

STONESOFT CORP. STOCK EXCHANGE RELEASE OCTOBER 26, 2006 AT 9.20 AM

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

THE SALES OF STONEGATE PRODUCTS INCREASED BY 44% DURING THE THIRD QUARTER

The sales of Stonesoft's main product line StoneGate increased by 44% during the third quarter compared with the corresponding quarter of the previous year. The growth was even stronger in Europe and in the USA. Although the re-organization in APAC lowered the total figures slightly, the company is satisfied with the progress made in the quarter. The shortfall, which arose during the first six months compared with the corresponding period last year, was almost caught up during the quarter and the operating loss of the group decreased compared with the corresponding quarter last year.

Third quarter: July-September (the quarter)

- Net sales for the quarter were EUR 5.5 million (4.7. million), the growth was 17% compared to the previous year's corresponding quarter.
- The sales of the group's main product line StoneGate was EUR 2.3 million (1.6 million), the growth was 44% compared with the corresponding quarter of the previous year.
- The operating loss was EUR 1.3 million (-1.5 million).
- Earnings per share were EUR -0.02 (EUR -0.02).
- The group's cash flow was EUR -3.2 million (-0.6 million).

CEO Ilkka Hiidenheimo

The new versions of StoneGate, which were launched during the summer, together with StoneGate IPS and bandwidth management as new parts of our product offering, broadened our product range and changed our position in the market from network security provider into provider of network security and information availability. To emphasize this transition we have adapted a new slogan, Secure Information Flow, which has resonated very well on the market.

During the third quarter the net sales increased by 17% and the sales of our main product StoneGate, which secures the network traffic and information flow, increased by 44% compared with the previous year's corresponding quarter. The sales of StoneGate developed positively especially in EMEA and in the USA where the sales grew by 70% in both of them.

Our situation in the USA has been stabilized by our new country manager and based on the present project pipeline the growth can be expected to continue. In APAC the company has been re-organizing its operations and is focusing now in selected geographical and vertical markets in China and India. The sales declined significantly in the area compared with the previous year, but we expect the development to turn to be positive by the end of the year.

We have actively continued implementing our growth strategy, boosting sales during the quarter and further strengthening the partner co-operation in several countries as a part of our sales strategy. An example of that is the partner agreement signed with TietoEnator. We believe that the growth trend of StoneGate is going to continue favourable during the last quarter based on the growth of our sales pipeline.

The decline of cash flow during the third quarter was mostly due to the weak sales during the second quarter. We expect the cash flow to clearly improve during the last quarter compared to the corresponding quarter last year.

January-September (reporting period)

- Net sales for the reporting period totalled EUR 16.1 million (EUR 16.4 million), 2% less than in the previous year's corresponding period.
- Stonesoft's core business, sales of the StoneGate product family, which includes firewall, VPN and IPS Intrusion Protection and Detection System products, was EUR 6.0 million (EUR 6.0 million).

- The operating loss was EUR 4.6 million (EUR -4.3 million).
- Earnings per share were EUR -0.08 (EUR -0.07 million).
- Equity per share was EUR 0.21 (EUR 0.31).
- Liquid assets totalled EUR 12.5 million at the end of the period (EUR 20.1).
- The group's cash flow was EUR -5.6 million (EUR -2.1 million).

#### NET SALES AND RESULT January-September 2006

The group's net sales in January-September were EUR 16.1 million (EUR 16.4 million). Compared with the previous year's corresponding period, there was a decrease of EUR 0.4 million, or 2%. The operating loss for the review period was EUR 4.6 million (EUR -4.3 million).

The net sales were distributed by geographical segments as follows: Europe, Middle East and Africa 76% (72%), North and South America 17% (20%), and Asia-Pacific 7% (8%).

The group's operating result was EUR 0.3 million worse than during the corresponding period in the previous year. The loss for the reporting period after taxes was EUR 4.4 million (EUR -4.2 million).

#### July-September

The group's net sales in July-September were EUR 5.5 million (EUR 4.7 million). Compared with the previous year's corresponding quarter, there was a growth of EUR 0.8 million, or 17%. The operating loss for the quarter was EUR 1.3 million (EUR -1.5 million).

The net sales were distributed by geographical segments as follows: Europe, Middle East and Africa 71% (69%), North and South America 23% (20%), and Asia-Pacific 5% (11%).

