

STONESOFT CORP. STOCK EXCHANGE RELEASE

STONESOFT CORP.'S INTERIM REPORT FOR JANUARY-MARCH 2005 AND CONVERSION TO IFRS

Stonesoft Corp. adopted IFRS (International Financial Reporting Standards) compliant financial reporting at the beginning of 2005. The 2004 comparison information is also IFRS-compliant. The reconciliation between FAS (Finnish Accounting Standards) and IFRS is presented at the end of the tables section. The key accounting principles applied by Stonesoft group in its IFRS reporting are published in conjunction with this stock exchange release. The information provided in this release and its attachments is unaudited. The figures in parentheses are from the previous year's corresponding period.

SUMMARY

January-March

- Net sales for the quarter totaled EUR 5.6 million, which was 10% more than in the previous year's corresponding quarter.
- The company's main product line is StoneGate, for which product sales increased to EUR 1.8 million, an increase of 54 % compared to corresponding quarter of the previous year.
- The operating loss was EUR 1.3 million. The comparable loss in the previous year's corresponding quarter was EUR 3.0 million.
- Earnings per share were EUR -0.02, compared with EUR -0.05 for the last year's corresponding quarter. The result improved due to increased sales and decreased costs.
- Equity per share was EUR 0.36 (EUR 0.56).
- Liquid assets totaled EUR 21.6 million at the end of the quarter.
- The company's cash flow was EUR -0.6 million, representing an improvement on the previous quarter's cash flow (EUR -0.7), even though the final quarter of the year is typically the best quarter for the company and the entire industry. Cash flow in the previous year's corresponding quarter was EUR -1.8 million.

"Sales of the company's StoneGate product family continued strong performance in the first quarter. The cash flow improvement reflects not only increased sales but also successful cost management," says Ilkka Hiidenheimo, CEO of the company.

NET SALES AND PROFIT

January-March 2005

Stonesoft group's net sales in January-March were EUR 5.6 million (EUR 5.0 million). Compared with the previous year's corresponding period, there was an increase of EUR 0.6 million, or 10%. The operating loss for the review period was EUR 1.3 million (EUR 3.0 million).

The net sales of the geographical segments was as follows: Europe, Middle East and Africa 71% (74%), North and South America 22% (19%), and Asia-Pacific 7% (7%).

The company's operating result was up EUR 1.7 million compared to the corresponding period in the previous year. The loss for the first quarter after taxes was EUR 1.3 million. The previous year's loss was EUR 3.0 million.

Finance and investments

At the end of the review period, the group's total assets were EUR 29.7 million (EUR 41.6 million). The equity ratio was 80.2% (84.5%) and gearing (the ratio of net debt to shareholders' equity) was -1.01 (-0.79). Consolidated liquid assets at the end of review period totaled EUR 21.6 million (EUR 26.4 million). Investments in tangible and intangible assets totaled EUR 0.06 million (0.17 million).

DEVELOPMENT OF BUSINESS OPERATIONS

Markets

Network security markets are expected to grow steadily in the coming years. The growth of both the firewall/VPN markets and the IDS/IPS markets is expected to continue at an annual rate of about 20%. (Sources: IDC, Datamonitor).

Main business events in the first quarter

- Recruitment and initiation of new sales resources.
- Introduction of a new sales control system. The system improves the efficiency of salespersons' activities and enables global, real-time monitoring of sales projects at a more detailed level.
- Juha Kivikoski, Marketing Director, who joined the company in late 2004, was invited as a new member of the Management Team.

REVIEW OF THE SCOPE OF R&D ACTIVITIES

During the first quarter, the company's R&D focused on developing existing high availability network security solutions, and updated versions of all the main products were published.

The company's R&D investments in the first quarter totaled EUR 1.14 million (EUR 1.25 million).

R&D employed 62 (64) persons at the end of the review period.

SHARE CAPITAL AND STOCK OPTION PROGRAMS

Stock option programs

During the first quarter of 2005 no subscriptions were made on the basis of the stock option programs for key personnel of the company.

At the end of the review period on March 31, 2005, Stonesoft's share capital entered in the Trade Register was EUR 1,146,054.64. The number of shares was 57,302,732 and the counter book value per share was EUR 0.02. No changes took place in the share capital.

The subscription period for all stock options of Stonesoft Corp.'s 1999-2005 stock option program expired on April 30, 2005. After this, the company's valid stock option programs and their subscription prices are as follows:

- Stock Option program 2000-2006, subscription price EUR 14.16
- Stock Option program 2001-2006, subscription price EUR 2.43
- Stock Option program 2004-2010, subscription price EUR 0.56

PERSONNEL

At the end of the review period, Stonesoft's personnel numbered 236 (266).

