

STONESOFT CORP.'S INTERIM REPORT FOR JANUARY-JUNE 2006

SUMMARY

January-June ("reporting period")

- Net sales for the reporting period totalled EUR 10.6 million (EUR 11.8 million), which was 10% less 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, was EUR 3.7 million (EUR 4.4 million), a decrease of 16% compared to corresponding period of the previous year.
- The operating loss was EUR 3.3 million (EUR 2.8 million).
- Earnings per share were EUR -0.06 (EUR -0.05).
- Equity per share was EUR 0.23 (EUR 0.34).
- Liquid assets totalled EUR 15.7 million at the end of the period (EUR 20.7 million).
- The group's cash flow was EUR -2.4 million (EUR -1.5 million).

"The development of the sales of Stonesoft's main product StoneGate™ was a disappointment. One of the reasons was delay of the new product release until the end of the quarter and the use of sales resources in building the sales channel and training and guiding the new salespersons", says Ilkka Hiidenheimo, CEO of Stonesoft.

"We have already taken measures to push the sales during the last half of the year. In relation to this we reorganized the management team in June to further enhance the customer focus and strengthened sales, marketing and communication expertise in top management. We will also further strengthen co-operation with partners and sharpen our strategy to meet better the changing customer requirements", Hiidenheimo points out.

"Starting cooperation with Cern in research and development, commencement of partnership with Fujitsu Services and the Gartner's opinion of Stonesoft as a innovative company in Gartner's Magic Quadrant are all indications of the recognition of our technology being on top level."

NET SALES AND RESULT

January-June 2006

Stonesoft group's net sales in January-March were EUR 10.6 million (EUR 11.8 million). Compared with the previous year's corresponding period, there was a decrease of EUR 1.2 million, or -10%. The operating loss for the review period was EUR 3.3 million (EUR -2.8 million).

The net sales were distributed by the geographical segments was divided as follows: EMEA (Europe, Middle East and Africa) 79% (74%), Americas (North and South America) 14% (19%), and APAC (Asia-Pacific) 7% (7%).

The loss for the reporting period after taxes was EUR -3.2 million. The previous year's loss in the corresponding period was EUR -2.7 million

April-June

Stonesoft group's net sales in April-June were EUR 5.0 million (EUR 6.2 million). Compared with the previous year's corresponding quarter, there was a decrease of EUR -1.2 million, or -18%. The operating loss for the quarter was EUR -2.0 million (EUR -1.5 million).

Finance and investments

At the end of the quarter, the group's total assets were EUR 22.9 million (EUR 29.1 million). The equity ratio was 73% (79%) and gearing (the ratio of net debt to shareholders' equity) was -1.19 (-1.05). The group's liquid assets at the end

of the quarter totalled EUR 15.7 million (EUR 20.7 million). Investments in tangible and intangible assets totalled EUR 0.09 million (EUR 0.08 million).

## DEVELOPMENT OF BUSINESS OPERATIONS

### Markets

Network security markets are expected to grow steadily. The growth of both the firewall/VPN markets and the IDS/IPS markets is expected to continue at an annual rate of about 10% during 2006. (Source: Infonetics)

