

# Corporate Governance Statement

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Stonesoft Corporation, the parent company of the Group is registered in Finland and domiciled in Helsinki, Finland. In the administration and management of the company, Stonesoft Corporation applies the laws of Finland, the company's Articles of Association, and the working order for the company's Board of Directors. Stonesoft also applies the Corporate Governance recommendations for listed companies prepared by NASDAQ OMX Helsinki Ltd, the Central Chamber of Commerce and the Confederation of Finnish Industries EK, as well as the insider guidelines of NASDAQ OMX Helsinki Ltd.

## Corporate governance statement

This Corporate Governance Statement is based on law as well as on the Finnish Corporate Governance Code, and it has been prepared pursuant to Recommendation 54 of the Code and Chapter 2, Section 6 of the Securities Markets Act. The Corporate Governance statement is issued separately from the Board of Director's Report.

Stonesoft Corporation conforms to the Finnish Corporate Governance Code with the following exemptions:

The Board of Directors of Stonesoft has not appointed board committees. Due to the size of the company the Board of Directors is able to take care of all its activities independently without the assistance of board committees.

At the current Board of Director's of Stonesoft only one gender is represented. To the current Board it was not possible to find a female member with strong knowledge of the industry. However the company aims to have both genders represented in the Board.

The Finnish Corporate Governance Code is available on the Securities Market Association's website ([www.cgfinland.fi](http://www.cgfinland.fi)).

## **General Meeting**

The General Meeting of the Shareholders is the highest decision-making body of Stonesoft Corporation. The General Meeting decides upon matters such as amendments to the Articles of Association, the acceptance of the financial statement, the distribution of profits and the election and fees of Board members and auditors. The Annual General Meeting shall be held each year by the end of June in Helsinki.

The documents of the General Meeting shall be available in company's website at least 21 days before the General Meeting.

## **Board of Directors**

### **The Board's duties and responsibilities**

The Board is responsible for supervising the administration and proper organization of the Group in accordance with legislation, the Articles of Association and the instructions issued by General Meeting. The Board decides upon matters of major importance to the operations of the company. These include the acceptance of the main strategies, the approval of action plans, major capital expenditures and divestitures of assets. The Board also appoints and dismisses the company's CEO and decides on his/her service terms. The board's responsibilities are described and outlined in the Boards Working Order as described below.

The Board of Directors annually assesses its activities and the working manners to further develop its practices.

### **Election of the Board of Directors**

The Annual General Meeting elects no fewer than three and no more than seven members to the Stonesoft Corporation's Board. The term of a Board member shall begin at the end of the General Meeting that elected the Board member and expire at the end of the next Annual General meeting. The Board elects a Chairman and Vice Chairman from among its members. The Board currently comprises five members, one of whom is employed by the company. Having five board members is considered to be suitable for a company of this size.

In the 2010 Annual General Meeting the following members were elected to the board:

Mr. Matti Viljo, Born: 1955, Education: MSc. in Economics and Business Administration, Main duty: Unisys Corporation, General Manager, Continental Europe

Mr. Ilkka Hiidenheimo, Born: 1960, Main duty: CEO of Stonesoft Corporation

Mr. Jukka Manner, Born: 1972, Education: M.Sc. (1999), PhD (2004), University of Helsinki, Main duty: Professor, Department of Communications and Networking (Comnet), Aalto University

Mr. Hannu Turunen, Born: 1957, Education: MSc. in Electrical Engineering, MBA, Main duty: Managing Partner, Magnolia Ventures

Mr. Timo Syrjälä, Born: 1958, Education: MSc. in Economics and Business Administration, Main duty: Managing Director, Syrjälä & Co Oy

Additional information about the Members of the Board is available at the corporate website [www.stonesoft.com](http://www.stonesoft.com) (Investor Relations).

## **Independence**

The Board has evaluated the independence of its members on April 22, 2010 in compliance with the guidelines of the Corporate Governance Recommendation. It is required in the Recommendation that the majority of the Board members are independent of the company. In addition, at least two of the Board members representing this majority shall be independent of significant shareholders of the company. Significant shareholder means among others a shareholder who holds at least 10 % of all the shares or of the aggregate votes in the company.

