

STONESOFT CORPORATION'S INTERIM REPORT FOR THE PERIOD OF JANUARY – MARCH 2003

SUMMARY

- Net sales were EUR 6,0 million, down 15% on the previous quarter. In 2002, the comparable net sales were EUR 7,7 million, a decrease of 22%.
- The sales of own software products declined by 12% from the previous quarter. Compared with the previous quarter,
 - the sales of StoneGate increased by 3% and
 - the sales of StoneBeat declined by 33%.
- The Group posted an operating loss before goodwill depreciation (EBITA) of EUR 4,4 million, including one-time expenses for operational restructuring amounting to EUR 0,6 million.
- The company's liquid assets stood at EUR 37,4 million while the equity ratio was 90%.

During the first quarter, the company has continued its efforts to improve the efficiency of operations and reducing costs. An extensive sales training program was initiated during the first quarter. The first deliveries of StoneGate for the IBM Zseries mainframes also occurred.

Outlook for the future

As a result of prospective customer opportunities for StoneGate, continuing adjusting of operations and level of expenses, financial results before goodwill depreciation (EBITA) for the whole fiscal year is expected to improve from the previous year.

GROUP INDICATORS FOR THE REPORTING PERIOD

The net sales of the Stonesoft Corporation (hereinafter "Group") during the period January-March amounted to EUR 6,0 million (EUR 9,8 million). The previous year's figure for the same period included EUR 2,1 million of sales generated by the eSolutions business that has been sold. The net sales of the continuing businesses were EUR 7,7 million during the same period in the previous year, and the comparable net sales have been reduced by EUR 1,7 million (22%).

Operating loss for the Group during the period before goodwill depreciation (EBITA) was EUR 4,4 million (operating loss of EUR 8,1 million), including one-time expenses totalling EUR 0,6 million (EUR 2,0 million) due to a restructuring of operations.

The Group posted an operating loss before extraordinary items of EUR 4,5 million (EUR 9,5 million).

The loss for the reporting period was EUR 4,6 million (a profit of EUR 0,7 million). The previous year's result was impacted by the capital gains of EUR 10,2 million resulting from the sale of the Stonesoft eSolutions Oy. The loss per share was EUR 0,08 (a loss of EUR 0,22).

The sales of own software products decreased by 12% compared to the previous quarter. Sales of StoneGate increased by 3% over the preceding quarter, accounting for 66% of the sales of the company's own products. Sales of the StoneBeat declined by 33% over the preceding quarter. Our own products and services accounted for 98% (93%) of the total sales.

In February, the company took further steps to enhance the efficiency of its operations and reduce its expenses in the USA by concentrating its offices in three cities: Atlanta, New York and Washington, and to reduce the number of US personnel by approximately 15 employees. It is estimated that these actions will accrue cost savings totalling about EUR 2 million per annum. The one-time costs accrued due to the above actions and other operational restructuring totalling EUR 0,6 million were entered as expenditure for the first quarter.

The fixed operating costs were EUR 9,3 million (EUR 13,2 million), a decrease of EUR 0,2 million from the previous quarter. Personnel expenditure in Networks during the reporting period was EUR 5,4 million (7,4 million), remaining unchanged from the previous quarter. Other fixed operating costs were reduced by 3% from the previous quarter (The cost analysis presented above does not include the costs incurred for restructuring of operations).

At the end of the period, the number of personnel working in the Networks business was 324 (423), of whom 36% (41%) were located outside Finland.

Financing and investments

At the end of the reporting period, the Group's balance sheet stood at EUR 54,8 million (EUR 81,8 million). The equity ratio was 90% (88%) and net gearing was -0.83 (-0.81). At the end of the period, the Group's liquid assets stood at EUR 37,4 million (EUR 54,6 million). The liquid assets per share were EUR 0,65.

During the reporting period, the Group's investments in fixed assets totalled EUR 0,1 million.

Product business

The markets and demand for the company's product business continued to be challenging. The sales of StoneGate firewall and VPN product increased by 3% compared to the previous quarter, and by 90% compared to the same period during the previous year. The StoneGate product accounted for 66% of the sales of own licenses. The sales of StoneBeat products fell by 33% over the preceding quarter and was 28% of the sales in 2002 for the same period.

The company delivered the first StoneGate orders for the IBM Series ZSeries mainframes and delivered StoneGate solutions to some major telecom and service operators like Fastweb.

