

Stonesoft Corporation Interim Report January-September 2007

STRONG SEASONAL VARIATION: STONEGATE™ SALES REMAINED BELOW TARGET DURING THE THIRD QUARTER - THE GROWTH IN JANUARY-SEPTEMBER WAS 17 %

The sales of Stonesoft's main product portfolio, the StoneGate™ product line, decreased by 13% during the third quarter and the overall group net sales decreased by 9%. The growth of StoneGate™ products for the first three quarters was 17%. The company's net sales in continuing operations for the entire year is expected to grow compared to the previous year. The size of the growth will depend on timing of certain larger projects.

July-September 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 4.0 million (EUR 4.4 million), which shows a comparable decrease of 9% compared to the previous year's corresponding period.
- Stonesoft's core business, the sales of the StoneGate™ product family consisting of a Firewall, VPN, SSL VPN and IPS (intrusion prevention and detection system) were EUR 2.0 million (EUR 2.3 million), a decrease of 13%.
- The operating result was EUR -1.6 million (EUR -1.3 million).
- Earnings per share were EUR -0.03 (EUR -0.02).
- Shareholder's equity per share was EUR 0.12 (EUR 0.21).
- Liquid assets at the end of the reporting period totalled EUR 9.1 million (EUR 12.3 million).
- The cash flow was EUR -1.8 million (EUR -2.5 million).

CEO Ilkka Hiidenheimo

The company's net sales decreased in the third quarter compared to the last year while the annual overall net sales still showed significant growth. Cash flow developed favourably compared to both the previous year and to the previous quarter, though the development was not as good as the company had estimated.

The company continued to implement the strategy and growth plan established in 2006 decisively. In the third quarter, we managed to gain significant growth in the emerging markets. However, in Europe and in the United States we did not meet our sales targets, which was due among others to the postponement of some individual deals and the slow progress of the government budget negotiations in the United States.

The SSL VPN products introduced in the spring of 2007 have been received positively on the market. The StoneGate™ product offering will be further extended by the affordable StoneGate FW-100 appliances, which provide the company the opportunity to win larger projects in the retail industry, among others.

To further improve the profitability of the company we will continue our strong investment in extending our product portfolio and in improving our competitiveness. Increasing the efficiency of sales management and localizing communications has resulted in strong growth of our sales pipeline. Clarifying our position as a provider of integrated network security and business continuity has strengthened our position in the market and in our key customer target groups. The company has been able to keep the costs at the same level as in previous year despite of the increase of the sales.

January-September 2007

- Net sales for the reporting period totalled EUR 13.2 million (EUR 12.2 million), which shows a comparable increase of 9% compared to the previous year's corresponding period.

- Stonesoft's core business, sales of the StoneGate™ product family, was EUR 7.0 million (EUR 6.0 million), an increase of 17%.
- The operating result was EUR -5.3 million (EUR -4.7 million).
- Earnings per share were EUR -0.09 (EUR -0.08 million).
- The cash flow was EUR -5.2 million (EUR -5.8 million).

NET SALES AND PROFIT

July-September 2007

The group's net sales in the reporting period were EUR 4.0 million (EUR 4.4 million). The decrease from the previous year's corresponding period was EUR 0.4 million, or 9%. The operating result was EUR -1.6 million (EUR -1.3 million) and the result after taxes was EUR -1.8 million (EUR -1.2 million).

The sales of the main product portfolio StoneGate™ were EUR 2.0 million (EUR 2.3 million), a decrease of 13% 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-September 2007

Stonesoft group's net sales in January-September were EUR 13.2 million (EUR 12.2 million). Compared with the previous year's corresponding period, there was an increase of EUR 1.0 million, or 9%. The operating loss was EUR 5.3 million (EUR -4.7 million) and the loss after taxes was EUR 3.0 million (-4.4 million).

The sales of the main product portfolio StoneGate™ were EUR 7.0 million (EUR 6.0 million), an increase of 17% compared to previous year's corresponding quarter.