#### Finance and investments

At the end of the quarter, the group's total assets were EUR 20.7 million (EUR 27 million). The equity ratio was 73% (80%) and gearing (the ratio of net debt to shareholders' equity) was -1,04 (-1.09). Consolidated liquid assets at the end of the quarter totalled EUR 12.5 million (EUR 20.1 million). Investments in tangible and intangible assets totalled EUR 0.05 million (EUR 0.05 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 during 2006 is expected to continue at an annual rate of about 10%. (Source: Infonetics)

##### Main business events in the quarter:

- TietoEnator Oyj and Stonesoft signed a partner agreement. According to the agreement TietoEnator includes Stonesoft offering to their service offering.
- Stonesoft and ITPS signed a partner agreement in England. Based on the agreement ITPS offers StoneGate business continuity and network security products and services to their customers.
- In Italy Stonesoft and Noxs signed a partner agreement.
- Siemens and Stonesoft signed a partner agreement in Spain. The agreement broadens the geographical scope of the agreement signed earlier with Siemens that covers Scandinavia and Central Europe.
- Stonesoft was granted a European patent for centralized management of large VPN networks with separated VPN information provider enabling dynamic updates to VPN network.
- Stonesoft was granted an U.S patent for data transmission control and performance monitoring method of an IPsec link in a virtual private network.

#### REVIEW OF THE SCOPE OF R&D ACTIVITIES

The group's R&D investments in the quarter totalled EUR 1,1 million (EUR 1.0 million).

R&D employed 61 (65) 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 2001-2006, subscription price EUR 2.43
- Stock Option program 2004-2010, subscription price EUR 0.56

##### Authorizations to the Board of Directors

Stonesoft Corp.'s Annual General Meeting has granted to the Company's Board of Directors an authorization to increase the Company's share capital by a new issue, by granting option rights or by taking a convertible loan.

#### PERSONNEL

At the end of the quarter, Stonesoft's personnel numbered 251(253).

#### FUTURE OUTLOOK

According to an estimate given by Infonetics, the Firewall/VPN and Intrusion detection and protection market is estimated to grow about 10% during 2006.

Based on the present project pipeline Stonesoft anticipates the sales of StoneGate products to grow during the last quarter and accordingly also during the whole 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, as well as the growth during the last quarter, 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.

Stonesoft Group Income Statement (1000 Euro)	1.1-30.9.2006	1.1-30.9.2005	1.1-31.12.2005
Net Sales	16 064	16 450	22 237
Other operating income	602	380	585
Materials and services	-1 419	-1 350	-1 937
Personnel expenses	-12 295	-12 340	-16 620
Depreciation	-442	-846	-1 113
Other operating expenses	-7 061	-6 582	-9 410
Operating Profit / Loss	-4 552	-4 287	-6 258
Financial income and expenses	289	339	539
Profit / Loss before taxes	-4 262	-3 948	-5 719
Taxes	-164	-207	-288

Profit / Loss for the accounting period	-4 427	-4 155	-6 008
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Basic earnings per share, EUR	-0.08	-0.07	-0.10
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Diluted earnings per share, EUR	-0.08	-0.07	-0.10
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Stonesoft Group Balance Sheet (1000 Euro)	30.9.2006	30.9.2005	31.12.2005
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#### ASSETS

##### Non-Current Assets

Tangible assets	719	839	840
Goodwill	1 507	1 507	1 507
Intangible assets	157	251	228
Other investments	4	4	4
Receivables	10	30	18
Deferred tax assets	2	1	2
Total	2 399	2 633	2 599

##### Current assets

Inventories	663	491	519
Trade and other receivables	5 040	3 675	4 697
Prepayments	166	131	106
Marketable securities	11 748	18 383	17 378
Cash and cash equivalents	724	1 692	729
Total	18 342	24 372	23 428

Total assets	20 741	27 005	26 027
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#### EQUITY AND LIABILITIES

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

Share capital	1 146	1 146	1 146
Share premium account	76 872	76 843	76 845
Conversion differences	-857	-854	-849
Retained earnings	-65 388	-59 109	-60 961
Total	11 774	18 027	16 181

##### Long-term liabilities

Deferred tax liability	0	0	0
Provisions	120	0	124
Interest bearing liabilities	83	185	152
Other long-term liabilities	1 059	774	789
Total	1 263	959	1 065

##### Short-term liabilities

Trade and other payables	7 434	7 757	8 504
Tax liability	99	43	55
Provisions	44	23	38
Short-term interest bearing liabilities	128	196	184
Total	7 705	8 019	8 780

Total liabilities	8 968	8 978	9 846
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Total equity and liabilities	20 741	27 005	26 027
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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
Changes to equity				59	59
Conversion differences			39		39
Profit/loss for the period				-4 155	-4 155
Total recognized income and expense for the period			39	-4 096	-4 058
Stock options exercised		22			22
Shareholders' equity at 30.9.2005	1 146	76 843	-854	-59 109	18 027