In addition the company has launched a new partnership and sales channel program to support its sales of network security solutions and initiated a new training programme to improve solutions sales skills. The aim is to include the company's distributors and value added resellers in the training programme in the future.

Market areas

The geographical distribution of business operations in terms of net sales was as follows: North and South America 20%, Europe, the Middle East and Africa 70%, and the Asia-Pacific region 10%.

The company's sales in the Americas were reduced by 18% from the previous quarter. The reduction in Europe, Middle East and Africa was 16%. In the Asia-Pacific region, the sales increased by 13% compared to the previous quarter.

RESEARCH AND DEVELOPMENT

During the fourth quarter, the company's R&D investments totalled EUR 1,9 million (EUR 2,1 million).

Currently Stonesoft operates R&D units in Helsinki, Turku, and Oulu, Finland, and in Sophia Antipolis, France. At the end of March, a total of 97 (120) people were involved in R&D activities in the company.

In accordance with the Group's accounting policy, R&D expenditure is booked as expenses for the period during which they are actually incurred.

RESOLUTIONS OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS ON 12.3.2003

In its meeting on 12.3.2002, the Regular Annual Meeting of Shareholders of Stonesoft Corp. adopted the Final Accounts for the financial period 1.1.2002–31.12.2002, and discharged the Board and CEO from liability. The General Meeting of Shareholders resolved, in accordance with the Board's proposal, that no dividend will be paid for the financial period of 1.1.2002-31.12.2002.

The General Meeting confirmed the number of Board Members to be five. Ilkka Hiidenheimo, Alex Sozonoff, Kai Karttunen, Hannu Turunen and John C. Yates were re-elected as Board Members.

Oy Ernst & Young will continue as auditors, with Chartered Public Accountant Pekka Luoma as the auditor in charge.

The Regular Annual Meeting of Shareholders resolved, in accordance with the Board's proposal, to cancel the existing authorisation of the Board of Directors, and to grant the Board of Directors a new authorisation to decide on increasing the company's share capital through rights issue, on granting option rights or on a flotation of convertible bonds. The complete authorisation resolution is shown below.

Authorisation resolution

The company's Board of Directors was authorised to decide, under the terms and conditions set out in clauses 1 to 6 below, on the following:

- a) a rights issue; and/or
- b) granting option rights; and/or
- c) the flotation of convertible bonds.

The terms and conditions of the authorisation are:

1) The share capital of the company may be increased in one or several lots in such a way that the shares issued in the rights issue and/or the shares issued on the basis of the issued option rights and/or the shares issued in connection with the exchange of bonds can all together increase the share capital of the company by a maximum of 229,000.00 euro so, that a maximum of 11,450,000 shares, with a book parity of 0,02 euro each, can be subscribed in the said rights issue and/or shares issue on the basis of the issued option rights and/or the shares issue in connection with the exchange of bonds. Option rights may only be granted so that the shares issued on the basis of these rights can only increase the company's share capital by a maximum of EUR 30,000.00. Option rights can only be granted in connection of corporate acquisitions or mergers.

2) The Board of Directors of the company has the right to decide on who is entitled to subscribe new shares, option rights or convertible bonds. The new shares and/or option rights and/or convertible bond loan can, in accordance with Chapter 4 Section 6 of the Companies Act (No 734/1978 with its amendments), be subscribed against contribution in kind or otherwise under specific terms and conditions.

3) The new shares issued in the rights issue and/or the shares issued on the basis of the issued option rights and/or the shares issued in connection with the exchange of bonds can be offered for subscription by making an exception to the preferential subscription rights of shareholders stipulated in Chapter 4 section 2 of the Companies Act (No 734/1978 with its amendments) if the exception can be justified on grounds that are financially significant to the company, such as corporate acquisition, implementation of co-operation arrangements or an increase in the number of financing options, or as a part of an incentive scheme for the company's management and/or other members of the personnel.

4) The Board of Directors of the company is entitled to decide on the basis of determining the subscription price of the new shares issued in the rights issue and/or the shares issued on the basis of the issued option rights and/or the shares issued in connection with the exchange of bonds, as well as on the subscription price itself which may not, however, be less than the book parity value of the share.

5) The Board of Directors of the company is entitled, within the limits set by the Companies Act (No 734/1978), to decide on all the other issues and conditions related to the rights issue and/or issue of option rights and/or the flotation of the convertible bonds, such as on the interest possibly payable on the convertible bond loan.

