



STONESOFT CORPORATION STOCK EXCHANGE RELEASE 2 FEBRUARY 2004 AT 9 A.M.

STONESOFT CORPORATION'S FINANCIAL STATEMENTS RELEASE JANUARY-DECEMBER 2003

SUMMARY

- Net sales for the year were EUR 23.2 million (-23% compared to 2002)
- Net sales for Q4 were EUR 6.6 million (-5% compared to Q4 2002, +34% compared to Q3 2003)
- Sales of StoneGate for year were EUR 5.7 million (+24% compared to 2002).
- Sales of StoneGate for Q4 were EUR 2.1 million, (+93% compared to Q3 2003).
- Sales of StoneBeat for year were EUR 1.9 million (-66% compared to 2002).
- Operating loss before amortization of goodwill (EBITA) was EUR 13.9 million (EUR 22.7 million in 2002)
- Operating loss before amortization of goodwill (EBITA) for Q4 was EUR 1.9 million compared to EUR 3.3 million in Q3 2003.
- Earnings/share were EUR -0.26 (EUR -0.49 in 2002)
- Liquid assets on December 31, 2003 were EUR 27.4 million
- The company believes that, due to the improving prospects for StoneGate sales, the quarterly operating results before amortization of goodwill (EBITA) should start turning positive towards the end of 2004.

NET SALES AND RESULT

Financial year 2003

The net sales of Stonesoft Corporation for January-December 2003 totaled EUR 23.2 million (EUR 30.2 million for 2002). The comparable net sales totaled EUR 28.1 million in 2002 (eSolutions Oy net sales EUR 2.1 million in January-February 2002) and the decrease in comparable net sales was EUR 4.9 million (17%). The sales of StoneGate firewall/VPN products increased to EUR 5.7 million (EUR 4.6 million in 2002). The sales of services totaled EUR 14.9 million (EUR 18.5 million) and other sales totaled EUR 0.7 million (EUR 1.5 million). The total sales performance was influenced particularly by the reduction in sales of the company's high-availability StoneBeat products. StoneBeat license sales were in 2003 EUR 1.9 million (EUR 5.6 million in 2002).

The Group's operating loss before amortization of goodwill (EBITA) for the 2003 financial year was EUR 13.9 million (EUR 22.7 million operating loss), which included EUR 1.9 million (EUR 2.8 million) in nonrecurring costs due to the restructuring of operations. This was caused by measures carried out in 2003 to adjust operations and the cost level to correspond better with the level of business. These measures were carried out without endangering the company's core operations. As a result the Group's operating costs decreased at the quarterly level by EUR 1.5 million. The number of employees decreased during the financial year by 72 and totaled 264 (336) at the end of the year, of whom 36% (35%) were employed outside Finland.

The Group's loss before extraordinary items was EUR 14.3 million (EUR 24.7 million loss).

The net loss for the year was EUR 14.8 million (EUR 16.7 million loss). The result for the previous year was improved by a EUR 10.2 million profit from the sale of Stonesoft e-Solutions Oy. The loss per share was EUR 0.26 (EUR 0.49 loss).

Fourth quarter

The Corporation's net sales for the fourth quarter totaled EUR 6.6 million (EUR 7.0 million in 2002). The increase compared with the third quarter was EUR 1.6 million, or 34%. The sales of StoneGate software and appliances grew by 93% compared with the third quarter. Sales were accelerated towards the end of the period especially by deliveries of StoneGate for IBM zSeries and sales of StoneGate security appliances, which started according to plans. The operating loss (EBITA) for the fourth quarter was EUR 1.9 million (EUR 3.4 million in Q4 2002). The profit improved by EUR 1,4 compared with the previous quarter.

Measured by net sales, business was divided in the final quarter as follows: North and South America 16%, Europe, the Middle East and Africa 77%, and Asia-Pacific 7%. Net sales decreased in the Americas by 1% compared with the previous quarter. Sales in Europe, the Middle East and Africa grew by 50%. Sales in Asia-Pacific decreased by 2% compared with the previous quarter.

Finance and capital expenditure

The Group's total assets at the end of the year were EUR 43.3 million (EUR 59.9 million). The equity ratio was 90% (90%) and gearing (the ratio of net debt to shareholders' equity) was -0.78 (-0.81). The Group's liquid assets at the end of 2003 totaled EUR 27.4 million (EUR 40.4 million). The total capital expenditure in the fiscal year was EUR 0.2 million (EUR 0.7 million).

MARKETS AND COMPETITIVE ENVIRONMENT

The number of attacks against data networks is continuously rising and therefore the demand for solutions improving network security is expected to grow.