	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			-8		-8
Profit/loss for the period				-4 427	-4 427
Total recognized income and expense for the period			-8	-4 427	-4 435
Stock options exercised		27			27
Shareholders' equity at 30.9.2006	1 146	76 872	-857	-65 388	11 774

Stonesoft Group  
Cash flow statement 1.1-30.9.2006 1.1-30.9.2005 1.1-31.12.2005  
(1000 Euro)

Cash flow from operating activities			
Operating Profit / Loss	-4 552	-4 287	-6 258
Adjustments	580	985	1 810
Change in net working capital	-1 294	1 427	1 329
Taxes paid	-165	-208	-290
Total cash flow from operating activities	-5 430	-2 083	-3 409

Cash flow from investing activities			
Investments in tangible assets	-211	-187	-415
Investments in intangible assets	-40	-4	-22
Investments in affiliated company	1	-45	48
Investments in other shares	0	5	5
Total cash flow investing activities	-250	-231	-383

Cash flow from financing activities			
Payments of financial leasing liabilities	-124	-103	-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	-8	39	44
Changes in the market value of investments	178	267	-183

Total cash and cash

equivalents at end of period	12 472	20 075	18 107
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Stonesoft Group

Geographical segments	1.1-30.9.2006	1.1-30.9.2005	1.1-31.12.2005
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(1000 Euro)

Net Sales

EMEA	12 264	11 898	16 072
AMER	2 760	3 231	4 325
APAC	1 040	1 321	1 839
Total net sales	16 064	16 450	22 237

Operating profit

EMEA	-2 725	-2 366	-3 605
AMER	-1 448	-1 532	-2 115
APAC	-379	-389	-538
Total operating profit	-4 552	-4 287	-6 258

Stonesoft Group

Contingent liabilities	1.1-30.9.2006	1.1-30.9.2005	1.1-31.12.2005
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(1000 Euro)

Contingent off-balance sheet

Non-cancelable other leases	6 286	7 359	7 305
Contingent liabilities for the Company	320	131	131

Stonesoft Group

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

Security software and appliances	2.3	1.7	2.1	2.5	1.7	2.6	1.9	8.7
Services	2.0	2.0	2.0	1.9	1.9	1.9	1.9	7.6
Other products	0.1	0.0	0.0	-0.1	0.0	0.1	0.1	0.2
Net sales Networks	4.4	3.7	4.1	4.4	3.6	4.6	3.9	16.5
Change-% from previous year	24	-20	4	-1	-7	15	18	6
Net sales EMBE	1.1	1.4	1.5	1.4	1.1	1.6	1.7	5.8
Change-% from previous year	-3	-13	-12	-25	-24	-12	-5	-16
Net sales total	5.5	5.0	5.5	5.8	4.7	6.2	5.6	22.2
Change-% from previous year	17	-18	-1	-9	-11	7	10	-1
Sales Margin	5.0	4.6	5.0	5.2	4.4	5.5	5.2	20.3
Sales Margin %	90	92	91	90	93	89	93	91
Operative expenses	6.4	6.8	6.5	7.3	6.0	7.1	6.5	27.0
Operating profit (EBITA)	-1.3	-2.0	-1.3	-2.0	-1.5	-1.5	-1.3	-6.3
% of net sales	-23	-39	-23	-34	-33	-24	-23	-28
Profit / loss before taxes	-1.2	-1.9	-1.2	-1.8	-1.4	-1.3	-1.2	-5.7
% of net sales	-22	-37	-22	-31	-30	-22	-21	-26

Stonesoft Group

Key Ratios	1.1-30.9.2006	1.1-30.9.2005	1.1-31.12.2005
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(1000 Euro)

Net Sales	16 064	16 450	22 237
Net Sales Change-%	-2	2	-1
Operating profit / loss	-4 552	-4 287	-6 258
% of Net Sales	-28	-26	-28
Operating result before taxes	-4 262	-3 948	-5 719
% of Net Sales	-27	-24	-26
ROE - %, annualized	-42	-28	-31
ROI - %, annualized	-39	-25	-29

Equity Ratio-%	73	80	77
Net Gearing	-1.04	-1.09	-1.10
Total Assets	20 741	27 005	26 027
Capital Investments	251	191	437
% of Net Sales	2	1	2
R&D Costs	3 514	3 388	4 612
% of Net Sales	22	21	21
Number of Employees (Weighted Average)	250	246	247
Number of Employees (end of the period)	251	253	252
Share Specific Ratios			
Earnings per Share (EUR)	-0.08	-0.07	-0.10
Equity per Share (EUR)	0.21	0.31	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.

The figures in this financial statements release are unaudited.

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