### Main events during the quarter

- In June Stonesoft reorganized the management team to further enhance the customer focus. With the reform company is strengthening the sales, marketing and communication focus in top management. Previous Vice President of Marketing Juha Kivikoski was appointed as Vice President of Sales in Europe. Kivikoski will continue as a member of management team and will also be responsible for global partnerships. As new members to management team are invited Outi Torniaainen, appointed at the same time Vice President, Marketing and Communications and Kim Fagernäs, Vice President of Sales in APAC, Nordics and Emerging Markets.
- In June Stonesoft started StoneGate IPS 2.0, FW/VPN 3.0 and StoneGate Management Center 3.5 product deliveries. This major release fulfilled our vision of defense in depth by completing our portfolio. It included IPS Inline functionality, which includes FW/VPN, IDS and IPS product lines. This new generation StoneGate™ Platform provides secured, optimised and resilient connectivity for converged services while preventing damage of attacks.
- Stonesoft launched the new generation StoneGate™ Platform providing secured, optimised and resilient connectivity for converged services while preventing damage of attacks. SG-1100 and SG-3100-C firewall/VPN appliances and IPS appliances (SGI-2100S, SGI-200S and SGI-200C) began shipping in the end of June.
- The company signed a global agreement with the United Nations for the provision of StoneGate™ products and services.
- Stonesoft established a partner agreement with Fujitsu Services Oy. The contract covers product, maintenance and service sales of Stonesoft's network security products to Fujitsu's offering in Nordics and Baltic countries.
- StoneGate™ firewall was selected the best in Europe in two categories in competition of respected SC Magazine. According to the leading information security magazine the success was based on advanced information security provided by StoneGate™ as well as on business continuity offered by the product.
- Cern announced agreement on cooperation in research and development with Stonesoft. Cern is using Stonesoft's technology to protect its grid network.
- Spanish bank and financial company Bankprime selected StoneGate Platform to protect its data and remote connections.
- American independent research company Gartner included Stonesoft in its Magic Quadrant report and described it as innovative network security company.
- Stonesoft announced an Investment Protection Program targeted to end-customers to secure and protect the investment that the customers have made to network security. The Program is developed to help Channel Partners and Customers to achieve lower Total Cost of Ownership with Stonesoft's integrated network security and business continuity solutions.

## REVIEW OF THE SCOPE OF R&D ACTIVITIES

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

R&D employed 66 (68) 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 subscription period in the Stock Option Program 2000-2006 for all stock options ended on April 30, 2006.

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

- 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 257 (252).

#### FUTURE OUTLOOK

According to an estimate given by Infonetics, the Firewall/VPN and Intrusion detection and protection market is estimated to achieve an average growth of roughly 10% during 2006.

Based on the present project pipeline Stonesoft anticipates the sales of StoneGate™ products to grow during the last half year compared with the corresponding period of last year. However, it is possible that earlier estimation of the growth being faster than market growth for the whole year will not be realized and that the annual growth may even remain negative. The growth variation between the quarters have been and may continue to be significant as a consequence of among others long selling cycles, major individual deals and the growth variation between the quarters in the previous year.

This Interim Report has been made in accordance with the IFRS and IAS 34 Interim Report standards. The figures given in this report are unaudited.

Stonesoft Group Income Statement (1000 Euro)	1.1-30.6.2006	1.1-30.6.2005	1.1-31.12.2005
Net Sales	10 551	11 758	22 237
Other operating income	411	219	585
Materials and services	-886	-1 021	-1 937
Personnel expenses	-8 353	-8 461	-16 620
Depreciation	-301	-611	-1 113
Other operating expenses	-4 681	-4 637	-9 410
Operating Profit / Loss	-3 259	-2 752	-6 258

Financial income and expenses	182	212	539
Profit / Loss before taxes	-3 077	-2 540	-5 719
Taxes	-108	-185	-288
Profit / Loss for the accounting period	-3 185	-2 724	-6 008
Basic earnings per share, EUR	-0.06	-0.05	-0.10
Diluted earnings per share, EUR	-0.06	-0.05	-0.10

Stonesoft Group  
Balance Sheet (1000 Euro) 30.6.2006 30.6.2005 31.12.2005

#### ASSETS

##### Non-Current Assets

Tangible assets	784	981	840
Goodwill	1 507	1 507	1 507
Intangible assets	185	296	228
Other investments	4	9	4
Receivables	19	33	18
Deferred tax assets	2	0	2
Total	2 501	2 826	2 599

##### Current assets

Inventories	523	243	519
Trade and other receivables	4 026	5 240	4 697
Prepayments	154	77	106
Marketable securities	14 791	19 215	17 378
Cash and cash equivalents	879	1 486	729
Total	20 373	26 261	23 428

Total assets	22 874	29 087	26 027
--------------	--------	--------	--------

#### EQUITY AND LIABILITIES

##### Equity attributable to equity holders of the parent company

Share capital	1 146	1 146	1 146
Share premium account	76 866	76 835	76 845
Conversion differences	-862	-850	-849
Retained earnings	-64 146	-57 737	-60 961
Total	13 003	19 394	16 181

##### Long-term liabilities

Deferred tax liability	0	102	0
Provisions	108	0	124
Interest bearing liabilities	108	219	152
Other long-term liabilities	1 052	806	789
Total	1 267	1 127	1 065

