

Stonesoft Corporation stock exchange release, 26 April 2007 at 9.15 am

Stonesoft Corporation interim report January-March 2007

Stonegate sales increased by 12%, the growth is expected to accelerate in the second quarter

The company's increased sales pipeline in 2006 started to show up as an increase in the net sales figures during the first quarter of the year 2007. The sales of the company's the main product portfolio, the StoneGate™ product line, increased by 12% compared to previous year's corresponding period, while the net sales of the whole group grew by 7%. The company expects the growth of the sales to accelerate significantly as of the second quarter of the year.

The company's overall result was positive due to the income from the sales of Embe Systems Oy. However, the comparable overall result remained negative compared to the previous year's corresponding period due to the increased investments in acceleration of sales. The comparable net result is expected to improve in the second quarter of the year with the increase in sales.

January-March 2007 (later "reporting period", previous year's comparable figures are in brackets and refer to the figures of continuing operations).

- The net sales for the reporting period totalled EUR 4.32 million (EUR 4.05 million), which shows comparable increase of 7% compared to the previous year's corresponding period.
- The sales of the main product portfolio, StoneGate™, consisting of Firewall, VPN and IPS (intrusion prevention and detection systems) were EUR 2.29 million (EUR 2.06 million), an increase of 12%.
- The operating result was EUR -2.1 million (EUR -1.5 million).
- Earnings per share were EUR -0.04 (EUR -0,02). Earnings per share including the profit from the sales of Embe Systems Oy were EUR 0.00.
- Shareholder's equity per share was EUR 0.17 (EUR 0.26).
- Liquid assets at the end of the reporting period totalled EUR 13.0 million (EUR 15.9 million).
- The group's cash flow was EUR -1.9 million (EUR -1.6 million).

At the end of 2006, the company signed a sales contract to sell Embe Systems Oy with a fixed purchase price of EUR 3.63 million while the total sales price can be up to EUR 4.65 million at the maximum. The estimated sales profit was EUR 2.2 million and it was booked in January 2007. The result after taxes for the accounting period including a non-recurring sales profit of EUR 2.2 million from the sales of Embe Systems Oy, was EUR 0.2 million. Earnings per share including the profit from the sales of Embe Systems Oy were EUR 0.00.

CEO Ilkka Hiidenheimo

The company continued to implement its new strategy and growth plan established in 2006. The best success was reached in the company's main markets in Europe and in the emerging markets. The operations in APAC are still in the development phase, which led to a decrease of the net sales compared to the previous year. The net sales in Americas decreased slightly compared to the previous year, but we expect a clear positive development also in that area in the second quarter of the year. The success in the growing emerging markets was exceptionally good.

The company's sales pipeline has continued to increase, which indicates accelerating growth in sales for the second quarter of the year leading to improving profitability.

The IPS (intrusion prevention and detection system) product line launched in 2006 has significantly increased the attractiveness of the company's product offering and increased its sales pipeline. The StoneGate™ FW-5100 for fast 10 Gbps networks launched in the beginning of 2007 opens new markets for the company in the most demanding environments. Through these two product areas we have opened up access to larger sales projects than before.

By means of our new products and increased investments in marketing, we aim to accelerate the sales growth during the year 2007. Our aim is to improve the profitability of the company specifically through growth, while we will be able to benefit from the investments in personnel and training made in the previous quarters.

NET SALES AND PROFIT

January-March 2007

The group's net sales in the reporting period were EUR 4.32 million (EUR 4.05 million). The growth to the previous year's corresponding period was EUR 0.27 million, or 7%. The operating result was EUR -2.1 million (EUR -1.5 million) and the result after taxes was EUR 0.2 million (EUR -1.2 million). The latter includes a non-recurring sales profit of EUR 2.2 million for the sale of Embe Systems Oy.

The sales of the main product portfolio StoneGate™ were EUR 2.3 million (EUR 2.1 million), an increase of 12% compared to previous year's corresponding quarter.

The geographical distribution of net sales was as follows: EMEA (Europe, Middle East and Africa) 78% (79%), Americas (North and South America) 15% (13%) and APAC (Asia-Pacific) 7% (8%).

Finance and investments

At the end of the reporting period, total assets were EUR 20.0 million (EUR 24.7 million). The equity ratio was 72% (77%) and gearing (the ratio of net debt to shareholder's equity) was -1.29 (-1.08). Consolidated liquid assets of the group at the end of the reporting period totaled EUR 13.0 million (EUR 15.9 million). Investments in tangible and intangible assets totaled EUR 0.10 million (EUR 0.06 million).

