

STONESOFT



2008

Annual Report

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Year 2008 in Brief

Main business events and key figures

Main business events

- In January Stonesoft received a certification from ICSA Labs, an independent division of Verizon Business. Stonesoft became one of a select few vendors to achieve this distinction for network-based intrusion prevention systems.
- In January Stonesoft introduced the new StoneGate security solution for high capacity networks. StoneGate IPS-6100 and FW-5100 appliances offer managed service providers (MSPs) and large organizations high performance, cost-efficiency and unrivalled flexibility.
- In February Stonesoft became a member of the Technology Alliance Partner (TAP) program of VMware, the world's leading provider of virtualization solutions. The cooperation brings Stonesoft among the first providers to launch security solutions for virtual environments and strengthens its position as a leading expert in network security.
- In May Stonesoft introduced the new StoneGate Management Center 4.3 for advanced unified management. The product offers enhanced visibility and control over network security in both traditional and virtual network environments.
- In May Stonesoft's StoneGate IPS was shortlisted for the 2008 Techworld awards in the category IPS/IDS Product of the Year.
- In May Stonesoft introduced the new StoneGate IPS 4.3 for protecting internal networks and operating systems from malicious traffic. The solution stands out through its scalability: the revolutionary serial clustering technology of the new StoneGate appliances allows adding IPS throughput up to 60%. The system also supports the new IPv6 protocol.
- In July Stonesoft executed a partnership agreement with the leading Algerian telecommunications company Algeria Telecom. The first order at the value of more than EUR 700,000 was delivered to the Algerian Ministry of Healthcare at the end of the second quarter.
- In August Stonesoft certified the VMware ESX server as a supported environment and became a member of the VMware VMsafe™ technology program. In September, Stonesoft's StoneGate Virtual Security Solutions received the VMware certification.
- In September Stonesoft introduced the StoneGate Virtual IPS 4.3.1 (Intrusion Prevention System) to protect internal networks from malicious traffic.
- In September Stonesoft received an order from a major Russian telecom operator at the value of USD 1.9 million.

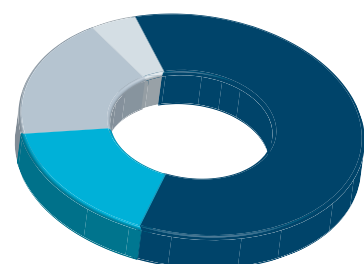
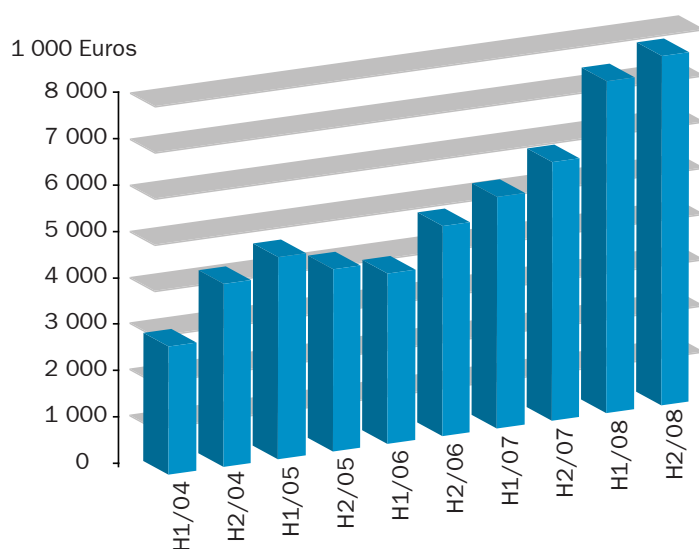
- In October Stonesoft and Magirus, one of the leading IT solution providers in Europe, extended their distribution agreement to cover Europe and the Middle East. The agreement covered originally Germany, Austria, Switzerland and Italy, and now it has been extended to include Great Britain, Denmark, Sweden, the Netherlands, France, Spain, Portugal and the Middle East.
- In October Stonesoft introduced the StoneGate FW-310 firewall, which provides enhanced network security for the remote offices of geographically distributed organizations.
- As an answer to the latest vulnerability announced by Microsoft, Stonesoft announced in October that its StoneGate IPS (Intrusion Prevention System) provided pre-emptive protection against the vulnerability. StoneGate customers have had full protection against this most recent vulnerability since August 2006.
- In November Stonesoft introduced the StoneGate UTM (Unified Threat Management) solution for remote locations. The solution is available as an integral part of the new StoneGate FW-310 firewall appliance launched earlier this autumn.
- In November StoneGate introduced StoneGate SSL VPN 1.2 for full mobility, security and ease of administration. In the new version, log details and monitoring of SSL VPN appliances are integrated with StoneGate Management Center, providing a centralized view of all remote connections.
- In December the research company Gartner, Inc. positioned Stonesoft in the Challengers Quadrant in its latest Magic Quadrant for Enterprise Network Firewalls research report on network security vendors.
- In December Stonesoft's StoneGate SSL VPN solution was named finalist in "the Best IPsec/SSL VPN solution" category of the 2009 SC Awards program of the US SC Magazine.
- The following changes took place during the year in the executive management group of Stonesoft Corporation: in May Outi Torniainen, Vice President of Marketing and Communications, was replaced by Klaus Majewski, Vice President of Marketing, and in October, as Juha Kivikoski, Vice President of Sales, left the company, his responsibilities were transferred to Kim Fagernäs, Vice President of Sales.
- In December Stonesoft delivered to the Supreme Court a petition for leave of appeal and a letter of complaint concerning the verdict given by the Helsinki Court of Appeal on October 2008, reversing the decision given by the District Court of Helsinki in November 2006 dismissing all charges against Stonesoft, and imposing Stonesoft a corporate fine of EUR 20.000 for a security market information offence for an alleged delay of a profit warning in February 2001.

