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STONESOFT CORPORATION'S INTERIM REPORT FOR JANUARY–MARCH 2004

SUMMARY

- Net sales for the first quarter were EUR 5.0 million, -16% compared to the first quarter of 2003.
 - StoneGate sales were EUR 1.2 million in the first quarter, -7% compared to the first quarter of 2003.
 - StoneBeat were totaled EUR 0.25 million in the first quarter, -59% compared to the first quarter of 2003.
- Operating loss before amortization of goodwill (EBITA) was EUR -3.0 million (EUR -4.4 million in the first quarter of 2003).
- Earnings per share were EUR -0.06, corresponding figure last year was EUR -0.08.
- The company's liquid assets at the end of the review period totaled EUR 25.7 million
- Despite of the result of the first quarter, the company believes that, due to the improving prospects for StoneGate sales and better focus in critical success factors, the quarterly operating results before amortization of goodwill (EBITA) will continue to improve during 2004.

NET SALES AND RESULT (figures for the same quarter of the previous year in parentheses)

January-March

The net sales for the period January-March totaled EUR 5.0 million (EUR 6.0 million). This represents a decrease of EUR -1.0 million, i.e. -16% compared with the corresponding period in 2003. Operating loss (EBITA) for the first quarter was EUR -3.0 million (EUR -4.4 million).

Net sales by geographical area during the first quarter, were as follows: North and South America 19%, EMEA (Europe, Middle East and Africa) 74% and APAC (Asia-Pacific) 7%.

Finance and investments

At the end of the review period, the Corporation's total assets were EUR 40 million (EUR 55 million). The equity ratio was 89% (90%) and gearing (the ratio of net debt to shareholders' equity) -0.80 (-0.83). The Corporation's liquid assets at the end of the quarter amounted to EUR 25.7 million (EUR 37.0 million). There was no significant capital expenditure.

MARKETS AND COMPETITIVE ENVIRONMENT

The firewall and VPN markets totaled approximately EUR 2.0 billion in 2003, which represented a growth of 13%. The main driving force behind this was the 16% increase in firewall and VPN appliance sales. At the same time, sales for software-based firewall and VPN solutions decreased by 6%. (Source: Infonetics)

StoneGate sales increased by 24% in 2003, exceeding the average growth of the market.

The firewall and VPN markets are expected to continue at an annual growth rate of 20% for the next four years. (Source: IDC)

The market for IDS/IPS solutions grew by 12% in 2003. The growth is estimated to be more than double in 2004. (Source: Infonetics)

BUSINESS HIGHLIGHTS FOR JANUARY-MARCH 2004

- In January Stonesoft announced its co-operation with IBM to develop a StoneGate firewall and VPN solution for IBM eServer iSeries platform. The product development has proceeded according to schedule and StoneGate for iSeries will be published in the second quarter of 2004.
- On March 10, 2004, the Annual General Meeting elected Alex Sozonoff, Ilkka Hiidenheimo, Pertti Ervi and Jyrki Ritvala as members of the company's Board of Directors. In its first meeting on March 17, 2004, the Board of Directors elected Alex Sozonoff as Chairman.
- The sales of the StoneGate firewall and VPN appliances developed positively. By the end of the review period, Stonesoft had appliance agreements with 23 distributors (10 agreements at the end of 2003).
- The development of the StoneGate IPS product (Intrusion Detection and Analysis with Active Response) proceeded according to plan. The testing of the product in customer environments, which began in October 2003, was significantly expanded in February 2004, and the demand for the product has clearly increased. The product will be available in the second quarter of 2004.
- The company adjusted its organization to serve better the current strategic focus areas. Additional resources were allocated to support the sales of solutions for IBM platforms, as well as to support sales to service providers and key customers.

PRODUCT DEVELOPMENT EXPENSES

During the first quarter, the company invested EUR 1.3 million in product development (EUR 1.9 million in 2003).

Stonesoft has product development units in Helsinki and Turku in Finland, and in Sophia Antipolis in France. At the end of the first quarter, the company's product development activities employed 64 (97) persons.

In accordance with the Corporation's accounting principles, R&D expenditure is booked as an expense at the moment it occurs.

AUTHORIZATIONS CURRENTLY IN FORCE

The terms and conditions of the authorization are:

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 offering and/or the shares issued on the basis of the issued options and/or the shares issued in exchange for convertible bonds can altogether 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 counter book value of EUR 0.02 each, can be subscribed for in the said rights offering and/or share issue on the basis of the issued options and/or the shares issued in exchange for convertible bonds. Options may only be granted on condition that the shares issued on the basis of these rights can increase the company's share capital only by a maximum of EUR 30,000.00. Options can only be granted in conjunction with acquisitions or mergers.