DEVELOPMENT OF BUSINESS OPERATIONS

Main business events in the quarter

- In February, Swisscom Mobile chose StoneGate™ firewalls to protect their network architecture.
- In February, Stonesoft extended its product offering to mobile users. The company signed a cooperation agreement with Portwise AB, a Swedish company specializing in a browser-based SSL VPN solution for mobile and remote use.
- In March, French LPG (gas) distributor Antargaz selected StoneGate™ firewalls to protect their network architecture.
- Stonesoft launched the new members of the renewed StoneGate™ product line, StoneGate™ IPS-6000 and FW-5100 products for large and demanding network environments. StoneGate™ FW-5100 is designed for networks requiring a performance of 10 Gbps and StoneGate™ IPS-6000 meets capacity requirements of 2 Gbps.

REVIEW OF MAJOR RESEARCH AND DEVELOPMENT ACTIVITIES

The group's R&D investments during the quarter totaled EUR 1.34 million (EUR 1.26 million).

R&D employed 66 (66) persons at the end of the quarter.

SHARE CAPITAL AND STOCK OPTION PROGRAMS

At the end of the reporting period, Stonesoft's share capital recorded in the Trade Register totaled EUR 1.146.054,64. The number of shares was 57.302.732. The share capital remained unchanged.

Stock option programs

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

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

- Stock Option program 2004-2010, subscription price EUR 0.56

DEVELOPMENT OF SHARE PRICES AND TURNOVER

During the reporting period, the average price of Stonesoft's share was EUR 0.51. The highest share price was EUR 0.56 and the lowest EUR 0.47. The official

closing price was EUR 0.52. During the reporting period, 5,432,114 shares were traded, which is 9.5% of the total number of shares. From the beginning of 2007 until the end of March 2007, the Helsinki Stock Exchange (OMX) index rose by 7.1%, while the Information Technology Sector index rose by 10.1% during the reporting period.

Based on the share price on 31 March 2007, Stonesoft's market capitalization was EUR 29.8 million.

CHANGES IN OWNERSHIP

During the reporting period, the Group received two notices of changes in ownership.

PERSONNEL

At the end of the reporting period, Stonesoft's personnel numbered 183 (180 in continuing operations).

ANNUAL GENERAL MEETING AND CORPORATE GOVERNANCE

The Annual General Meeting (AGM) of Stonesoft Corp. held on March 21, 2007 adopted the financial statements of the fiscal year 1.1.2006-31.12.2006 and granted release from liability for the Board of Directors and CEO. AGM decided according to the proposal of the Board of Directors not to pay any dividend for the fiscal year 1.1.2006-31.12.2006.

AGM confirmed the number of Board members to be five and elected Pertti Ervi, Ilkka Hiidenheimo, Topi Piela, Hannu Turunen and Matti Viljo as Board members. In its organizing meeting, the Board of Directors elected Pertti Ervi to continue as the Chairman and Topi Piela as the Vice Chairman. Furthermore, the Board of Directors decided not to establish any Board committees due to the size of the Board of Directors and the size of the company.

Authorized public accountants Ernst & Young Oy was selected as the auditor of the company, with authorized public accountant Pekka Luoma as main responsible auditor.

AUTHORIZATIONS TO THE BOARD OF DIRECTORS

Authorization to issue new shares and to grant option and other special rights.

The Board of Directors is authorized to decide one or more share issues and to grant option and other special rights so that the total number of shares or rights to the shares issued may be 11.450.000 at the maximum.

The new shares to be issued in a new issue and/or the option or special rights may be offered for subscription either according to the shareholders' pre-emptive subscription rights or in deviation from the shareholders' pre-emptive subscription right, in case the deviation is justified by a weighty financial reason for the company, such as financing of an acquisition, enabling of a joint venture transaction, providing of additional financial alternatives, and/or an arrangement for incentive program directed to the company's personnel.

The Board of Directors is authorized to decide on other terms and conditions related to the share issues and to the issuance of option or other special rights. The authorization is in force until the end of the 2009 AGM.

The Board of Directors is not authorized to purchase the company's own shares. At the moment there are no shares in the company's possession.