Customer demand seems to divide, on one hand, into more complex solutions for large enterprises and, on the other hand, into more simple mass products. The need for special solutions for different customer segments in challenging network environments is growing, as an example specialized network security solutions for service providers and for IBM mainframe computers.

Combining network security software and its pre-installation in hardware appliances is becoming more common. The advantages of pre-installed appliance include the ease of purchasing and implementation as well as the compatibility of hardware and software.

Different network security technologies are converging and even integrating such as firewall, intrusion detection systems (IDS) and intrusion prevention systems (IPS).

BUSINESS HIGHLIGHTS IN 2003

- StoneGate deliveries for IBM's z-series mainframe computers started in the year's first quarter. During the year, six solutions were delivered to five customers, three of which were in the fourth quarter.

- The addition of a new intrusion detection and prevention system to the StoneGate product family was announced in November. The StoneGate IPS (Intrusion Detection and Analysis with Active Response) recognizes attacks made against a network, gives the alarm and supplies additional information on network traffic. Special attention has been paid to reducing false alarms and the analysis of important events, which have been problematic in products already on the market. The StoneGate IPS is sold either as a separate product or as part of the StoneGate Security Platform, which combines firewall, VPN and intrusion detection and their management. The commercial deliveries will begin in the first half of 2004.

- In September a new firewall/VPN appliance product family was announced. Stonesoft sells and markets its own appliance product family directly to resellers and distributors. At the same time the focus of the company's operations is moving from a pure software supplier to a manufacturer of hardware-based data security solutions. Stonesoft's core competence will remain, however, in the development of software-based solutions. The delivery of network security in pre-installed appliances is one way to deliver StoneGate to the end user. Deliveries of own appliances began in Europe in October. Sales have met the expectations. Stonesoft made appliance agreements with ten distributors in Europe by the end of the year.

- Stonesoft's firewall/VPN software for StoneGate's version 2.0.5. was granted a Common Criteria Evaluation Assurance Level 4+ (EAL4+) certificate in September. The Common Criteria certificate is an ISO certificate recognized in 16 countries. It will open up new business opportunities in the public sector, especially in the

USA and UK, where it is often a precondition for network security projects undertaken by the public sector. This should begin to favorably impact the results in the first half of 2004.

- In December a patent was granted in the USA for the Multi-Link technology developed by Stonesoft. Multi-Link allows the automatic routing and load balancing of Internet and VPN traffic through multiple service providers. It eliminates problems associated with the availability, reliability and slowness of Internet connections.

PRODUCT DEVELOPMENT EXPENDITURES

The company's investments in product development in the fourth quarter totaled EUR 1.4 million (EUR 1.9 million).

Stonesoft's product development units are located in Helsinki, Turku and Sophia Antipolis, France. Product development employed 66 (94) persons at the end 2003.

Research and development expenditure is booked, in accordance with the Group's accounting principles, as an expense at the moment it occurred.

CURRENT AUTHORIZATIONS

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 EUR 229,000.00, so that a maximum of 11,450,000 shares, with a book parity of EUR 0.02 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 with 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 Finnish Companies Act (734/1978, as amended), 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 Finnish Companies Act (734/1978, as amended) 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 grounds for 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 Finnish Companies Act (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 authorization will be in force until the following Annual General Meeting of Shareholders; however, it shall not exceed the maximum period of one year from the date of the resolution of the



Annual General Meeting of Shareholders held on 12 March 2003.

MAJOR EVENTS AFTER THE FINANCIAL YEAR

In co-operation with IBM Stonesoft announced in January a project to develop a StoneGate firewall and VPN solution for IBM eServer iSeries servers. StoneGate will ensure security between the virtual networks and virtual servers inside iSeries server and thus ease the consolidation of the servers. The new solution will be available at the beginning of the second quarter of 2004.

OUTLOOK FOR FUTURE DEVELOPMENT

Tight competition is expected to continue on the network security markets. Stonesoft has found its own market segments and partners corresponding to its own special expertise and will continue to focus on them.

- The growth of the intrusion detection solutions markets (StoneGate IPS product) is expected to be about 15-20% annually.

- The markets for outsourced network security services are expected to grow at 20-40% annually. The company believes that StoneGate technology is particularly well suited for this purpose.

- Stonesoft has developed a unique firewall solution for the IBM z-series mainframe computers. A corresponding new co-operation project together with IBM relating to the iSeries servers was announced in January 2004.

- Stonesoft has launched a new security appliance family, which complements the company's product range.

The company believes that, due to the improving prospects for StoneGate sales, the quarterly operating results before amortization of goodwill (EBITA) should start turning positive towards the end of 2004.

The figures presented in the financial statements release have not been audited.