6) The authorisation will be in force until the following Annual General Meeting of Shareholders, however not exceeding the maximum period of one year from the date of this resolution of the Annual General Meeting of Shareholders.

OUTLOOK FOR THE FUTURE

Jorma Turunen, CEO, Stonesoft Corp.: "During the early part of the year, we have invested efforts in developing our sales strategy and sales training, enhancing the efficiency of sales channels and in developing new operational models to support our sales. In addition, we have continued our efforts in R&D with the objective of maintaining the technological edge of our existing solutions. We also intend to launch new generation integrated network security solutions during the latter half of the year.

The market situation continues to be uncertain, and customers are very conservative with their data security investments. The customers' decisions have been influenced by an uncertainty of the future

trends in data security solutions, lack of satisfaction with the presently available solutions, the difficulty of assessing the returns achieved on data security investments, various competing development projects within companies, a slump in technology investments, and the lack of data security experts in companies.

Over a longer period, several factors will contribute to the expected growth in the demand for data security solutions. We believe businesses will continue to be subject to extensive networking. The remote use of corporate networks is becoming more commonplace, and the number of network users is rapidly increasing. The threats to data security continue to increase, and the different attacks and threats against data security change their shape all the time.”

As a result of prospective customer opportunities for StoneGate, continuing adjusting of operations and level of expenses, financial results before goodwill depreciation (EBITA) for the whole fiscal year is expected to improve from the previous year.

The figures presented in the Final Accounts report have not been audited.

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

Distribution:
Helsinki Stock Exchange
Major Media

Stonesoft Corporation**Income Statement****1.1-31.03.2003 1.1-31.03.2002 1.1.-31.12.2002****(Euro 1000)**

Net Sales	5 975	9 797	30 173
Other operating income	184	139	755
Materials and services	419	910	2 972
Personnel costs	5 859	10 175	27 713
Depreciations	401	497	1 973
Other operating expenses	3 860	6 487	20 979
Operating Profit / Loss (EBITA)	-4 379	-8 133	-22 708
Goodwill depreciations	301	1 566	2 470
Operating Profit / Loss (EBIT)	-4 680	-9 699	-25 178
Financial income and expenses	192	193	480
Profit / Loss before extraordinary items	-4 488	-9 505	-24 699
Extraordinary income	37	10 214	10 160
Extraordinary expenses	1	87	1 426
Profit / Loss before taxes and minority Interest	-4 452	622	-15 965
Direct taxes	123	-53	742
Profit / Loss for the Accounting period	-4 575	675	-16 707

Stonesoft Corporation**Balance Sheet (Euro 1000)****31.3.2003****31.3.2002****31.12.2002****Assets****Non-Current Assets**

Intangible assets	1 340	1 633	1 476
Consolidated goodwill	2 412	3 617	2 713
Tangible assets	1 958	3 003	2 139
Investments	6	37	4
Non-Current Assets Total	5 716	8 290	6 332

Current assets

Inventories	100	250	73
Long-term receivables	116	181	147
Short-term receivables	11 412	18 479	12 946
Investments	32 077	44 949	34 955
Cash on hand and on deposit	5 352	9 661	5 462
Current Assets Total	49 057	73 519	53 584

Total	54 773	81 809	59 916
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Liabilities

Shareholders' Equity	45 270	67 324	49 860
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Provisions	0	0	30
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Liabilities

Long-term liabilities	0	19	2
Short-term liabilities	9 503	14 466	10 024
Total Liabilities	9 503	14 485	10 025