CORPORATE GOVERNANCE

Stonesoft complies since 2004 with the Corporate Governance Recommendation for listed companies issued by the Helsinki Stock Exchange. More information can be found from Stonesoft's Website:
http://www.stonesoft.com/en/investor_relations/corporate_governance.

MAJOR EVENTS AFTER THE REPORTING PERIOD

- Stonesoft signed partner agreements with Qual and Network Defence to promote and sell StoneGate™ products in England.

- Stonesoft launched the new members of the renewed StoneGate™ product line. The new StoneGate™ firewalls FW-1200, FW-1050 and FW-1020 combined with StoneGate™ IPS-2000 adapt flexibly to growing business demands and changes in network.
- StoneGate™ was among the finalists for the best network security product in the Secure Computing Magazine Excellence Awards 2007 competition.

RISKS AND BUSINESS UNCERTAINTIES

Risk management is organized to be part of the Stonesoft management system. The Board of Directors approves the risk management policy that includes risk management principles and processes. The CEO is responsible for organizing risk management, and the CFO, as the coordinator of risk management, develops risk management tools and establishes global insurance policies. The directors of the business units are responsible for identifying and managing risks in their units. The target of risk management is to ensure conditions for achieving the strategic targets and the business continuity.

In the near future, the risks and business uncertainties relate to the realization timetable of the sales projects and possible production disruption of our subcontractors and suppliers.

Operational risks

Stonesoft constantly develops its sales processes and related control systems. Product sales and the sales of related services are made mainly through a global channel. The sales are supported by the legal department, which seeks to reduce the legal risks related to business operations through continuously developing, managing and giving guidance related to Stonesoft agreements, and by making legal risk assessments for business plans before their implementation. The company has worldwide insurances to cover operational risks. Stonesoft manages and safeguards its critical business information by stringent internal policies and processes. The company constantly reviews and updates its network infrastructure and guarantees the safety of its business-critical information. All critical components are duplicated and, in addition, the company has a continuously updated back up system placed in another physical location.

Financial risks

The most significant currency in addition to Euro is US dollar. The company's costs occur mostly in Euros. The company operates actively to minimize the exchange rate risks.

The main principles of the treasury policy of the company are; (i) to ensure the short-term liquidity of the company, (ii) to guarantee efficient circulation and short-term investments of the operational cash flows and (iii) to follow prudent and transparent investment policy for the cash reserves, aiming at guaranteeing competitive return on the selected risk level. The company's reserves are all invested in interest-bearing low-risk instruments.

The company's operations and related costs are continuously controlled. The company does not have a separate internal audit organization or a separate audit committee.

FUTURE OUTLOOK

According to the Research Institute Infonetics, the Firewall/VPN and Intrusion detection and protection market will grow globally by roughly ten percent in 2007. The market will continue to be dynamic.

In our view, companies will continue to network with their partners and subcontractors, and this development will create even higher requirements for network security and availability. We believe that combining security and high availability, which is the cornerstone of StoneGate™ product design, will prove its strength even better in this development.

The convergence of voice, video and data on IP-based networks will create more demand for capacity and drive the adoption of 10 Gbps networks. The growing demand for added bandwidth together with new protocols in the IP networks is expected to increase the general demand for better reporting, monitoring and analysis tools. This development will support Stonesoft in achieving its year 2007 growth plan, since these are the cornerstones in StoneGate™ Management

Center's functionality. Stonesoft will further strengthen its competitiveness by introducing new products to complement its StoneGate™ product line.

Stonesoft will continue its decisive and persistent efforts to increase its net sales and to improve the profitability of the company. The main target for 2007 is to have a strong growth of net sales generating also improved profitability. By extension of the product portfolio and improved competitiveness, we aim to win more deals of larger size.

Based on the extension of the product portfolio, intensification of sales efforts and strong growth of the sales pipeline, the company expects to have an annual overall net sales of roughly 25 million euros (+/- 10%) while the comparable net sales figure during the previous financial year was 16,5 million euros. The annual costs are expected to be 24,5 million euros (+/- 10 %). The comparable cost during the previous financial year was 22,6 million euros. The operating profit and the total result for the whole year is expected to develop favourably.

With regard to the development of the turnover and the result, we expect a significant variation between the quarters in comparison to the corresponding quarter during the previous year as well as to the previous quarter as a consequence of, among others, long sales cycles, a relatively big impact of individual deals, and the variation between the quarters in the previous year.

This interim report is prepared in accordance with IAS 34 standard. The presented figures are unaudited.