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

Distribution:
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Major media

Stonesoft Corporation
Income Statement
(Euro 1000)

1.1-31.12.2003 1.1-31.12.2002

Net Sales	23 197	30 173
Other operating income	840	755
Materials and services	1 780	2 972
Personnel costs	20 147	27 713
Depreciations	1 507	1 973
Other operating expenses	14 464	20 979
Operating Profit / Loss (EBITA)	-13 861	-22 708
Goodwill depreciations	1 206	2 470
Operating Profit / Loss (EBIT)	-15 067	-25 178
Financial income and expenses	817	480
Profit / Loss before extraordinary items	-14 250	-24 699
Extraordinary income	37	10 160
Extraordinary expenses	1	1 426
Profit / Loss before taxes and minority Interest	-14 214	-15 965
Direct taxes	573	742
Profit / Loss for the Accounting period	-14 787	-16 707

Stonesoft Corporation
Balance Sheet (Euro 1000)

31.12.2003 31.12.2002

Assets

Non-Current Assets

Intangible assets	1 038	1 476
Consolidated goodwill	1 507	2 713
Tangible assets	1 267	2 139
Investments	6	4
Non-Current Assets Total	3 818	6 332

Current assets

Inventories	91	73
Long-term receivables	60	147
Short-term receivables	11 880	12 946
Investments	24 126	34 955

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Cash on hand and on deposit	3 315	5 462
Current Assets Total	39 472	53 584
Total	43 291	59 916

Liabilities

Shareholders' Equity	35 121	49 860
Provisions	159	30
Liabilities		
Long-term liabilities	0	2
Short-term liabilities	8 011	10 024
Total Liabilities	8 011	10 026
Total	43 291	59 916

Stonesoft Corporation

Key Ratios	1.1.-31.12.2003	1.1.-31.12.2002
EURO 1000		
Net Sales	23 197	30 173
Net Sales Change-%	-23 %	-48 %
Operating Profit /		
Loss Before Goodwill Depreciations (EBITA)	-13 861	-22 708
% of Net Sales	-60 %	-75 %
Operating Profit /		
Loss After Goodwill Depreciations (EBIT)	-15 067	-25 178
% of Net Sales	-65 %	-83 %
Profit / Loss before Extraordinary Items	-14 250	-24 699
% of Net Sales	-61 %	-82 %
Profit / Loss before		
taxes and minority Interest	-14 214	-15 965
% of Net Sales	-61 %	-53 %
ROE - %, annualized	-35 %	-44 %
ROI - %, annualized	-33 %	-42 %
Equity Ratio-%	90 %	90 %
Net Gearing	-0.78	-0.81
Total Asset	43 291	59 916
Capital Investments	197	699
% of Net Sales	1 %	2 %
R&D Costs	6 541	7 436
% of Net Sales	28 %	25 %
Number of Employees (Weighted Average)	298	403
Number of Employees at the end of the period	264	336

Share Specific Ratios

Earnings per Share (EUR)	-0.26	-0.49
Equity per Share (EUR)	0.61	0.87
Dividend per Share (EUR)	0.00	0.00
Dividend / Profit-%	0 %	0 %

Weighted Amount of Shares	57 302 732	57 302 088
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(Option dilution effect included)

Amount of Shares at the End of period

57 302 732

57 302 732

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Quarterly Development (Euro Millions)	Q4 / 2003	Q3 / 2003	Q2 / 2003	Q1 / 2003	2003
Security software and appliances	2.6	1.4	1.7	1.9	2.2
Services	3.8	3.4	3.8	3.9	14.9
Other products	0.3	0.1	0.2	0.1	0.7
Net sales	6.6	5.0	5.6	6.0	23.2
Net sales change-% from previous year	-5 %	-29 %	-12 %	-39 %	-23 %
Sales Margin	6.0		4.6	5.2	5.6 21.4
Sales Margin %	91 %		93 %	93 %	93 % 92 %
Operative expenses	7.9	7.9	9.6	9.9	35.3
Operating profit (EBITA) before restructuring costs	-1.9	-3.1	-3.2	-3.8	-12.0
% of net sales	-28 %	-64 %	-58 %	-63 %	-52 %
Operating profit (EBITA)	-1.9	-3.3	-4.4	-4.4	-13.9
% of net sales	-28 %	-66 %	-78 %	-73 %	-60 %
Profit / loss before taxes	-1.9	-3.5	-4.4	-4.5	-14.2
% of net sales	-29 %	-70 %	-78 %	-75 %	-61 %
Number of employees at the end of the period	264	268	312	324	264

