

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

SUMMARY

January-September ("reporting period")

- Net sales for the reporting period totalled EUR 16.4 million, which was 2% more than in the previous year's corresponding period.
- Stonesoft's core business, sales of StoneGate™ product family that includes firewall, VPN and Intrusion Protection and Detection System products, increased to EUR 6.0 million, an increase of 35% compared to corresponding period of the previous year.
- The operating loss was EUR 4.3 million. The comparable loss in the previous year's corresponding period was EUR 7.6 million.
- Earnings per share were EUR -0.07, compared with EUR -0.14 for the last year's corresponding period.
- Equity per share was EUR 0.31 (EUR 0.47).
- Liquid assets totalled EUR 20.1 million at the end of the period (EUR 22.9).
- The group's cash flow was EUR -2.1 million. Cash flow in the previous year's corresponding period was EUR -5.3 million.

"The sales of the third quarter were behind the target on several market areas. However we are convinced that the sales strategy chosen is the right one", says Ilkka Hiidenheimo, CEO of the company.

July-September ("the quarter")

- Net sales for the quarter were EUR 4.7 million, which was 11% less than in the previous year's corresponding quarter.
- The group's main product line is StoneGate product family, for which product sales decreased to EUR 1.6 million, a decrease of 4% 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 2.4 million.
- Earnings per share were EUR -0.02, compared with EUR -0.04 for the last year's corresponding quarter.
- The group's cash flow was EUR -0.6 million. Cash flow in the previous year's corresponding quarter was EUR -1.9 million.

NET SALES AND RESULT
January-September 2005

Stonesoft group's net sales in January-September were EUR 16.4 million (EUR 16.1 million). Compared with the previous year's corresponding period, there was an increase of EUR 0.3 million, or 2%. The operating loss for the review period was EUR 4.3 million (EUR -7.6 million).

The net sales were distributed by the geographical segments as follows: Europe, Middle East and Africa 72% (72%), North and South America 20% (21%), and Asia-Pacific 8% (7%).

The group's operating result was up EUR 3.3 million compared to the corresponding period in the previous year. The loss for the reporting period after taxes was EUR 4.2 million. The previous year's loss was EUR 7.9 million.

July-September

Stonesoft group's net sales in July-September were EUR 4.7 million (EUR 5.3 million). Compared with the previous year's corresponding quarter, there was a decrease of EUR 0.6 million, or 11%. The operating loss for the quarter was EUR 1.5 million (EUR -2.4 million).

Finance and investments

At the end of the quarter, the group's total assets were EUR 27.0 million (EUR 36.1 million). The equity ratio was 80% (85%) and gearing (the ratio of net debt to shareholders' equity) was -1,09 (-0.82). The group's liquid assets at the end of the quarter totalled EUR 20.1 million (EUR 22.9 million). Investments in tangible and intangible assets totalled EUR 0.05 million (EUR 0.11 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 quarter

- Stonesoft released large FW/VPN appliance SG-4000 for data centers and large network central sites. The new SG-4000 appliance is designed to cost-efficiently meet the performance and scalability requirements of demanding, high-value and business-critical networks like data centers and large network central sites.
- Siemens Business Services signed a partnership agreement with Stonesoft. The partnership covers Sweden, Norway and Denmark in Scandinavia, Germany, Belgium and Luxembourg in Central Europe. According to the agreement Siemens Business Service is offering Stonesoft's security products, solutions and services to their customers as a part of their global offering.
- IBM Global Services and Stonesoft extended their relationship. The companies renewed their existing EMEA and USA sale partnership agreement and extended its territory to cover Canada as well.
- Stonesoft received a European patent for a fail-safe method of updating remotely a configuration of a firewall. The patent called "a method of managing a network device, a management system, and a network device" (patent number EP 1259028) removes the risk that an error in a firewall configuration may lead to a situation making the network management center no longer able to connect to the firewall node in question, which could only be solved by making a costly visit to the site where the firewall node is located.
- In July Stonesoft received a U.S. patent for the VPN (virtual private network) component of the Multi-Link™ technology, an integral element of its StoneGate™ 2005 solution. The patent called "Data Transmission Control Method" (patent number 6,912,200) covers the VPN component of the Multi-Link™ functionality and the connection selection method when both ends of communication are protected by the StoneGate™ platform.

REVIEW OF THE SCOPE OF R&D ACTIVITIES

The group's R&D investments in the quarter totalled EUR 1,0 million (EUR 1.2 million).

R&D employed 65 (72) persons at the end of the quarter.

