

STONEGATE™ SALES INCREASED BY 65% DURING THE SECOND QUARTER

The sales of Stonesoft's main product portfolio, the StoneGate™ product line, increased by 65% during the second quarter. The overall group net sales increased by 32%. The sales of StoneGate™ products are expected to remain strong during the rest of the year.

April-July 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 4.8 million (EUR 3.7 million), which shows comparable increase of 32% compared to the previous year's corresponding period.
- Stonesoft's core business, sales of the StoneGate™ product family consisting of Firewall, VPN, SSL VPN and IPS (intrusion prevention and detection system) were EUR 2.7 million (EUR 1.6 million), an increase of 65%.
- The operating result was EUR -1.5 million (EUR -2.0 million).
- Earnings per share were EUR -0.03 (EUR -0,03).
- Shareholder's equity per share was EUR 0.15 (EUR 0.23).
- Liquid assets at the end of the reporting period totalled EUR 11.0 million (EUR 14.8 million).
- The group's cash flow was EUR -2.0 million (EUR -1.1 million).

CEO Ilkka Hiidenheimo

The growth of the company net sales accelerated after the first quarter of the year. The growth of the StoneGate™ product sales during the second quarter was eightfold compared to the comparable global market growth estimate by the research company Infonetics, and by volume the biggest in Stonesoft's history. The share of StoneGate™ products and new support contracts related to them has already reached 75% of the group sales. Hereby, the growth of StoneGate™ product sales increasingly affects the sales development of the whole company.

The company continued to decisively implement the strategy and growth plan established in 2006. During the second quarter, we managed to gain significant growth in the United States. The sales grew strongly also on the emerging markets, while in Europe the growth was smaller. Due to the increase in sales, the company's operating result in the second quarter improved by EUR 400.000 compared to previous year. Due to the weak first quarter, cash flow was clearly negative in the second quarter, but we expect a significant positive development during the next quarters.

The company's product offering was further strengthened by the StoneGate™ SSL VPN and fast Firewall products that were launched during the quarter. The previously introduced StoneGate™ IPS product family has opened up some major new sales accounts.

The increase in the company's sales pipeline indicates that the strong growth of StoneGate™ sales will continue favourably during the rest of the year. Our aim is to continue improving the profitability of the company through growth, while we will be able to benefit from the investments made in the previous quarters without significant expense increases.

January-June 2007

- Net sales for the reporting period totalled EUR 9.2 million (EUR 7.7 million), which shows a comparable increase of 19% compared to the previous year's corresponding period.
- Stonesoft's core business, sales of the StoneGate™ product family, was EUR 5.0 million (EUR 3.7 million), an increase of 35%.
- The operating result was EUR -3.6 million (EUR -3.4 million).
- Earnings per share were EUR -0.06 (EUR -0.06 million).
- The group's cash flow was EUR -3.4 million (EUR -3.3 million).

NET SALES AND PROFIT

April-June 2007

The group's net sales in the reporting period were EUR 4.8 million (EUR 3.7 million). The growth to the previous year's corresponding period was EUR 1.2 million, or 32%. The operating result was EUR -1.5 million (EUR -2.0 million) and the result after taxes was EUR -1.5 million (EUR -1.9 million).

The sales of the main product portfolio StoneGate™ were EUR 2.7 million (EUR 1.6 million), an increase of 65% compared to previous year's corresponding quarter.

The estimation of the final selling price of Embe Systems Oy has not changed during the reporting period.

January-June 2007

Stonesoft group's net sales in January-June were EUR 9.2 million (EUR 7.7 million). Compared with the previous year's corresponding period, there was an increase of EUR 1.5 million, or 19%. The operating result was EUR -3.6 million (EUR -3.4 million) and the result after taxes was EUR -3.5 million (-3.4 million). The result after taxes including the booked selling price of the sales of Embe Systems Oy mentioned above was EUR -1.3 million.

The sales of the main product portfolio StoneGate™ were EUR 5.0 million (EUR 3.7 million), an increase of 35% compared to previous year's corresponding period.

The geographical distribution of net sales was as follows: EMEA (Europe, Middle East and Africa) 73% (71%), Americas (North and South America) 21% (19%) and APAC (Asia-Pacific) 6% (10%).