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

The new shares issued in the rights offering and/or the shares issued on the basis of the issued options and/or the shares issued in exchange for convertible bonds can be offered for subscription by making an exception to the pre-emptive subscription rights of shareholders referred to 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 acquisitions, 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.

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 offering and/or the shares issued on the basis of the issued options and/or the shares issued in exchange for convertible bonds, as well as to decide on the subscription price itself which may not, however, be less than the counter book value of the share.

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 offering and/or issue of options and/or the issuing of convertible bonds, such as on the interest payable on the convertible bonds.

The authorization will be in force until the following Annual General Meeting of Shareholders, but not, however, for more than one year from the date of this resolution of the Annual General Meeting of Shareholders.

EVENTS AFTER THE PERIOD UNDER REVIEW

- Since April 1, 2004, the Corporation's executive management team is as follows: Jorma Turunen (CEO, Marketing, Business Development, Investor Relations and EMEA region), Ilkka Hiidenheimo (Product Development, Customer Support and Quality Control), Veikko Ikäläinen (Financial Administration and Information Management), Saara Laine (Legal Affairs, HR and Partnership Programs), Tobias Christen (Product Management), Juha Härkönen (Americas region) and Jarmo Häärä (APAC region).

- In April, Stonesoft's StoneGate Firewall and VPN appliance achieved a Checkmark Certification for Firewall Levels 1 and 2 plus VPN. StoneGate is the first Firewall/VPN appliance in the world to achieve a certificate in all three levels.

- The StoneGate firewall and VPN solution for IBM eServer iSeries is ready in schedule and will be published in May 3rd.

OUTLOOK FOR FUTURE DEVELOPMENT

Stonesoft operates on growing markets. The markets for firewalls, VPN and IPS solutions are estimated to grow by 10-20% in 2004. With the addition of the new StoneGate IPS solution, the StoneGate product family will cover all these areas.

Network security services are another growing market, with an annual growth prospect of 20-40%. Service providers will find the StoneGate technology excellently suited for the purpose. Stonesoft's unique solutions for IBM server platforms also generate further sales opportunities.

Despite of the result of the first quarter, the company believes that, due to the improving prospects for StoneGate sales and better focus in critical success factors, the quarterly operating results before amortization of goodwill (EBITA) will continue to improve during 2004.

The financial figures in this interim report are unaudited.

For additional information, please contact:

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Stonesoft Corporation

Jorma Turunen

CEO

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

The company will also organize a press conference on April 29, 2004 at 10.30 a.m. at the Stonesoft headquarters, street address Itälahdenkatu 22A, 00210 Helsinki.

The company will publish the results for January–June on July 23, 2004.

Distribution:

Helsinki Exchanges

Main media

Stonesoft Corporation
Income Statement

	1.1- 31.3.2004	1.1- 31.3.2003	1.1.- 31.12.2003
(Euro 1000)			
Net Sales	5 045	5 975	23 197
Other operating income	175	184	840
Materials and services	426	419	1 780
Personnel costs	4 389	5 859	20 147
Depreciations	327	401	1 507
Other operating expenses	3 064	3 860	14 464
Operating Profit / Loss (EBITA)	-2 986	-4 379	-13 861
Goodwill depreciations	301	301	1 206
Operating Profit / Loss (EBIT)	-3 288	-4 680	-15 067
Financial income and expenses	184	192	817
Profit / Loss before extraordinary items	-3 104	-4 488	-14 250
Extraordinary income	0	37	37
Extraordinary expenses	0	1	1
Profit / Loss before taxes and minority Interest	-3 104	-4 452	-14 214
Direct taxes	90	123	573
Profit / Loss for the Accounting period	-3 194	-4 575	-14 787

Stonesoft Corporation
Balance Sheet (Euro 1000)

31.3.2004 31.3.2003 31.12.2003

Assets

Non-Current Assets

Intangible assets	929	1 340	1 038
Consolidated goodwill	1 206	2 412	1 507
Tangible assets	1 109	1 958	1 267
Investments	6	6	6
Non-Current Assets Total	3 250	5 716	3 818

Current assets

Inventories	56	100	91
Long-term receivables	55	116	60
Short-term receivables	11 080	11 412	11 880
Investments	23 388	32 077	24 126
Cash on hand and on deposit	2 270	5 352	3 315
Current Assets Total	36 849	49 057	39 472