The geographical distribution of net sales was as follows: EMEA (Europe, Middle East and Africa) 72% (69%), Americas (North and South America) 22% (23%) and APAC (Asia-Pacific) 6% (8%).

Finance and investments

At the end of the reporting period, the group's total assets were EUR 16.5 million (EUR 20.7 million). The equity ratio was 62% (73%) and gearing (the ratio of net debt to shareholder's equity) was -1.34 (-1.04). Consolidated liquid assets of the group at the end of the reporting period totaled EUR 9.1 million (EUR 12.3 million). Investments in tangible and intangible assets totaled EUR 0.3 million (EUR 0.2 million).

DEVELOPMENT OF BUSINESS OPERATIONS

Main business events in the quarter

- Stonesoft announced two patents: "Method and device for handling related connections in a firewall" and "An intrusion detection method and system".
- Stonesoft launched new StoneGate Transparent Access Control (TAC) module, which enables transparent segmentation and access control of the network without the need to change the network configurations.
- Research company Gartner Inc. listed Stonesoft in their renowned Magic Quadrant research report. The report analyzes the market development of enterprise level firewalls and positions the leading industry vendors by their ability to execute and the completeness of the vision.

REVIEW OF MAJOR RESEARCH AND DEVELOPMENT ACTIVITIES

The group's R&D investments during the quarter totaled EUR 1.0 million (EUR 1.1 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, Stonessoft'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 the 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 Stonessoft's share was EUR 0.49. The highest share price was EUR 0.56 and the lowest EUR 0.37. The official closing price was EUR 0.41. During the reporting period, 12.7 million shares were traded, which is 22.2% of the total number of shares.

Based on the share price on 30 September 2007, Stonessoft's market capitalization was EUR 23.5 million.

CHANGES IN OWNERSHIP

During the reporting period, the Group received one notice of changes in ownership.

PERSONNEL

At the end of the reporting period, Stonessoft's personnel totalled 183 (178 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 on 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

Stonessoft 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 web site:
http://www.stonesoft.com/en/investor_relations/corporate_governance.

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 company's main target 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 19 million euros (+/- 10%) while the comparable net sales figure during the previous financial year was 16,5 million euros. The estimation is based on the company's existing sales funnel. 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 are 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. 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)	7-9/2007	7-9/2006	1-9/2007	1-9/2006	1-12/2006
Continuing operations					
Net sales	4 040	4 441	13 205	12 160	16 479
Other operating income	374	185	738	581	766
Materials and services	-643	-532	-1 927	-1 419	-1 915
Personnel expenses	-3 004	-3 185	-9 919	-9 622	-13 135
Depreciation	-113	-124	-341	-392	-512
Other operating expenses	-2 295	-2 052	-7 029	-6 014	-8 292
Operating result	-1 641	-1 268	-5 274	-4 706	-6 608
Financial income and expenses	-89	107	131	288	382
Result before taxes	-1 730	-1 161	-5 143	-4 418	-6 226
Taxes	-42	-55	-136	-159	-262

Result from continuing operations	-1 772	-1 217	-5 279	-4 577	-6 488
Result from discontinued operations	0	-25	2 217	150	40
Result for the accounting period	-1 772	-1 242	-3 062	-4 427	-6 448

Basic earnings per share (EUR), continuing operations	-0,03	-0,02	-0,09	-0,08	-0,11
Diluted earnings per share (EUR), continuing operations	-0,03	-0,02	-0,09	-0,08	-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)	30.9.2007	30.9.2006	31.12.2006
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ASSETS

Non-Current Assets

Tangible assets	651	612	608
Intangible assets	87	140	137
Deferred tax assets	2	2	2
Total	739	754	747

Current assets

Inventories	980	663	912
Trade and other receivables	5 437	3 884	5 522
Prepayments	179	149	98
Marketable securities	7 907	11 748	13 755
Cash and cash equivalents	1 237	564	616
Total	15 740	17 009	20 902

Asset held for sales	0	2 978	2 859
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Total assets	16 479	20 741	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	76 971	76 872	76 897