## **Board Members' independence from the company**

Pursuant to the Finnish Corporate Governance Code recommendation 14 the Board has noted that based on the evaluation all other Board members, except Ilkka Hiidenheimo as CEO, are independent from the company with the following remark: Matti Viljo, Jukka Manner and Timo Syrjälä have been granted stock option rights as part of their compensation as Board members, but such compensation is deemed not to have significant economic value for the above mentioned Board members.

## **Board Members' independence from the significant shareholders**

Pursuant to the recommendation 14 it has been noted that Ilkka Hiidenheimo (holding 16.5 percent of the shares and the votes in the company) and Hannu Turunen (holding 11.6 percent of the shares and the votes in the company) are significant shareholders themselves, and that all other Board members are independent from significant shareholders of the company.

## **Board meetings and Board's working order**

The Board meets regularly at least 8 times a year and additionally when necessary. The Board met 20 times in 2010.

The average attendance of the Board members at the Board meetings was 98 percent.

The Board has approved a written Working Order to govern its work. Below the working order has been summarized:

The Board of Directors shall

Approve of the company's strategy and guidelines and the annual business plan

Decide on significant investments, acquisitions and divestitures as well financing arrangements

Elect a Chief Executive Officer (CEO) for the company and approve election of members to the Executive

Management and supervise that the CEO leads the company's activities in compliance with the instructions and guidelines given by the Board of Directors

Decide on the remuneration and benefits for CEO and approve the remuneration level for Executive Management and other employees reporting to CEO

Sign and present the financial statements for approval by the Annual General Meeting and present a proposal for profit disposal

Grant and revoke the right to represent the company

Approve the values of the company and main guidelines and policies for the company's business operations

Establish and elect the members of Board committees, if needed

Evaluate the independence of the Board members

Annually assess the activities and the working manners of the Board

The Board's annual meeting schedule shall be confirmed by the end of previous year. For consideration and a decision on a matter that cannot be postponed until the next scheduled Board meeting, an extraordinary Board meeting shall be held. A Board meeting is convened by the chairman or, when the chairman is prevented, by the vice chairman. The chairman presides the meetings. The Board constitutes a quorum when more than half of its members are present.

The chairman prepares the agenda together with the CEO. The meeting agenda is delivered to the Board Members approximately five days before the meeting along with the minutes of the previous meeting and all proposals concerning issues to be brought up at the meeting. The secretary of the Board keeps minutes of the Board meetings. The minutes are signed and confirmed by the secretary and the chairman of the Board and a member elected to scrutinize the minutes.

The CEO shall ensure that the Board Members receive current information that is needed to evaluate the financial planning, liquidity and business development of the company.

Accordingly, the CEO shall ensure that the Board receives agreed reports about the development and operation of the company, including the development of sales, profit status and liquidity, as well as information about important events, e.g. important legal disputes, the cancellation of important agreements, the appearance of extensive liabilities or the insolvency of important clients. If necessary, the CEO should give reports directly to the chairman and Board Members even in between the Board meetings.

A Board Member, CEO or a company employee shall be disqualified from the consideration of a issue pertaining to a contract or matter between the said person or his/her close relative and the company or a contract or other transaction between the company and a third party, if the person or someone close to him/her might derive an essential benefit in the matter and that benefit may be contrary to the interests of the company. A disqualified Board

Member, CEO or employee may not take part in any preparation or decision making concerning the matter at the Board meeting. However, a disqualified person may be heard in order to clarify the matter.

### **The Board committees**

The Board of Directors has decided not to establish any Board committees due to the size of the Board of Directors and the size of the company. Therefore the assignments determined to be handled by the Audit Committee pursuant to the Finnish Corporate Governance Code (recommendation 27) is taken care by the Board of Directors itself.

### **The compensation paid for the Board Members**

The fees paid to members of the Board in 2010 were confirmed by the Annual General meeting in April 2010 as follows:

The Chairman's fee is EUR 4,000 per month and a member's fee is EUR 2,000 per month. In addition, Stonesoft Corporation's Annual General Meeting has granted stock options to the Board members to engage them to the company. No compensation shall be paid to the main shareholders of the company (the shareholders who have made the compensation and nomination proposals) for acting as Board Members.

### **Chief Executive Officer and Executive Management**

The Board appoints and dismisses the CEO of the company. The CEO is in charge of the day-to-day management of the Group in accordance with the Companies' Act and the instructions and orders given by the Board. The CEO may undertake acts which, considering the scope and nature of the operations of the company, are unusual or extensive, only with the authorization of the Board. The Group's Executive Management assists the CEO in his duties.