Total	54 773	81 809	59 916
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Key Ratios	1.1.-31.3.2003	1.1.-31.3.2002	2002
EURO 1000			
Net Sales	5 975	9 797	30 173
Net Sales Change-%	-39 %	-42 %	-48 %
Operating Profit / Loss Before Goodwill			
Depreciations (EBITA)	-4 379	-8 133	-22 708
% of Net Sales	-73 %	-83 %	-75 %
Operating Profit / Loss After Goodwill			
Depreciations (EBIT)	-4 680	-9 699	-25 178
% of Net Sales	-78 %	-99 %	-83 %
Profit / Loss before Extraordinary Items	-4 488	-9 505	-24 699
% of Net Sales	-75 %	-97 %	-82 %
Profit / Loss before taxes and minority Interest	-4 452	622	-15 965
% of Net Sales	-75 %	6 %	-53 %
ROE - %, annualized	-39 %	-56 %	-44 %
ROI - %, annualized	-37 %	-56 %	-42 %
Equity Ratio-%	90 %	88 %	90 %
Net Gearing	-0.83	-0.81	-0.81
Total Asset	54 773	81 809	59 916
Capital Investments	84	244	699
% of Net Sales	1 %	2 %	2 %
R&D Costs	1 896	2 123	7 436
% of Net Sales	32 %	22 %	25 %
Number of Employees (Weighted Average)	333	532	403
Number of Employees at the end of the period	324	423	336
Share Specific Ratios			
Earnings per Share (EUR)	-0.08	-0.22	-0.49
Equity per Share (EUR)	0.79	1.17	0.87
Dividend per Share (EUR)	0.00	0.00	0.00
Dividend / Profit-%	0 %	0 %	0 %
Weighted Amount of Shares (Option dilution effect included)	57 302 732	57 560 055	57 302 088
Amount of Shares at the End of period	57 302 732	57 301 132	57 302 732

Stonesoft Corporation**Cashflow Statement****1.1.-31.3.2003****1.1.-31.3.2002****2002****(Euro 1000)****Business operations**

Operating profit / loss	-4 680	-9 699	-25 178
Adjustments to operating profit / loss	672	2 366	4 777
Financial income and expenses	192	193	480
Change in working capital	1 016	4 031	5 331
Extraordinary items	36	-87	-1 426
Taxes paid	-122	53	-741

Total	-2 886	-3 141	-16 758
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Investment activities

Investments to intangible and tangible assets	-84	68	-386
Sales of intangible and tangible assets	0	12 015	11 962
Sales of other shares	-3	2	34

Total	-87	12 085	11 609
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Financing activities

Change in long-term loans	-2	-7	-24
Other	-15	13	-69

Total	-17	7	-93
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Change in liquid assets

	-2 989	8 950	-5 242
Liquid assets at the beginning of the reporting period	40 418	45 659	45 659
Liquid assets at the end of the reporting period	37 428	54 610	40 418

Stonesoft Corporation	Q1 /	Q4 /	Q3 /	Q2 /	Q1 /	
(Euro Millions)	2003	2002	2002	2002	2002	2002
Net sales	6.0	7.0	7.0	6.4	9.8	30.2
Net sales change-%	-39 %	-48 %	-41 %	-59 %	-42 %	-48 %
Operating profit (EBITA) before restructuring costs	-3.8	-3.2	-4.5	-6.1	-6.1	-19.9
% of net sales	-63 %	-46 %	-65 %	-95 %	-63 %	-66 %
Operating profit (EBITA)	-4.4	-3.4	-5.1	-6.1	-8.1	-22.7
% of net sales	-73 %	-49 %	-73 %	-95 %	-83 %	-75 %
Profit / loss before taxes	-4.5	-4.7	-5.3	-6.6	0.6	-16.0
% of net sales	-75 %	-68 %	-76 %	-103 %	6 %	-53 %
Number of employees at the end of the period	324	336	353	376	423	336
Networks	Q1 /	Q4 /	Q3 /	Q2 /	Q1 /	
(Euro Millions)	2003	2002	2002	2002	2002	2002
Net sales	6.0	7.0	7.0	6.4	7.7	28.1
Net sales change-%	-22 %	-33 %	-21 %	-49 %	-46 %	-48 %
Division net sales of total net sales	100 %	100 %	100 %	100 %	79 %	93 %
Operating profit (EBITA) before restructuring costs	-3.8	-3.2	-4.5	-6.1	-6.4	-20.2
% of net sales	-63 %	-46 %	-65 %	-95 %	-83 %	-72 %
Operating profit (EBITA)	-4.4	-3.4	-5.1	-6.1	-8.4	-23.0
% of net sales	-73 %	-49 %	-73 %	-95 %	-109 %	-82 %
Number of employees at the end of the period	324	336	353	376	423	336
eSolutions					Q1 /	
(Euro Millions)					2002	2002
Net sales					2.1	2.1
Net sales change-%					-25 %	-25 %
Division net sales of total net sales					21 %	21 %
Operating profit (EBITA)					0.3	0.3
% of net sales					12 %	12 %
Number of employees at the end of the period					161	