##### Short-term liabilities

Trade and other payables	8 285	8 295	8 504
Tax liability	134	38	55
Provisions	37	23	38
Short-term interest bearing liabilities	147	210	184
Total	8 603	8 566	8 780

Total liabilities	9 870	9 693	9 846
-------------------	-------	-------	-------

Total equity and liabilities	22 874	29 087	26 027
------------------------------	--------	--------	--------

Stonesoft Group

Statement of changes in equity  
(1000 Euro)

	Share capital	Share premium	Conversion difference	Retained earnings account	Total
Shareholders' equity at 01.01.2005	1 146	76 821	-892	-55 012	22 063
Conversion differences			42		42
Profit/loss for the period				-2 724	-2 724
Total recognized income and expense for the period			42	-2 724	-2 682
Stock options exercised		14			14
Shareholders' equity at 30.6.2005	1 146	76 835	-850	-57 737	19 394

	Share capital	Share premium	Conversion difference	Retained earnings account	Total
Shareholders' equity at 01.01.2006	1 146	76 845	-849	-60 961	16 181
Conversion differences			-14		-14
Profit/loss for the period				-3 185	-3 185
Total recognized income and expense for the period			-14	-3 185	-3 199
Stock options exercised		21			21
Shareholders' equity at 30.6.2006	1 146	76 866	-862	-64 146	13 003

Stonesoft Group

Cash flow statement 1.1.-30.6.2006 1.1.-30.6.2005 1.1.-31.12.2005  
(1000 Euro)

Cash flow from operating  
activities

Operating Profit / Loss	-3 259	-2 752	-6 258
Adjustments	371	712	1 810
Change in net working capital	723	727	1 329
Taxes paid	-108	-141	-290
Total cash flow from operating activities	-2 274	-1 454	-3 409

Cash flow from investing  
activities

Investments in tangible assets	-169	-140	-415
Investments in intangible assets	-33	-4	-22
Investments in affiliated company	0	-45	48
Investments in other shares	0	0	5
Total cash flow investing activities	-202	-189	-383

Cash flow from financing  
activities

Payments of financial leasing liabilities	-81	-56	-149
Total cash flow from financing activities			

Change in cash and cash  
equivalents

Cash and cash equivalents at beginning of period	18 107	22 187	22 187
Conversion differences	-14	42	44

Changes in the market value of investments	133	170	-183
Total cash and cash equivalents at end of period	15 670	20 701	18 107

Stonesoft Group

Geographical segments 1.1.-30.6.2006 1.1.-30.6.2005 1.1.-31.12.2005  
(1000 Euro)

Net Sales			
EMEA	8 345	8 665	16 072
AMER	1 471	2 288	4 325
APAC	735	805	1 839
Total net sales	10 551	11 758	22 237

Operating profit			
EMEA	-1 997	-1 637	-3 605
AMER	-936	-895	-2 115
APAC	-326	-220	-538
Total operating profit	-3 259	-2 752	-6 258

Stonesoft Group

Contingent liabilities 1.1.-30.6.2006 1.1.-30.6.2005 1.1.-31.12.2005  
(1000 Euro)

Contingent off-balance sheet			
Non-cancelable other leases	6 528	7 664	7 305
Contingent liabilities for the Company	100	146	131

Stonesoft Group

Quarterly Development Q2 / Q1 / Q4 / Q3 / Q2 / Q1 /  
(Euro Millions) 2006 2006 2005 2005 2005 2005 2005

Security software and appliances	1.7	2.1	2.5	1.7	2.6	1.9	8.7
Services	2.0	2.0	1.9	1.9	1.9	1.9	7.6
Other products	0.0	0.0	-0.1	0.0	0.1	0.1	0.2
Net sales Networks	3.7	4.1	4.4	3.6	4.6	3.9	16.5
Change-% from previous year	-20	4	-1	-7	15	18	6
Net sales EMBE	1.4	1.5	1.4	1.1	1.6	1.7	5.8
Change-% from previous year	-13	-12	-25	-24	-12	-5	-16
Net sales total	5.0	5.5	5.8	4.7	6.2	5.6	22.2
Change-% from previous year	-18	-1	-9	-11	7	10	-1
Sales Margin	4.6	5.0	5.2	4.4	5.5	5.2	20.3
Sales Margin %	92	91	90	93	89	93	91
Operative expenses	6.8	6.5	7.3	6.0	7.1	6.5	27.0
Operating profit (EBITA)	-2.0	-1.3	-2.0	-1.5	-1.5	-1.3	-6.3
% of net sales	-39	-23	-34	-33	-24	-23	-28
Profit / loss before taxes	-1.9	-1.2	-1.8	-1.4	-1.3	-1.2	-5.7
% of net sales	-37	-22	-31	-30	-22	-21	-26