Since August, 2004, the President and CEO of Stonesoft Corporation is Mr. Ilkka Hiidenheimo, the founder of the company.

### **The CEO's compensation**

Stonesoft's President and CEO Ilkka Hiidenheimo has decided not to receive any compensation for his duties until the company is profitable. There is no specific retirement age set forth for the CEO. The CEO's pension is the same

as Finland's Employee Pension Act (TYEL) enacts and that is compulsory for all Stonesoft employees. Contract of employment for the CEO provides for notice of six (6) months prior to termination with compensation being six (6) months salary and a further optional six (6) months fixed salary in case the company terminates the contract without essential breach of contract by the CEO. Both the pension right and the right for compensation in case of termination of contract are only theoretical as long as the CEO is not receiving any compensation.

## **Executive Management**

The CEO of the company is responsible for the operative management with the assistance of Executive Management. Executive Management convenes regularly and all issues addressed in the meetings and related decisions are recorded in the meeting minutes.

The responsibilities of the Executive Management include, among others:

Business operations management and financial performance review globally

Annual strategic planning and implementation of the strategy

Preparation and processing of adjustment plans that are crucial for the Group's business operations

Preparation of global guidelines and standards of activity applicable in the Group as well as supervision of compliance with them

The members of the Executive Management were December 31, 2010 as follows:

Ilkka Hiidenheimo, Chief Executive Officer

Kim Fagernäs, Vice President of Sales

Mika Jalava, Chief Technology Officer

Juha Kivikoski, Chief Operating Officer

Mikael Nyberg, Chief Financial Officer

Ari Vanttinen, Vice President of Marketing

Additional information about the members of the Executive Management is available at the corporate website [www.stonesoft.com](http://www.stonesoft.com) (Investor Relations).

Principles of the compensation system and decision-making order targeted to the CEO and other management

The Board of Directors determines the compensation of the CEO. The CEO determines the compensation of other management within the limits of the salary and remuneration level as well as according to the compensation scheme approved by the Board of Directors. The salary paid to the members of the Executive Management responsible for sales of company's products and services consists of a fixed salary and a commission and other members have a fixed salary. The Board decides on the granting of stock option rights to the Executive Management.

### **Shares and share-related rights of The Board of Directors and Executive Management 31.12.2010**

	Shares		Option Plans		Forward Contract
	Personal	Controlled Corporations	2004	2008	
Fagnäs Kim	0	0	100 000	150 000	0
Hiidenheimo Ilkka	10 417 400	0	0	0	0
Jalava Mika	1 200	0	40 000	80 000	0
Kivikoski Juha	0	0	112 500	0	0
Manner Jukka	200	0	0	15 000	0
Nyberg Mikael	30 000	0	100 000	100 000	0
Syrjälä Timo	800 185	2 471 561	15 000	30 000	1 000 000
Turunen Hannu	7 350 000	0	0	0	0
Viljo Matti	10 000	0	22 500	26 250	0
Vanttinen Ari	0	0	0	0	0

The column Controlled Corporations includes also the holdings owned by shareholder's minor children.

### **Risk management, internal control and internal audit**

The Board of Directors of Stonesoft Corporation has primary responsibility for accounting and monitoring of financial administration of the company. The Board of Directors is also ultimately responsible for risk management and internal control of Stonesoft Corporation, and the CEO is in charge of arranging the risk management and internal control in



practice as well as of monitoring their functioning. Co-ordination of risk management and internal control is the responsibility of the Chief Financial Officer (CFO). The Executive Management of the Group supports the risk management processes by considering the risks and management thereof in its meetings.

Risk management and internal control aim at ensuring that

- (i) the operation of the company is effective and suited to its purpose,
- (ii) financial information is reliable and
- (iii) authority regulation and internal policies are complied with.

CFO, as the coordinator of corporate risk management, creates corporate-level risk management principles, develops risk management tools and establishes global insurance policies. Business units must adhere to the corporate level policies and proactively contribute to the development of corporate risk management. Risk management function concentrates on

- (i) evaluation and management of operational risks
- (ii) management of financial risk and
- (iii) management and safeguard of critical business-related information and assets.