SHARE CAPITAL AND STOCK OPTION PROGRAMS

Stock option programs

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

At the end of the quarter 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 quarter, Stonesoft's personnel numbered 253(252).

MAJOR EVENTS AFTER THE QUARTER

- Stonesoft released in October four enhanced StoneGate™ small and mid-range appliances to meet the future security needs. StoneGate™ SG-250e, SG-500e-50, SG-500e-100, and SG-570e are now available globally.

FUTURE OUTLOOK

Stonesoft restates its earlier estimate according to which Stonesoft believes that the expected growth of the sales of StoneGate™ products in the last quarter will be at size range of 10 - 30 percent compared with the corresponding period in the previous year. However, due to evolving process of a new sales model including large amount of new sales resources in different regions combined with uncertainty of timing for larger deals this growth rate may also be bigger than this estimate.

Stonesoft Group Income Statement (1000 Euro)	1.1-30.9.2005	1.1-30.9.2004	1.1-31.12.2004
Net Sales	16 450	16 121	22 490
Other operating income	380	411	545
Materials and services	1 350	1 390	1 859
Personnel costs	12 340	12 671	17 214
Depreciation	846	1 250	1 603
Other operating expenses	6 582	8 796	11 348
Operating Profit / Loss	-4 287	-7 576	-8 988
Financial income and expenses	339	404	456
Profit / Loss before taxes	-3 948	-7 171	-8 532
Direct taxes	207	695	4 448
Profit / Loss for the accounting period	-4 155	-7 867	-12 981

Earnings per share, EUR	-0.07	-0.14	-0.23
Earnings per share (diluted), EUR	-0.07	-0.14	-0.23

Stonesoft Group			
Balance Sheet (1000 Euro)	30.9.2005	30.9.2004	31.12.2004

ASSETS

Non-Current Assets

Tangible assets	839	1 526	1 340
Goodwill	1 507	1 507	1 507
Intangible assets	251	474	404
Other investments	4	9	9
Receivables	30	41	38
Deferred tax assets	1	3 678	0
Total	2 633	7 236	3 299

Current assets

Inventories	491	83	194
Trade and other receivables	3 675	5 888	5 992
Advance payments	131	0	0
Marketable securities	18 383	21 661	20 815
Cash on hand and on deposit	1 692	1 225	1 372
Total	24 372	28 857	28 373

Total assets	27 005	36 093	31 671
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EQUITY AND LIABILITIES

Shareholders' equity

Share capital	1 146	1 146	1 146
Share premium account	76 843	76 821	76 821
Conversion difference	-854	-933	-892
Retained earnings	-59 109	-49 899	-55 012
Total	18 027	27 135	22 063

Long-term liabilities

Deferred tax liability	0	31	59
Interest bearing liabilities	185	288	268
Other long-term liabilities	774	738	762
Total	959	1 056	1 089

Short-term liabilities

Trade and other payables	7 757	7 597	8 172
Tax liability	43	25	109
Provisions	23	53	23
Short-term interest bearing liabilities	196	227	217
Total	8 019	7 902	8 520

Total liabilities	8 978	8 958	9 609
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Total equity and liabilities	27 005	36 093	31 671
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Stonesoft Group

Statement of changes in equity (1000 Euro)	Share capital	Share premium	Conversion difference	Retained earnings account	Total
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Shareholders' equity at 31.12.2003	1 146	76 821	-1 078	-41 768	35 121
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Change in IFRS conversion			98	-264	-166
Shareholders' equity					
at 1.1.2004	1 146	76 821	-980	-42 032	34 955
Conversion difference			47		47
Profit/loss for the period				-7 867	-7 867
Shareholders' equity					
at 30.6.2004	1 146	76 821	-933	-49 899	27 135

	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
Correction of					
shareholders' equity				59	59
Share option		22			22
Conversion difference			39		39
Profit/loss for the period				-4 155	-4 155
Shareholders' equity					
at 30.9.2005	1 146	76 843	-854	-59 109	18 027

Stonesoft Group

Cash flow statement 1.1-30.9.2005 1.1-30.9.2004 1.1-31.12.2004
(1000 Euro)

Cash flow from operations			
Operating Profit / Loss	-4 287	-7 576	-8 988
Adjustments	985	1 576	1 868
Change in net working capital	1 324	1 243	1 654
Income taxes	-208	-245	-292
Total cash flow from operations	-2 187	-5 002	-5 757