Conversion differences	-903	-857	-867
Retained earnings	-70 472	-65 388	-67 410
Total	6 742	11 774	9 767
Long-term liabilities			
Provisions	164	120	112
Interest bearing liabilities	11	83	62
Other long-term liabilities	1 466	1 059	1 296
Total	1 641	1 263	1 470
Short-term liabilities			
Trade and other payables	7 757	6 760	12 041
Tax liability	87	99	116
Provisions	166	44	84
Short-term interest bearing liabilities	86	128	107
Total	8 096	7 031	12 348
Liabilities held for sales	0	674	922
Total liabilities	9 737	8 968	14 740
Total equity and liabilities	16 479	20 741	24 507

Stonesoft Group
Statement of changes in equity
(1000 Euro)

	Share capital	Share premium	Conversion differences	Retained earnings	Total
Shareholders' equity at 01.01.2006	1 146	76 845	-849	-60 961	16 181
Conversion differences			-8		-8
Result 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

	Share capital	Share premium	Conversion differences	Retained earnings	Total
Shareholders' equity at 01.01.2007	1 146	76 897	-867	-67 410	9 767
Conversion differences			-36		-36
Result for the period				-3 062	-3 062
Total recognized income and expense for the period			-36	-3 062	-3 098
Stock options exercised		73			73
Shareholders' equity at 30.9.2007	1 146	76 971	-903	-70 472	6 742

Stonesoft Group

Cash flow statement (1000 Euro)	1.1.-30.9.2007	1.1.-30.9.2006	1.1.-31.12.2006
Cash flow from operating activities			
Operating Result	-5 274	-4 706	-6 608
Adjustments	514	528	984
Change in net working capital	37	-1 340	-1 240
Taxes paid	-136	-159	-261
Net cash flow from operating activities continuing operations	-4 859	-5 677	-7 125
Net cash flow from operating activities discontinued operations	0	-508	114

Total cash flow from operating activities	-4 859	-6 186	-7 011
Cash flow from investing activities			
Investments in tangible assets	-306	-129	-216
Investments in intangible assets	-28	-24	-50
Investments in affiliated company	0	1	3 631
Net cash flow investing activities continuing operations	-334	-153	3 365
Net cash flow investing activities discontinued operations	-448	-97	-131
Total cash flow investing activities	-782	-250	3 233
Cash flow from financing activities			
Payments of financial leasing liabilities	-73	-124	-166
Total cash flow from financing activities	-73	-124	-166
Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period	14 370	18 097	18 097
Conversion differences	-36	-8	-18
Changes in the market value of investments	32	178	-39
Discontinued operations	492	606	274
Total cash and cash equivalents at end of period *)	9 144	12 312	14 370

*) Total cash and cash equivalents at end of the period contains pledged securities

	290	3	3
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Stonesoft Group			
Geographical segments	1.1.-30.9.2007	1.1.-30.9.2006	1.1.-31.12.2006
(1000 Euro)			
Net sales			
EMEA	9 541	12 264	16 938
AMER	2 870	2 760	3 571
APAC	794	1 040	1 370
Total net sales	13 205	16 064	21 879
Operating profit			
EMEA	-3 573	-2 725	-4 131
AMER	-1 570	-1 448	-2 040
APAC	-131	-379	-366
Total operating profit	-5 274	-4 552	-6 536

Stonesoft Group			
Contingent liabilities	1.1.-30.9.2007	1.1.-30.9.2006	1.1.-31.12.2006
(1000 Euro)			
Contingent off-balance sheet			
Non-cancelable other leases	4 730	6 286	6 103
Contingent liabilities for the Company	20	320	323
Pledged shares	0	0	585
Contingent liabilities for inventories	240	0	0

Stonesoft Group			
Related party information	1.1.-30.9.2007	1.1.-30.9.2006	1.1.-31.12.2006
(1000 Euro)			