Total	40 099	54 773	43 291
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Liabilities

Shareholders' Equity	31 978	45 270	35 121
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Provisions	187	0	159
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Liabilities

Short-term liabilities	7 934	9 503	8 011
Total Liabilities	7 934	9 503	8 011

Total	40 099	54 773	43 291
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Stonesoft Corporation			
Key Ratios	1.1.- 31.3.2004	1.1.- 31.3.2003	2003
EURO 1000			
Net Sales	5 045	5 975	23 197
Net Sales Change-%	-16 %	-39 %	-23 %
Operating Profit / Loss Before Goodwill Depreciations (EBITA)	-2 986	-4 379	-13 861
% of Net Sales	-59 %	-73 %	-60 %
Operating Profit / Loss After Goodwill Depreciations (EBIT)	-3 288	-4 680	-15 067
% of Net Sales	-65 %	-78 %	-65 %
Profit / Loss before Extraordinary Items	-3 104	-4 488	-14 250
% of Net Sales	-62 %	-75 %	-61 %
Profit / Loss before taxes and minority Interest	-3 104	-4 452	-14 214
% of Net Sales	-62 %	-75 %	-61 %
ROE - %, annualized	-38 %	-39 %	-35 %
ROI - %, annualized	-37 %	-37 %	-33 %
Equity Ratio-%	89 %	90 %	90 %
Net Gearing	-0,80	-0,83	-0,78
Total Asset	40 099	54 773	43 291
Capital Investments	60	84	197
% of Net Sales	1 %	1 %	1 %
R&D Costs	1 255	1 896	6 541
% of Net Sales	25 %	32 %	28 %
Number of Employees (Weighted Average)	264	333	298
Number of Employees at the end of the period	266	324	264
Share Specific Ratios			
Earnings per Share (EUR)	-0,06	-0,08	-0,26
Equity per Share (EUR)	0,56	0,79	0,61
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	57 302 732	57 302 732
Amount of Shares at the End of period	57 302 732	57 302 732	57 302 732

Stonesoft Corporation
Quarterly Development
(Euro Millions)

	Q1 / 2004	Q4 / 2003	Q3 / 2003	Q2 / 2003	Q1 / 2003	2003
Security software and appliances	1,5	2,6	1,4	1,7	1,9	7,6
Services	3,5	3,8	3,4	3,8	3,9	14,9
Other products	0,1	0,3	0,1	0,2	0,1	0,7
Net sales	5,0	6,6	5,0	5,6	6,0	23,2
Net sales change-% from previous year	-16 %	-5 %	-29 %	-12 %	-39 %	-23 %
Sales Margin	4,6	6,0	4,6	5,2	5,6	21,4
Sales Margin %	92 %	91 %	93 %	93 %	93 %	92 %
Operative expenses	7,6	7,9	7,9	9,6	9,9	35,3
Operating profit (EBITA) before restructuring costs	-3,0	-1,9	-3,1	-3,2	-3,8	-12,0
% of net sales	-59 %	-28 %	-64 %	-58 %	-63 %	-52 %
Operating profit (EBITA)	-3,0	-1,9	-3,3	-4,4	-4,4	-13,9
% of net sales	-59 %	-28 %	-66 %	-78 %	-73 %	-60 %
Profit / loss before taxes	-3,1	-1,9	-3,5	-4,4	-4,5	-14,2
% of net sales	-62 %	-29 %	-70 %	-78 %	-75 %	-61 %
Number of employees at the end of the period	266	264	268	312	324	264

Stonesoft Corporation
Cashflow Statement

	1.1.- 31.3.2004	1.1.- 31.3.2003	2003
(Euro 1000)			
Business operations			
Operating profit / loss	-3 288	-4 680	-15 067
Adjustments to operating profit / loss	657	672	2 842
Financial income and expenses	184	192	817
Change in working capital	763	1 018	-1 036
Extraordinary items	0	36	35
Taxes paid	-90	-124	-415
Total	-1 774	-2 886	-12 823
Investment activities			
Investments to intangible and tangible assets	-60	-84	-197
Sales of other shares	0	-3	-3
Total	-60	-87	-200
Financing activities			
Change in long-term loans	0	-2	-2
Other	52	-15	48
Total	52	-17	46
Change in liquid assets	-1 783	-2 989	-12 977
Liquid assets at the beginning of the reporting period	27 441	40 418	40 418
Liquid assets at the end of the reporting period	25 658	37 428	27 441