Stonesoft Corporation

Quarterly Development (Euro Millions)	Q4 / 2002	Q3 / 2002	Q2 / 2002	Q1 / 2002	2002
Security software and appliances	2.2	2.7	2.4	3.0	10.2
Services	4.2	3.8	4.3	6.2	18.5
Other products	0.6	0.5	-0.3	0.6	1.5
Net sales	7.0	7.0	6.4	9.8	30.2
Net sales change-% from previous year	-48 %	-41 %	-59 %	-42 %	-48 %
Sales Margin	6.1	6.2	6.0	8.9	27.2
Sales Margin %	88 %		89 %	93 %	91 % 90 %
Operative expenses	9.5	11.3	12.1	17.0	49.9
Operating profit (EBITA) before restructuring costs	-3.2	-4.5	-6.1	-6.1	-19.9
% of net sales	-46 %	-65 %	-95 %	-63 %	-66 %
Operating profit (EBITA)	-3.4	-5.1	-6.1	-8.1	-22.7
% of net sales	-49 %	-73 %	-95 %	-83 %	-75 %
Profit / loss before taxes	-4.7	-5.3	-6.6	0.6	-16.0
% of net sales	-68 %	-76 %	-103 %	6 %	-53 %
Number of employees at the end of the period	336	353	376	423	336

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Networks (Euro Millions)	Q4 / 2003	Q3 / 2003	Q2 / 2003	Q1 / 2003	2003	
Security software and appliances	2.6	1.4	1.7	1.9	7.6	
Services	3.8	3.4	3.8	3.9	14.9	
Other products	0.3	0.1	0.2	0.1	0.7	
Net sales	6.6	5.0	5.6	6.0	23.2	
Net sales change-%	-5 %	-29 %	-12 %	-22 %	-17 %	
Sales Margin	6.0	4.6	5.2	5.6	21.4	
Sales Margin %	91 %	93 %	93 %	93 %	92 %	
Operative expenses	7.9	7.9	9.6	9.9	35.3	
Operating profit (EBITA) before						
restructuring costs	-1.9	-3.1	-3.2	-3.8	-12.0	
% of net sales	-28 %	-64 %	-58 %	-63 %	-52 %	
Operating profit (EBITA)	-1.9	-3.3	-4.4	-4.4	-13.9	
% of net sales	-28 %	-66 %	-78 %	-73 %	-60 %	

Number of employees at the end of the period	264	268	312	324	264
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Networks (Euro Millions)	Q4 / 2002	Q3 / 2002	Q2 / 2002	Q1 / 2002	2002	
Security software and appliances	2.2	2.7	2.4	3.0	10.2	
Services	4.2	3.8	4.3	4.1	16.4	
Other products	0.6	0.5	-0.3	0.6	1.5	
Net sales	7.0	7.0	6.4	7.7	28.1	
Net sales change-%	-33 %	-21 %	-49 %	-46 %	-48 %	
Sales Margin	6.1		6.2	6.0	6.9	25.2
Sales Margin %	88 %		89 %	93 %	91 %	90 %
Operative expenses	9.5	11.3	12.1	15.2	48.1	
Operating profit (EBITA) before						
restructuring costs	-3.2	-4.5	-6.1	-6.4	-20.2	
% of net sales	-46 %	-65 %	-95 %	-83 %	-72 %	
Operating profit (EBITA)	-3.4	-5.1	-6.1	-8.4	-23.0	
% of net sales	-49 %	-73 %	-95 %	-109 %	-82 %	

Number of employees at the end of the period	336	353	376	423	336
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eSolutions (Euro Millions)	2002	Q1 / 2002	
Services	2.1	2.1	
Other products	0.0	0.0	
Net sales	2.1	2.1	
Net sales change-%		-25 %	-25 %
Sales Margin		2.0	2.0
Sales Margin %		97 %	97 %
Operative expenses		1.8	1.8
Operating profit (EBITA)		0.3	0.3
% of net sales	12 %	12 %	

Number of employees at the end of the period	0
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Stonesoft Corporation
Cashflow Statement
(Euro 1000)

2003

2002

Business operations

Operating profit / loss	-15 067	-25 178
Adjustments to operating profit / loss	2 842	4 777
Financial income and expenses	817	480
Change in working capital	-1 037	5 331
Extraordinary items	35	-1 426
Taxes paid	-414	-741
Total	-12 823	-16 758

Investment activities

Investments to intangible and tangible assets	-197	-386
Sales of intangible and tangible assets	0	11 962
Sales of other shares	-3	34
Total	-200	11 609

Financing activities

Change in long-term loans	-2	-24
Other	48	-69
Total	46	-93

Change in liquid assets

Liquid assets at the beginning of the reporting period	40 418	45 659
Liquid assets at the end of the reporting period	27 441	40 418