Stonesoft Group
Income Statement 1.1-31.3.2007 1.1-31.3.2006 1.1-31.12.2006
(1000 Euro)

Continuing operations

Net sales	4 320	4 053	16 479
Other operating income	177	183	766
Materials and services	-547	-488	-1 915
Personnel expenses	-3 484	-3 166	-13 135
Depreciation	-117	-138	-512
Other operating expenses	-2 438	-1 910	-8 292
Operating result	-2 089	-1 467	-6 608
Financial income and expenses	114	95	382
Result before taxes	-1 975	-1 372	-6 226
Taxes	-54	-48	-262
Result from continuing operations	-2 029	-1 421	-6 488
Profit from discontinued operations	2 217	180	40
Result for the accounting period	189	-1 241	-6 448
Basic earnings per share (EUR), continuing operations	-0.04	-0.02	-0.11
Diluted earnings per share (EUR), continuing operations	-0.04	-0.02	-0.11
Basic earnings per share (EUR), discontinued operations	0.04	0.00	0.00
Diluted earnings per share (EUR), discontinued operations	0.04	0.00	0.00

Stonesoft Group
Balance Sheet (1000 Euro) 31.3.2007 31.3.2006 31.12.2006

ASSETS

Non-Current Assets

Tangible assets	614	734	608
Intangible assets	113	182	137
Deferred tax assets	2	2	2
Total	729	917	747

Current assets

Inventories	597	448	912
Trade and other receivables	5 603	4 124	5 522
Prepayments	113	184	98
Marketable securities	12 310	15 610	13 755
Cash and cash equivalents	697	311	616
Total	19 321	20 677	20 902

Asset held for sale	0	3 097	2 859
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Total assets	20 049	24 691	24 507
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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	76 901	76 848	76 897
Conversion differences	-871	-853	-867
Retained earnings	-67 221	-62 202	-67 410
Total	9 956	14 939	9 767

Long-term liabilities

Provisions	121	116	112
Interest bearing liabilities	43	135	62
Other long-term liabilities	1 366	952	1 296
Total	1 530	1 203	1 470

Short-term liabilities

Trade and other payables	8 303	7 478	12 041
Tax liability	131	102	116
Provisions	24	38	84
Short-term interest bearing liabilities	106	169	107
Total	8 564	7 786	12 348

Liabilities held for sales	0	764	922
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Total liabilities	10 094	9 753	14 740
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Total equity and liabilities	20 049	24 691	24 507
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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 01.01.2006	1 146	76 845	-849	-60 961	16 181
Conversion differences			-5		-5
Result for the period				-1 241	-1 241
Total recognized income and expense for the period			-5	-1 241	-1 246
Stock options exercised			3		3
Shareholders' equity					

at 31.03.2006	1 146	76 848	-853	-62 202	14 939
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	Share capital	Share premium	Conversion difference	Retained earnings account	Total
Shareholders' equity at 01.01.2007	1 146	76 897	-867	-67 410	9 767
Conversion differences			-4		-4
Result for the period				189	189
Total recognized income and expense for the period			-4	189	185
Stock options exercised		4			4
Shareholders' equity at 31.03.2007	1 146	76 901	-871	-67 221	9 956

Stonesoft Group			
Cash flow state (1000 Euro)	1.1-31.3.2007	1.1-31.3.2006	1.1-31.12.2006

Cash flow from operating activities			
Operating Result	-2 089	-1 467	-6 608
Adjustments	127	182	984
Change in net working capital	625	-796	-1 240
Taxes paid	-54	-49	-261
Net cash flow from operating activities continuing operations	-1 390	-2 130	-7 125
Net cash flow from operating activities discontinued operations	0	-132	114
Total cash flow from operating activities	-1 390	-2 262	-7 011

Cash flow from investing activities			
Investments in tangible assets	-94	-64	-216
Investments in intangible assets	-5	0	-50
Investments in affiliated company	0	0	3 631
Net cash flow investing activities continuing operations	-99	-63	3 365
Net cash flow investing activities discontinued operations	-448	-53	-131
Total cash flow investing activities	-547	-117	3 233

Cash flow from financing activities			
Payments of financial leasing liabilities	-21	-32	-166
Total cash flow from financing activities			

Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period	14 370	18 097	18 097
Conversion differences	-4	-5	-18
Changes in the market value of investments	107	54	-39
Discontinued operations	492	186	274