Cash flow from investing activities			
Investments in tangible assets	-13	-166	-177
Investments in intangible assets	-4	-32	-33
Investments in affiliated company	-45	0	0
Investments in other shares	5	-3	-3
Received dividends	0	0	3
Total cash flow investing			
activities	-57	-200	-210

Cash flow from financing activities			
Payments of financial leasing			
liabilities	-174	-206	-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	39	47	88
Changes in the market			
value of investments	267	78	188
Total cash and cash equivalents			
at end of period	20 075	22 886	22 187

Stonesoft Group

Geographical segments 1.1-30.9.2005 1.1-30.9.2004 1.1-31.12.2004
(1000 Euro)

Net Sales			
EMEA	11 898	11 530	16 664
AMER	3 231	3 424	4 299
APAC	1 321	1 167	1 527

Total net sales	16 450	16 121	22 490
Operating profit			
EMEA	-2 366	-4 224	-5 793
AMER	-1 532	-2 294	-2 398
APAC	-389	-1 059	-797
Total operating profit	-4 287	-7 576	-8 988

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Contingent liabilities 1.1-30.9.2005 1.1-30.9.2004 1.1-31.12.2004
(1000 Euro)

Leasing liabilities	371	424	394
Rental liabilities	7 359	8 171	7776
Other liabilities	131	146	146

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Quarterly Development Q3 / Q2 / Q1 / Q4 / Q3 / Q2 / Q1 /
(Euro Millions) 2005 2005 2005 2004 2004 2004 2004 2004

Security software and appliances	1.7	2.6	1.9	2.6	1.8	1.8	1.5	7.7
Services	3.0	3.5	3.5	3.8	3.3	3.8	3.5	14.5
Other products	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.3
Net sales	4.7	6.2	5.6	6.4	5.3	5.8	5.0	22.5
Net sales change-% from previous year	-11	7	10	-4	7	3	-16	-3
Sales Margin	4.4	5.5	5.2	5.9	4.8	5.3	4.6	20.6
Sales Margin %	93	89	93	93	91	92	92	92
Operative expenses	6.0	7.1	6.5	7.4	7.2	7.7	7.7	30.0
Operating profit (EBITA)								
before restructuring costs	-1.5	-1.5	-1.3	-1.4	-1.9	-2.0	-2.8	-8.1
% of net sales	-33	-24	-23	-22	-35	-34	-56	-36
Operating profit (EBITA)	-1.5	-1.5	-1.3	-1.4	-2.4	-2.2	-3.0	-9.0
% of net sales	-33	-24	-23	-22	-45	-39	-59	-40
Profit / loss before taxes	-1.4	-1.3	-1.2	-1.4	-2.3	-2.1	-2.8	-8.5
% of net sales	-30	-22	-21	-21	-43	-37	-55	-38

Stonesoft Group
Key Ratios 1.1.-30.9.2005 1.1-30.9.2004 1.1-31.12.2004
(1000 Euro)

Net Sales	16 450	16 121	22 490
Net Sales Change-%	2	-7	-3
Operating profit / loss	-4 287	-7 576	-8 988
% of Net Sales	-26	-47	-40
Operating result before taxes	-3 948	-7 171	-8 532
% of Net Sales	-24	-44	-38
ROE - %, annual	-28	-34	-46
ROI - %, annualized	-25	-27	-27
Equity Ratio-%	80	85	81
Net Gearing	-1.09	-0.82	-0.98
Total Assets	27 005	36 093	31 671
Capital Investments	191	404	501
% of Net Sales	1	3	2
R&D Costs	3 388	3 751	5 075
% of Net Sales	21	23	23
Number of Employees (Weighted Average)	246	263	258
Number of Employees (end of period)	253	255	237

Share Specific Ratios

Earnings per Share (EUR)	-0.07	-0.14	-0,23
Equity per Share (EUR)	0.31	0.47	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 30.9.2004 31.12.2004
(1000 Euro)

Equity according to FAS	35 121	26 145	20 690
Goodwill		904	1 206
Unrealized change in value	38	116	226
Deferred tax effect	-212	-30	-59
Other adjustments	8	0	0
Equity according to IFRS	34 955	27 135	22 063

Stonesoft Group
Reconciliation of net profit 30.9.2004 31.12.2004
(1000 Euro)

Net profit according to FAS	-9 023	-14 519
Goodwill amortization	904	1 208
Unrealized change in value	78	188
Deferred tax effect	182	153
Other adjustments	-9	-11
Net profit according to IFRS	-7 867	-12 981

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Stonesoft Corp.
Board of Directors

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>.