MAJOR EVENTS AFTER THE REVIEW PERIOD

This Interim Report is published several weeks later than normal, due to the adoption of IFRS. Because of this, we exceptionally report also April sales figures. The overall net sales for April were EUR 1.77 million (EUR 1.51 million). StoneGate product sales for April were EUR 0.64 million (EUR 0.28 million). Part of this substantial growth in StoneGate product sales was achieved due to exceptionally low sales figure in April 2004.

FUTURE OUTLOOK

During the first quarter, Stonesoft recruited more than ten new salespersons for key markets in line with strategy, and will increase the number of salespersons further during the current quarter. The additional sales resources are expected to enhance sales after a 6-9 months' time lag.

The company believes that, as a consequence of these changes, its core business, sales of StoneGate products, will continue to grow significantly faster than the estimated average annual growth of 20% in the network security market forecast by the key research institutes. Due to seasonal variations, the growth

percentage may vary by quarter. According to the current plans of the company the EBITA of the last quarter of the year will be positive. However, reaching this target may be challenging due to delays occurred in sales force recruitments.

Stonesoft Group
Income Statement 1.1-31.3.2005 1.1-31.3.2004 1.1-31.12.2004
(Euro 1000)

Net Sales	5 573	5 045	22 490
Other operating income	92	175	545
Materials and services	369	426	1 859
Personnel costs	4 131	4 389	17 214
Depreciation	313	399	1 603
Other operating expenses	2 133	2 986	11 348
Operating Profit / Loss	-1 280	-2 980	-8 988
Financial income and expenses	87	182	456
Profit / Loss before taxes	-1 193	-2 798	-8 532
Direct taxes	122	62	4 448
Profit / Loss for the accounting period	-1 315	-2 860	-12 981
Earnings per share, EUR	-0.02	-0.05	-0.23
Earnings per share (diluted), EUR	-0.02	-0.05	-0.23

Stonesoft Group
Balance Sheet (Euro 1000) 31.3.2005 31.3.2004 31.12.2004

ASSETS

Non-Current Assets

Tangible assets	1 145	2 028	1 340
Goodwill	1 507	1 507	1 507
Intangible assets	348	590	404
Other investments	9	6	9
Receivables	35	55	38
Deferred tax assets	0	4 310	0
Total	3 045	8 497	3 299

Current assets

Inventories	263	67	194
Trade and other receivables	4 836	6 687	5 992
Marketable securities	20 808	24 093	20 815
Cash on hand and on deposit	773	2 270	1 372
Total	26 680	33 118	28 373

Total assets	29 725	41 615	31 671
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EQUITY AND LIABILITIES

Shareholder's equity

Share capital	1 146	1 146	1 146
Share premium account	76 825	76 821	76 821
Conversion difference	-865	-929	-892
Retained earnings	-56 327	-44 892	-55 012
Total	20 779	32 146	22 063

Long-term liabilities

Deferred tax liability	86	185	59
Interest bearing liabilities	258	332	268
Other long-term liabilities	770	729	762
Total	1 114	1 246	1 089

Short-term liabilities			
Trade and other payables	7 558	7 829	8 172
Tax liability	44	35	109
Provisions	23	116	23
Short-term interest bearing liabilities	207	243	217
Total	7 832	8 223	8 520
Total liabilities	8 946	9 469	9 609
Total equity and liabilities	29 725	41 615	31 671

Stonesoft Group

Statement of changes in equity (Euro 1000)	Share capital	Share premium account	Conversion difference	Retained earnings	Total
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Shareholders' equity at 31.12.2003	1 146	76 821	-1 078	-41 768	35 121
Change in IFRS conversion			98	-264	-166
Shareholders' equity at 1.1.2004	1 146	76 821	-980	-42 032	34 955
Conversion difference			52		52
Profit/loss for the period			-2 860		2 860
Shareholders' equity at 31.3.2004	1 146	76 821	-929	-44 892	32 146

	Share capital	Share premium account	Conversion difference	Retained earnings	Total
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Shareholders' equity at 1.1.2005	1 146	76 821	-892	-55 012	22 063
Share option		4			4
Conversion difference			27		27
Profit/loss for the period			-1 315		-1 315
Shareholders' equity at 31.3.2005	1 146	76 825	-865	-56 327	20 779