Finance and investments

At the end of the reporting period, total assets were EUR 18.5 million (EUR 22.9 million). The equity ratio was 68% (73%) and gearing (the ratio of net debt to shareholder's equity) was -1.28 (-1.19). Consolidated liquid assets of the group at the end of the reporting period totaled EUR 11.0 million (EUR 14.8 million). Investments in tangible and intangible assets totaled EUR 0.18 million (EUR 0.12 million).

#### DEVELOPMENT OF BUSINESS OPERATIONS

Main business events in the quarter

- StoneGate™ IPS-6000 and FW-5100, designed for large and demanding network environments, began shipping to customers in May. StoneGate™ FW-5100 is suited for networks demanding 10 Gbps performance and IPS-6000 meets 2 Gbps capacity needs.
- StoneGate™ SSL VPN solution for mobile users started shipping to customers in June.
- Stonesoft complemented its StoneGate™ secure connectivity solution by new features. StoneGate™ Management Center 4.0 offers advanced navigation, sophisticated log filters and search tools as well innovative disaster recovery.
- Stonesoft launched StoneGate™ IPS 4.0 for intrusion prevention and detection.
- StoneGate™ FW-300 and IPS-400 providing uncompromised security for remote offices were introduced in May.
- Stonesoft extended its StoneGate™ secure connectivity solution with a module that unifies IPS and firewall functionalities without the need to change existing network configurations.
- Stonesoft signed a reseller agreement with Network Defense.
- Stonesoft signed a reseller agreement with Qual.
- Stonesoft was granted two patents related to firewall clustering.

#### REVIEW OF MAJOR RESEARCH AND DEVELOPMENT ACTIVITIES

The group's R&D investments during the quarter totaled EUR 1.3 million (EUR 1.2 million).

R&D employed 62 (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 0.46. The official closing price was EUR 0.48. During the reporting period, 7.995.459 shares were traded, which is 13.95% of the total number of shares.

Based on the share price on 30 June 2007, Stonesoft's market capitalization was EUR 26.9 million.

## CHANGES IN OWNERSHIP

During the reporting period, the Group did not receive any notices of changes in ownership.

## PERSONNEL

At the end of the reporting period, Stonesoft's personnel numbered 180 (189 in continuing operations).

## 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](http://www.stonesoft.com/en/investor_relations/corporate_governance).

## MAJOR EVENTS AFTER THE REPORTING PERIOD

In July Stonesoft signed an OEM contract with Funkwerk Enterprise Communications GmbH in Germany to launch a small FW/VPN appliance to the market. The appliance will have ADSL and WLAN functionalities.

## 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 IPS Intrusion detection and prevention market will grow globally by roughly 8% 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 21 million euros (+/- 10%) while the comparable net sales figure during the previous financial year was 16,5 million

euros. The estimation is based on existing sales funnel and may change upward, if certain larger projects, which have some uncertainties arisen in the timing of the materialization, will materialize during this year. The annual costs are expected to be 23 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, the variation between the quarters in the previous year as well as the growing weight of the developing markets in larger projects.

This interim report is prepared in accordance with IAS 34 standard. Stonesoft Corporation has adhered to the same accounting principles and reporting standards as in the Financial Statements for 2006.

The presented figures are unaudited.

Stonesoft Group Income Statement (1000 Euro)	4-6/ 2007	4-6/ 2006	1-6/ 2007	1-6/ 2006	1-12/ 2006
Continuing operations					
Net sales	4 845	3 666	9 165	7 719	16 479
Other operating income	186	214	364	396	766
Materials and services	-737	-398	-1 284	-886	-1 915
Personnel expenses	-3 431	-3 271	-6 915	-6 437	-13 135
Depreciation	-111	-130	-228	-268	-512
Other operating expenses	-2 296	-2 052	-4 734	-3 962	-8 292
Operating result	-1 544	-1 971	-3 633	-3 438	-6 608
Financial income and expenses	106	86	220	181	382
Result before taxes	-1 438	-1 885	-3 413	-3 257	-6 226
Taxes	-40	-55	-94	-103	-262
Result from continuing operations	-1 479	-1 940	-3 507	-3 361	-6 488
Result from discontinued operations	0	-4	2 217	176	40
Result for the accounting period	-1 479	-1 944	-1 290	-3 185	-6 448
Basic earnings per share (EUR), continuing operations	-0.03	-0.03	-0.06	-0.06	-0.11
Diluted earnings per share (EUR), continuing operations	-0.03	-0.03	-0.06	-0.06	-0.11
Basic earnings per share (EUR), discontinued operations	0.00	0.00	0.04	0.00	0.00
Diluted earnings per share (EUR), discontinued operations	0.00	0.00	0.04	0.00	0.00
Stonesoft Group Balance Sheet (1000 Euro)	30.6.2007	30.6.2006	31.12.2006		