Stonesoft Group

Key Ratios 1.1.-30.6.2006 1.1.-30.6.2005 1.1.-31.12.2005  
(1000 Euro)

Net Sales	10 551	11 758	22 237
Net Sales Change-%	-10	9	-1
Operating profit / loss	-3 259	-2 752	-6 258
% of Net Sales	-31	-23	-28

Operating result before taxes	-3 077	-2 540	-5 719
% of Net Sales	-29	-22	-26
ROE - %, annualized	-44	-26	-31
ROI - %, annualized	-41	-23	-29
Equity Ratio-%	73	79	77
Net Gearing	-1.19	-1.05	-1.10
Total Assets	22 874	29 087	26 027
Capital Investments	202	143	437
% of Net Sales	2	1	2
R&D Costs	2 461	2 343	4 612
% of Net Sales	23	20	21
Number of Employees (Weighted Average)	249	242	247
Number of Employees (end of the period)	257	252	252

#### Share Specific Ratios

Earnings per Share (EUR)	-0.06	-0.05	-0.10
Equity per Share (EUR)	0.23	0.34	0.28
Dividend	0.00	0.00	0.00
Dividend per Share (EUR)	0.00	0.00	0.00
Dividend / Profit-%	0	0	0

#### FORWARD-LOOKING STATEMENTS

This report contains statements concerning among others Stonesoft's financial condition and results of operations that are forward-looking in nature. Such statements are not historical facts but, rather, represent Stonesoft's future expectations. The company believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions. However, these forward-looking statements involve inherent risks and uncertainties, which could cause actual results or outcomes to differ materially from those anticipated in the statements. These risks and uncertainties may include among others (1) changes in our market position or in the Firewall/VPN and Intrusion detection and protection market in general; (2) the effects of competition; (3) the success, financial condition, and performance of our collaboration partners, suppliers and customers; (4) our ability to source quality components without interruption and at acceptable prices; (5) our ability to recruit, retain and develop appropriately skilled employees; (6) exchange rate fluctuations, including, in particular, fluctuations between the euro, which is our reporting currency, and the US dollar; (7) other factors related to sale of products, economic situation, business, competition or legislation affecting the business of Stonesoft or the industry in general and (8) our ability to control the variety of factors affecting our ability to reach our targets and give accurate forecasts. Forward-looking statements describe the present understanding of the company and Stonesoft does not undertake to update any of the statements or estimates given other than as strictly required by applicable laws.

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

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

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>.

#### FORWARD-LOOKING STATEMENTS

This report contains statements concerning among others Stonesoft's financial condition and results of operations that are forward-looking in nature. Such statements are not historical facts but, rather, represent Stonesoft's future expectations. The company believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions. However, these forward-looking statements involve inherent risks and uncertainties, which could cause actual results or outcomes to differ materially from those anticipated in the statements. These risks and uncertainties may include among others (1) changes in our market position or in the Firewall/VPN and Intrusion detection and protection market in general; (2) the effects of competition; (3) the success, financial condition, and performance of our collaboration partners, suppliers and customers; (4) our ability to source quality components without interruption and at acceptable prices; (5) our ability to recruit, retain and develop appropriately skilled employees; (6) exchange rate fluctuations, including, in particular, fluctuations between the euro, which is our reporting currency, and the US dollar; (7) other factors related to sale of products, economic situation, business, competition or legislation affecting the business of Stonesoft or the industry in general and (8) our ability to control the variety of factors affecting our ability to reach our targets and give accurate forecasts. Forward-looking statements describe the present understanding of the company and Stonesoft does not undertake to update any of the statements or estimates given other than as strictly required by applicable laws.

The figures in this financial statements release are unaudited.

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

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

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>.