Stonesoft Group

Cash flow statement (Euro 1000)	1.1-31.3.2005	1.1-31.3.2004	1.1-31.12.2004
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Cash flow from operations			
Operating Profit / Loss	-1 280	-2 980	-8 988
Adjustments	118	-123	1 830
Change in net working capital	400	802	1 654
Income taxes	-95	-90	-292
Total cash flow from operations	-857	-2 392	-5 795

Cash flow from investing activities			
Investments in tangible assets	-5	-92	-177
Investments in intangible assets	-2	-19	-33
Investments in affiliated company	-45	0	0
Investments in other shares	0	0	-3
Received dividends	0	0	3
Total cash flow investing Activities	-51	-111	-210

Cash flow from financing activities			
Payments of financial leasing liabilities	-56	-60	-290
Total cash flow from financing activities			

Change in cash and cash equivalents

Cash and cash equivalents at beginning of period	22 187	28 169	28 169
Conversion differences	27	52	88
Changes in the market value of investments	331	705	226
Total cash and cash equivalents at end of period	21 581	26 363	22 187

Stonesoft Group			
Geographical segments	1.1-31.3.2005	1.1-31.3.2004	1.1-31.12.2004
(Euro 1000)			
Net Sales			
EMEA	3 965	3 694	16 664
AMER	1 220	987	4 299
APAC	388	365	1 527
Total net sales	5 573	5 045	22 490
Operating profit			
EMEA	-777	-1 950	-5 793
AMER	-443	-726	-2 398
APAC	-60	-304	-797
Total operating profit	-1 280	-2 980	-8 988

Stonesoft Group			
Contingent liabilities	1.1-31.3.2005	1.1-31.3.2004	1.1-31.12.2004
(Euro 1000)			
Leasing liabilities	343	373	394
Rental liabilities	7 347	8 697	7 776
Other liabilities	100	131	131

Stonesoft Group						
Quarterly Development	Q1 /	Q4 /	Q3 /	Q2 /	Q1 /	
(Euro Millions)	2005	2004	2004	2004	2004	2004
Security software						
and appliances	1.9	2.6	1.8	1.8	1.5	7.7
Services	3.5	3.8	3.3	3.8	3.5	14.5
Other products	0.1	0.0	0.1	0.1	0.1	0.3
Net sales	5.6	6.4	5.3	5.8	5.0	22.5
Net sales change-%						
from previous year	10	-4	7	3	-16	-3
Sales Margin	5.2	5.9	4.8	5.3	4.6	20.6
Sales Margin %	93	93	91	92	92	92
Operative expenses	6.5	7.4	7.2	7.7	7.7	30.0
Operating profit (EBITA)						
before restructuring costs	-1.3	-1.4	-1.9	-2.0	-2.8	-8.1
% of net sales	-23	-22	-35	-34	-56	-36
Operating profit (EBITA)	-1.3	-1.4	-2.4	-2.2	-3.0	-9.0
% of net sales	-23	-22	-45	-39	-59	-40
Profit / loss before taxes	-1.2	-1.4	-2.3	-2.1	-2.8	-8.5
% of net sales	-21	-21	-43	-37	-55	-38

Stonesoft Group			
Key Ratios	1.1-31.3.2005	1.1-31.3.2004	1.1-31.12.2004
(Euro 1000)			
Net Sales	5 573	5 045	22 490
Net Sales Change-%	10	-16	-3
Operating profit / loss	-1 280	-2 980	-8 988
% of Net Sales	-23	-59	-40
Operating result before taxes	-1 193	-2 798	-8 532
% of Net Sales	-21	-55	-38
ROE - %, annualized	-25	-34	-46
ROI - %, annualized	-21	-33	-27
Equity Ratio-%	80	84	78
Net Gearing	-1.01	-0.79	-0.98
Total Assets	29 725	41 615	31 671
Capital Investments	62	170	501
% of Net Sales	1	3	2
R&D Costs	1 142	1 252	5 075
% of Net Sales	20	25	23
Number of Employees			
(Weighted Average)	238	264	258
Number of Employees			
(end of period)	236	266	237

Share Specific Ratios

Earnings per Share (EUR)	-0.02	-0.05	-0.23
Equity per Share (EUR)	0.36	0.56	0.38
Dividend	0.00	0.00	0.00
Dividend per Share (EUR)	0.00	0.00	0.00

Dividend / Profit-%

0

0

0

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

Impact of IAS/IFRS on Stonesoft group's financial reporting

Stonesoft adopted IFRS-compliant financial reporting on January 1, 2005. Previously, Stonesoft's accounting principles were based on the Finnish Accounting Standards (FAS).