## ASSETS

### Non-Current Assets

Tangible assets	592	679	608
Intangible assets	107	167	137
Deferred tax assets	2	2	2
Total	701	847	747

### Current assets

Inventories	719	523	912
Trade and other receivables	6 052	3 339	5 522
Prepayments	68	154	98
Marketable securities	10 019	14 791	13 755
Cash and cash equivalents	942	54	616
Total	17 799	18 861	20 902

Asset held for sale	0	3 165	2 859
---------------------	---	-------	-------

Total assets	18 500	22 874	24 507
--------------	--------	--------	--------

## EQUITY AND LIABILITIES

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

Share capital	1 146	1 146	1 146
Share premium account	76 905	76 866	76 897
Conversion differences	-872	-862	-867
Retained earnings	-68 700	-64 146	-67 410
Total	8 480	13 003	9 767

### Long-term liabilities

Provisions	92	108	112
Interest bearing liabilities	27	108	62
Other long-term liabilities	1 447	1 052	1 296
Total	1 565	1 267	1 470

### Short-term liabilities

Trade and other payables	8 229	7 450	12 041
Tax liability	90	134	116
Provisions	40	37	84
Short-term interest bearing liabilities	96	147	107
Total	8 455	7 768	12 348

Liabilities held for sales	0	836	922
----------------------------	---	-----	-----

Total liabilities	10 020	9 870	14 740
-------------------	--------	-------	--------

Total equity and liabilities	18 500	22 874	24 507
------------------------------	--------	--------	--------

### 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			-14		-14
Result 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

	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			-5		-5
Result for the period				-1 290	-1 290
Total recognized income and expense for the period			-5	-1 290	-1 295
Stock options exercised		8			8
Shareholders' equity at 30.6.2007	1 146	76 905	-872	-68 700	8 480

Stonesoft Group

Cash flow statement      1.1-30.6.2007    1.1-30.6.2006    1.1-31.12.2006  
(1000 Euro)

Cash flow from operating  
activities

Operating Result	-3 633	-3 438	-6 608
Adjustments	274	337	984
Change in net working capital	53	39	-1 240
Taxes paid	-94	-104	-261
Net cash flow from operating activities continuing operations	-3 400	-3 166	-7 125
Net cash flow from operating activities discontinued operations	0	137	114
Total cash flow from operating activities	-3 400	-3 029	-7 011

Cash flow from investing  
activities

Investments in tangible assets	-156	-105	-216
Investments in intangible assets	-26	-19	-50
Investments in affiliated company	0	0	3 631
Net cash flow investing activities continuing operations	-182	-124	3 365
Net cash flow investing activities discontinued operations	-448	-78	-131
Total cash flow investing activities	-630	-202	3 233

Cash flow from financing  
activities

Payments of financial leasing liabilities	-47	-81	-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	-5	-14	-18
Changes in the market value of investments	182	133	-39
Discontinued operations	492	-59	274

Total cash and cash  
equivalents at end of  
period \*)

10 961                      14 846                      14 370

\*) Total cash and cash

equivalents at end of the period contains pledged securities	303	3	3
--	-----	---	---

Stonesoft Group  
Geographical segments 1.1-30.6.2007 1.1-30.6.2006 1.1-31.12.2006  
(1000 Euro)

Net sales			
EMEA	6 661	8 345	16 938
AMER	1 940	1 471	3 571
APAC	9 165	10 551	21 879
Total net sales	4 320	5 508	21 879

Operating profit			
EMEA	-2 615	-1 997	-4 131
AMER	-932	-936	-2 040
APAC	-85	-326	-366
Total operating profit	-3 633	-3 259	-6 536

Stonesoft Group  
Contingent liabilities 30.6.2007 30.6.2006 31.12.2006  
(1000 Euro)