## **Operational risks**

The company sets financial targets annually in connection with the budgeting and the realization of the targets is monitored on a monthly basis. The guidance and supervision of the business operations takes place with the means of a reporting and forecasting system covering the entire group that the company strives to develop on a continuous basis. The product sales and related services sales are made mainly through a global channel partners, using standardized Stonesoft agreements. The sales operations are supported by the company's legal unit seeking to reduce the risks related to the global business operations through continuous management and development of contracts. The company also uses insurance to cover the property, operational and liability risks.

## **Financial risks**

Stonesoft does not normally provide financing, other than generally accepted terms of payment, to its customers. The company invoices mainly in Euros, the US dollar being the other invoicing currency. The company's costs occur mostly in Euros. Exchange rate fluctuations can affect the company's financial results. The company uses matching as a main tool for offsetting the exchange rate risks.

The task of Stonesoft's Corporate Treasury is to manage financial risks in accordance with the Treasury Policy approved by Stonesoft's Board of Directors. The main principles of the policy 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 a selected risk level. The company's reserves are all invested on interest bearing low risk instruments.

The company's operations and related costs are continuously controlled.

## **Management and safeguard of critical business related information and assets**

Stonesoft manages and safeguards its critical business information by stringent internal policies and processes. The company constantly reviews and updates its network infrastructure and takes actively advantage of its own products in order to protect the network infrastructure of the company. The company has back-up systems to ensure business continuity during the unexpected.

## **Internal audit**

Due to the small size of the company and the scope of the business operations Stonesoft does not have a separate organization for the internal audit function or a separate internal audit committee. The regular audits conducted by the audit firm in relation to the interim reports aim also for their part at evaluating the efficiency of and constant developing of risk management, internal audit and administrative processes.

The structure of the group and the financial administration have been set up with the aim to prevent malpractice, among others, through clear internal guidelines and definition of authorizations. In addition, all sales are made in the

name of the parent company and local payment transactions of subsidiary companies and sales offices concern generally only local salaries and other minor costs.

## **Auditors**

The auditors' task is to conduct an annual statutory audit in order to examine whether the financial statements present fairly the financial position, results of operations and cash flows of the company in conformity with generally accepted accounting principles in Finland, and that the company's internal control functions are in place and support the company's activities.

At the Annual General Meeting, the shareholders appoint one audit firm of public accountants certified by the Central Chamber of Commerce, to operate as company's Auditor, as stated in Articles of Association. The auditor's term shall begin at the end of the General Meeting that elected the Auditor and expire at the end of the next Annual General meeting.

Furthermore Board's working order adds that;

(i) the Board members shall discuss the auditor's report once a year in a meeting held during the first quarter and

(ii) one of the Company's auditors should be present at the Board meeting, where the auditor's report is discussed.

The Board shall review the auditors' performance annually. Prior to the Annual General Meeting, the Board shall discuss who is to be proposed as auditors for the next financial year.

The auditor of Stonesoft is an authorized public accountant, Ernst & Young Oy, with authorized public accountant Bengt Nyholm as responsible auditor. The Stonesoft Group auditor fees were EUR 114 732,40 in year 2010.

Additionally, the auditor was paid EUR 7 350,00 for the services not related to auditing as well as EUR 2 000,00 for other statements and reports.

## Insiders

The Stonesoft Group complies with the Guidelines of NASDAQ OMX Helsinki Ltd for Insiders, which are complemented by the company's own insider regulations.

Under the Finnish Securities Market Act, the permanent insiders of Stonesoft, based on their positions, are the members of the Board of Directors, the CEO and the auditors. Under the company's own insider regulations, the individuals in the following positions are regarded as permanent insiders: the members of the Group's Executive Management, Regional Directors, Marketing, Communications, Order Team and Product Managers, lawyers, controllers, the Chief Accountant and all other positions entitled to global access to the company's sales management system, Salesforce.com.

The Company's own insider regulations regulate trading with the company's shares as follows. Permanent insiders must schedule their trading within four (4) weeks' time after publication of the company's financial statements release or the publication of an interim review (the so-called open window).

In addition, the Board of Directors has given the following recommendation to all Stonesoft employees:

- (1) Stonesoft's shares and/or other securities should be acquired only as long-term investments; and
- (2) Acquisitions and disposals of Stonesoft's shares and other securities should be scheduled for times when the markets have as detailed and accurate information as possible on factors affecting the value of the company's securities (e.g. after the disclosure of results).