Total cash and cash equivalents at end of

period	13 007	15 921	14 370
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Stonesoft Group

Geographical segments	1.1-31.3.2007	1.1-31.3.2006	1.1-31.12.2006
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(1000 Euro)

Net sales

EMEA	3 362	4 366	16 938
AMER	663	716	3 571
APAC	295	426	1 370
Total net sales	4 320	5 508	21 879

Operating profit

EMEA	-1 488	-795	-4 131
AMER	-553	-378	-2 040
APAC	-48	-111	-366
Total operating profit	-2 089	-1 284	-6 536

Stonesoft Group

Contingent liabilities	31.3.2007	31.3.2006	31.12.2006
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(1000 Euro)

Contingent off-balance sheet

Non-cancelable other leases	5 257	7 230	6 103
Contingent liabilities for the Company	20	131	323
Pledged shares	0	0	585

Stonesoft Group

Quarterly development	Q1 /	Q4 /	Q3 /	Q2 /	Q1 /	
(Euro Millions)	2007	2006	2006	2006	2006	2006

Security software

and appliances	2.3	2.3	2.3	1.7	2.1	8.5
Services	2.0	2.1	2.0	2.0	2.0	8.1
Other products	0.0	-0.1	0.1	0.0	0.0	-0.1
Net sales continuing operations	4.3	4.3	4.4	3.7	4.1	16.5
Change-% from previous year	7	-2	24	-20	4	0
Net sales discontinuing operations	-	1.5	1.1	1.4	1.5	5.4
Change-% from previous year	-	4	-3	-13	-12	-7
Net sales total	4.3	5.8	5.5	5.0	5.5	21.9
Change-% from previous year	-22	1	17	-18	-1	-2
Sales margin	3.8	5.3	5.0	4.6	5.0	20.0
Sales margin %	87	91	90	92	91	91
Operative expenses	6.0	7.5	6.4	6.8	6.5	27.2
Operating profit (EBITA)	-2.1	-2.0	-1.3	-2.0	-1.3	-6.5
% of net sales	-48	-34	-23	-39	-23	-30
Result before taxes	-2.0	-1.9	-1.2	-1.9	-1.2	-6.2
% of net sales	-46	-33	-22	-37	-22	-28

Stonesoft Group

Key ratios	31.3.2007	31.3.2006	31.12.2006
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(1000 Euro)

Net sales total	4 320	5 508	21 879
Net sales change-%	-22	-1	-2
Net sales continuing Operations	4 320	4 053	16 479
Net sales change-%	7	4	0
Net sales continued operations	-	1 455	5 400
Net sales change-%	-	-12	-7
Operating result total	-2 089	-1 284	-6 536
% of Net sales	48	-23	-30
Operating result continuing operations	-2 089	-1 467	-6 608
% of net sales	-48	-36	-40

Operating result discontinued operations	-	183	72
% of net sales	-	13	1
Operating result before taxes	-1 975	-1 189	-6 170
% of net sales	-46	-22	-28
ROE - %, annualized, continuing operations	-82	-32	-50
ROI - %, annualized	-77	-30	-46
Equity ratio-% %	72	77	66
(Net gearing)	-1.29	-1.08	-1.50
Total Assets	20 049	24 691	24 507
Capital investments	99	117	381
% of net sales	2	2	2
R&D costs	1 338	1 262	4 804
% of net sales	31	23	22
Number of employees (weighted average)	184	245	251
Number of employees (end of the period)	183	248	254

Share Specific Ratios

Earnings per share, continuing operations	-0.04	-0.02	-0.11
Earnings per share, discontinued operations	0.04	0.00	0.00
Equity per share (EUR)	0.17	0.26	0.17
Dividend		0.00	0.00
Dividend per share (EUR)		0.00	0.00
Dividend / Profit-%		0	0

FORWARD-LOOKING STATEMENTS

This report contains statements concerning, among other things, Stonesoft's financial condition and the 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 other things, (1) changes in our market position or in the Firewall/VPN and Intrusion detection and prevention 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.

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Stonesoft Corp.
Ilkka Hiidenheimo
CEO

PRESS CONFERENCE

A press conference for analysts and investors will be held today, 26 April 2007 at 10:30 AM at the Stonesoft headquarters, street address Itälahdenkatu 22 A, 00210 Helsinki.

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

Distribution:
The Helsinki Stock Exchange
Main media