Contingent off-balance sheet			
Non-cancelable other leases	4 862	6 528	6 103
Contingent liabilities for the Company	20	100	323
Pledged shares	0	0	585

Stonesoft Group  
Related party information 30.6.2007 30.6.2006 31.12.2006  
(1000 Euro)

Consultation fees paid to the Board of Directors	30	9	9
---	----	---	---

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

Security software and appliances	2.7	2.3	2.3	2.3	1.7	2.1	8.5
Services	2.1	2.0	2.1	2.0	2.0	2.0	8.1
Other products	0.0	0.0	-0.1	0.1	0.0	0.0	-0.1
Net sales continuing operations	4.8	4.3	4.3	4.4	3.7	4.1	16.5
Change-% from previous year	32	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	4.8	4.3	5.8	5.5	5.0	5.5	21.9
Change-% from previous year	-4	-22	1	17	-18	-1	-2
Sales margin	4.1	3.8	5.3	5.0	4.6	5.0	20.0
Sales margin %	85	87	91	90	92	91	91
Operative expenses	5.8	6.0	7.5	6.4	6.8	6.5	27.2
Operating profit (EBITA)	-1.5	-2.1	-2.0	-1.3	-2.0	-1.3	-6.5
% of net sales	-32	-48	-34	-23	-39	-23	-30
Result before taxes	-1.4	-2.0	-1.9	-1.2	-1.9	-1.2	-6.2
% of net sales	-30	-46	-33	-22	-37	-22	-28

Stonesoft Group  
Key ratios 30.6.2007 30.6.2006 31.12.2006  
(1000 Euro)

Net sales total	9 165	10 551	21 879
Net sales change-%	-13	-10	-2



Net sales continuing Operations	9 165	7 719	16 479
Net sales change-%	19	-9	0
Net sales continued operations	-	2 832	5 400
Net sales change-%	-	-13	-7
Operating result total	-3 633	-3 259	-6 536
% of Net sales	-40	-31	-30
Operating result continuing operations	-3 633	-3 438	-6 608
% of net sales	-40	-45	-40
Operating result discontinued operations	-	179	72
% of net sales	-	6	1
Operating result before taxes	-3 413	-3 077	-6 170
% of net sales	-37	-29	-28
ROE - %, annualized, continuing operations	-77	-44	-50
ROI - %, annualized	-72	-41	-46
Equity ratio-%	68	73	66
Net gearing	-1.28	-1.19	-1.50
Total Assets	18 500	22 874	24 507
Capital expenditure	189	218	416
Capital disposals	-7	-16	-165
R&D costs	2 611	2 461	4 804
% of net sales	28	23	22
Number of employees (weighted average)	181	249	251
Number of employees (end of the period)	180	257	254

#### Share Specific Ratios

Earnings per share, continuing operations	-0.06	-0.06	-0.11
Earnings per share, discontinued operations	0.00	0.04	0.00
Equity per share (EUR)	0.15	0.23	0.17
Dividend	0.00	0.00	0.00
Dividend per share (EUR)	0.00	0.00	0.00
Dividend / Profit-%	0	0	0

#### Calculation of indicators

Return on equity (ROE) % = 
$$\frac{(\text{Profit before extraordinary items} - \text{income taxes}) * 100}{\text{Shareholders' equity} + \text{minority interest (average)}}$$

Return on invested capital (ROI) % = 
$$\frac{(\text{Profit before extraordinary items} + \text{interest and other financial expenses}) * 100}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$$

Equity ratio % = 
$$\frac{(\text{Equity} + \text{minority interest}) * 100}{\text{Balance sheet total} - \text{advances received}}$$

Net gearing = 
$$\frac{\text{Interest bearing net debt} - \text{cash in hand and on deposit} - \text{marketable securities}}{\text{Equity} + \text{minority interest}}$$

Earning per share (EPS) = 
$$\frac{\text{Profit before taxes} - \text{minority interest} - \text{income taxes}}{\text{Average number of shares adjusted for dilutive effect of options}}$$

Equity per share = 
$$\frac{\text{Equity}}{\text{Number of shares at end of period}}$$

## 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 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.

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

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

Stonesoft Corp.  
Ilkka Hiidenheimo  
CEO

## PRESS CONFERENCE

A press conference for analysts and investors will be held today, 31 July 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