The IFRS-compliant financial information and accounting principles presented in this release may need to be modified before being included as comparative information in Stonesoft group's first IFRS financial statements prepared for the financial year that ends on December 31, 2005. This is due to the ongoing changes in the IFRS that may affect the financial statements of those companies applying the IFRS as of 2005.

MOST SIGNIFICANT CHANGES IN ACCOUNTING PRINCIPLES AFFECTING THE FINANCIAL STATEMENTS

Goodwill amortization

According to IAS 3, goodwill will no longer be amortized, but its possible impairment will be annually tested. Under FAS, goodwill was amortized during its period of effect. The possible impairment of Stonesoft Corp.'s goodwill has been tested, and there was no need for write-downs on either January 1, 2004 or December 31, 2004. The cancellation of goodwill amortization improves the IAS-compliant operating profit for the year 2004 by EUR 1.2 million and increases the year-end balance sheet total by the same amount.

Financial leases

According to IAS 17, leases that essentially transfer the risks and rewards incidental to ownership to the lessee are categorized as financial leases. These agreements are entered in the balance sheet as assets at the commencement of the lease period at the lower of the fair value of the leased asset and the present value of the minimum lease payments at the time the agreement was made. Assets held under financial leases and entered in the balance sheet are depreciated over the shorter of the lease term and the life of the asset. The lease liability will be entered under interest-bearing liabilities in the balance sheet.

Entering the lease liability and leased equipment in the balance sheet increases the balance sheet total at the end of 2004 by EUR 0.5 million. The depreciation booked instead of the lease payments corresponds to the leases, which means they have no material impact on the year 2004 result.

Financial instruments

According to IAS 39, financial assets can be categorized in several ways. Stonesoft's financial assets are categorized under IAS so that they are measured at their current market value. Under FAS, the equity invested mainly in money market funds produced profit in the income statement only when it was sold. Measurement at current market value increases the balance sheet total at the end of 2004 by EUR 0.2 million.

Research and development costs

Under IAS 38, R&D costs are capitalized when certain conditions are met. Stonesoft currently has no ongoing projects that meet all of these criteria. Thus all R&D costs have been entered as annual expenses.

However, if projects meeting all the capitalization criteria are initiated, Stonesoft Corp. has the information systems capability to capitalize R&D costs. A very large proportion of the company's R&D costs consist of either research work or further development of existing software versions, neither of which is capitalized under IAS 38. In order to justify capitalization related to the development of new applications, it should be possible to estimate future cash flows. This is difficult in Stonesoft's line of business.

Income taxes

Under IAS 12, deferred taxes are recognized in the balance sheet with respect to the taxable temporary differences. Stonesoft Corp.'s losses per December 31, 2004 are EUR 63.4 million, 54,8 confirmed and 8.6 still unconfirmed, related to fiscal year 2004. These will expire mainly in the years 2011-2015. The deferred tax assets have been estimated to the extent they can probably be utilized. No such deferred tax assets were entered in the balance sheet on either January 1, 2004 or December 31, 2004. The situation will be re-evaluated in the future, taking account of the group's profit performance.

Segment reporting

Under IAS 34, quarterly interim reports must report net sales and results of the company's various business segments. Segmentation is based on the group's organization and the reporting of the Board of Directors and the executive management. Stonesoft's management monitors the profitability of business by market area. The primary segments in the consolidated reports are geographical segments, namely Europe, the Middle East and Africa, the Americas and Asia-Pacific.

Stock Options

Under IFRS 2 the stock options granted by the company, entitling their holders to purchase the company's shares, create a deferred cost which is distributed over the option program's subscription period or, exceptionally, its earnings period. This cost presented in the income statement is booked under equity in the balance sheet.

The above applies to only the most recent of Stonesoft's stock option programs, established in late 2004. It has no impact on the 2004 result and the impact on the 2005 first quarter result was Euro 0,004 million.

Stonesoft Group			
Reconciliation of equity	31.12.2003	31.3.2004	31.12.2004
(Euro 1000)			
Equity according to FAS	35 121	31 978	20 690
Goodwill		301	1 206
Unrealized change in value	38	46	226
Deferred tax effect	-212	-184	-59
Other adjustments	8	5	0
Equity according to IFRS	34 955	32 146	22 063

Stonesoft Group		
Reconciliation of net profit	31.3.2004	31.12.2004
Net profit according to FAS	-3 194	-14 519
Goodwill amortization	302	1 208
Unrealized change in value	8	188
Deferred tax effect	28	153
Other adjustments	-4	-11
Net profit according to IFRS	-2 860	-12 981