow from operations			
Operating Profit / Loss	-2 752	-5 212	-8 988
Adjustments	712	1 084	1 868

Change in net working capital	672	1 181	1 654
Income taxes	-141	-198	-292
Total cash flow from operations	-1 510	-3 145	-5 757
Cash flow from investing activities			
Investments in tangible assets	-25	-131	-177
Investments in intangible assets	-4	-32	-33
Investments in affiliated company	-45	0	0
Investments in other shares	0	0	-3
Received dividends	0	0	3
Total cash flow investing Activities	-75	-163	-210
Cash flow from financing activities			
Payments of financial leasing Liabilities	-114	-134	-290
Total cash flow from financing activities			
Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period	22 187	28 169	28 169
Conversion differences	42	41	88
Changes in the market value of investments	170	8	188
Total cash and cash equivalents at end of period	20 701	24 776	22 187

Stonesoft Group			
Geographical segments	1.1-30.6.2005	1.1-30.6.2004	1.1-31.12.2004
(Euro 1000)			
Net Sales			
EMEA	8 665	7 824	16 664
AMER	2 288	2 231	4 299
APAC	805	774	1 527
Total net sales	11 758	10 829	22 490
Operating profit			
EMEA	-1 637	-2 843	-5 793
AMER	-895	-1 648	-2 398
APAC	-220	-721	-797
Total operating profit	-2 752	-5 212	-8 988

Stonesoft Group			
Contingent liabilities	1.1-30.6.2005	1.1-30.6.2004	1.1-31.12.2004
(Euro 1000)			
Leasing liabilities	382	469	394
Rental liabilities	7 664	8 510	7 776
Other liabilities	146	131	131

Stonesoft Group							
Quarterly Development	Q2/	Q1/	Q4/	Q3/	Q2/	Q1/	
(Euro Millions)	2005	2005	2004	2004	2004	2004	2004
Security software and appliances	2.6	1.9	2.6	1.8	1.8	1.5	7.7
Services	3.5	3.5	3.8	3.3	3.8	3.5	14.5
Other products	0.1	0.1	0.0	0.1	0.1	0.1	0.3
Net sales	6.2	5.6	6.4	5.3	5.8	5.0	22.5
Net sales change-% from previous year	7	10	-4	7	3	-16	-3
Sales Margin	5.5	5.2	5.9	4.8	5.3	4.6	20.6
Sales Margin %	89	93	93	91	92	92	92
Operative expenses	7.1	6.5	7.4	7.2	7.7	7.7	30.0
Operating profit (EBITA)							

before restructuring costs	-1.5	-1.3	-1.4	-1.9	-2.0	-2.8	-8.1
% of net sales	-24	-23	-22	-35	-34	-56	-36
Operating profit (EBITA)	-1.5	-1.3	-1.4	-2.4	-2.2	-3.0	-9.0
% of net sales	-24	-23	-22	-45	-39	-59	-40
Profit / loss before taxes	-1.3	-1.2	-1.4	-2.3	-2.1	-2.8	-8.5
% of net sales	-22	-21	-22	-43	-37	-55	-38

Stonesoft Group

Key Ratios 1.1-30.6.2005 1.1-30.6.2004 1.1-31.12.2004
(Euro 1000)

Net Sales	11 758	10 829	22 490
Net Sales Change-%	9	-7	-3
Operating profit / loss	-2 752	-5 212	-8 988
% of Net Sales	-23	-48	-40
Operating result before taxes	-2 540	-4 911	-8 532
% of Net Sales	-22	-45	-38
ROE - %, annualized	-26	-34	-46
ROI - %, annualized	-23	-26	-27
Equity Ratio-%	79	86	81
Net Gearing	-1.05	-0.82	-0.98
Total Assets	29 087	38 567	31 671
Capital Investments	143	297	501
% of Net Sales	1	3	2
R&D Costs	2 343	2 543	5 075
% of Net Sales	20	25	23
Number of Employees (Weighted Average)	242	265	258
Number of Employees (end of period)	252	268	237

Share Specific Ratios

Earnings per Share (EUR)	-0.05	-0.10	-0.23
Equity per Share (EUR)	0.34	0.51	0.38
Dividend	0.00	0.00	0.00
Dividend per Share (EUR)	0.00	0.00	0.00
Dividend / Profit-%	0	0	0

Stonesoft Group

Reconciliation of equity 31.12.2003 30.6.2004 31.12.2004
(Euro 1000)

Equity according to FAS	35 121	28 816	20 690
Goodwill		603	1 206
Unrealized change in value	38	46	226
Deferred tax effect	-212	-12	-59
Other adjustments	8	2	0
Equity according to IFRS	34 955	29 454	22 063

Stonesoft Group

Reconciliation of net profit 30.6.2004 31.12.2004

Net profit according to FAS	-6 346	-14 519
Goodwill amortization	603	1 208
Unrealized change in value	8	188
Deferred tax effect	200	153
Other adjustments	-6	-11
Net profit according to IFRS	-5 542	-12 981

For additional information, please contact:
Ilkka Hiidenheimo, CEO, Stonesoft Corp.
Tel. +358 9 476 711
E-mail: ilkka.hiidenheimo@stonesoft.com

Mikael Nyberg, CFO, Stonesoft Corp.
Tel. +358 9 476 711
E-mail: mikael.nyberg@stonesoft.com

Stonesoft Corp.
Ilkka Hiidenheimo
CEO

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