Consultation fees paid to the Board of Directors

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Stonesoft Group

Quarterly development (Euro Millions)	Q3 / 2007	Q2 / 2007	Q1 / 2007	Q4 / 2006	Q3 / 2006	Q2 / 2006	Q1 / 2006	2006
Security software and appliances	2,011	2,705	2,319	2,315	2,338	1,722	2,121	8,496
Services	2,052	2,137	1,989	2,073	2,044	1,992	1,959	8,068
Other products	-0,023	0,003	0,012	-0,070	0,059	-0,047	-0,027	-0,085
Net sales continuing operations	4,040	4,845	4,320	4,319	4,441	3,666	4,053	16,479
Change-% from previous year	-9 %	32 %	7 %	-2 %	24 %	-20 %	4 %	0 %
Net sales discontinuing operations	0	0	0	1,497	1,072	1,377	1,455	5,400
Change-% from previous year				4 %	-3 %	-13 %	-12 %	-7 %
Net sales total	4,040	4,845	4,320	5,816	5,513	5,043	5,508	21,879
Change-% from previous year	-27 %	-4 %	-22 %	1 %	17 %	-18 %	-1 %	-2 %
Sales margin	3,396	4,108	3,773	5,320	4,980	4,645	5,020	19,965
Sales margin %	84 %	85 %	87 %	91 %	90 %	92 %	91 %	91 %
Operative expenses	5,398	5,823	6,024	7,469	6,436	6,788	6,472	27,164
Operating profit (EBITA)	-1,641	-1,544	-2,089	-1,984	-1,293	-1,975	-1,284	-6,536
% of net sales	-41 %	-32 %	-48 %	-34 %	-23 %	-39 %	-23 %	-30 %
Result before taxes	-1,730	-1,438	-1,975	-1,907	-1,185	-1,888	-1,189	-6,170
% of net sales	-43 %	-30 %	-46 %	-33 %	-22 %	-37 %	-22 %	-28 %

Stonesoft Group

Key ratios 1.1.-30.9.2007 1.1.-30.9.2006 1.1.-31.12.2006
(1000 Euro)

Net sales total	13 205	16 064	21 879
Net sales change-%	-18 %	-2 %	-2 %
Net sales, continuing operations	13 205	12 160	16 479
Net sales change-%	9 %	0 %	0 %
Net sales, discontinued operations	0	3 904	5 400
Net sales change-%		-10 %	-7 %
Operating result total	-5 274	-4 552	-6 536
% of net sales	-40 %	-28 %	-30 %
Operating result, continuing operations	-5 274	-4 706	-6 608
% of net sales	-40 %	-39 %	-40 %
Operating result, discontinued operations	0	154	72
% of net sales		4 %	1 %
Operating result before taxes	-5 143	-4 262	-6 170
% of net sales	-39 %	-27 %	-28 %
ROE - %, annualized, continuing operations	-85 %	-42 %	-50 %
ROI - %, annualized	-78 %	-39 %	-46 %
Equity ratio-%	62 %	73 %	66 %
Net gearing	-1,34	-1,04	-1,50

Total Assets	16 479	20 741	24 507
Capital expenditure	341	270	416
Capital disposals	-7	-19	-165
R&D costs	3 656	3 514	4 804
% of net sales	28 %	22 %	22 %
Number of employees (weighted average)	181	250	251
Number of employees (end of the period)	183	251	254

Share Specific Ratios

Earnings per share, continuing operations	-0,09	-0,08	-0,11
Earnings per share, discontinued operations	0,04	0,00	0,00
Equity per share	0,12	0,21	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) % =	$\frac{(\text{Profit before taxes} - \text{income taxes}) \times 100/}{\text{Shareholders' equity} + \text{minority interest (average)}}$
Return on invested capital (ROI) % =	$\frac{(\text{Profit before extraordinary items} + \text{interest and other financial expenses}) \times 100/}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$
Equity ratio % =	$\frac{(\text{Equity} + \text{minority interest}) \times 100/}{\text{Balance sheet total} - \text{advances received}}$
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.

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Stonesoft Corporation
Ilkka Hiidenheimo
CEO

PRESS CONFERENCE

A press conference for analysts and investors will be held today, 25 October 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>

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