Key Figures

(1 000) Euros	2008	2007
Net sales	24 427	19 020
Operating profit/loss	-2 286	-6 514
% of net sales	-9	-34
Operating result before taxes	-2 010	-6 312
% of net sales	-8	-33
Return on equity (ROE) %	-49	-85
Return on investment (ROI) %	-40	-78
Equity ratio%	46	52
Net Gearing	-1,99	-1,46
Capital investments	488	495
% of net sales	2	3
R&D costs	5 230	5 285
% of net sales	21	28
Number of employees (weighted average)	183	181
Number of employees at the end of the year	185	181
Earnings per share	-0,04	-0,07
Equity per share	0,06	0,10
Dividend	0,00	0,00
Dividend per share	0,00	0,00
Dividend/profit, %	0	0
Average number of shares adjusted for share issue	57 307 748	57 302 732
Number of shares adjusted for share issue at year end	57 309 875	57 302 732

Geographical Distribution of Net Sales

StoneGate Sales Development 2004-2008





CEO's Review

Stonesoft's main target in 2008 was to generate improved profitability through strong growth of sales. The company increased its net sales by 28% and the sales of its main product, StoneGate, by 40% during the fiscal year. The growth of sales was especially strong in the emerging markets. Due to this development the company's cash flow improved by EUR 4.2 million and profitability by EUR 4.2 million, even though the operating result (EBIT) remained EUR 2.3 million negative. The company achieved its targets set for the fiscal year in respect of net sales, cash flow and result.

The company's position as a noteworthy provider of integrated network security and business continuity was further strengthened during 2008. StoneGate IPS, received the ICSA Labs Network IPS certification as one of a few in the world, and the renowned independent research company Gartner, Inc. positioned Stonesoft in the Challengers Quadrant in its latest Magic Quadrant for Enterprise Network Firewalls research report.

New products for critical network environments

We continued to make strong investments in extending our product line and increasing our competitiveness by introducing new solutions that meet especially the growing needs of managed security service providers (MSSPs) and distributed organizations and offer us new markets in critical network environments.

We introduced the StoneGate IPS-6100 and FW-5100 especially for the needs of high capacity networks. The solution offers MSSPs and enterprises high performance, cost-efficiency and flexibility. StoneGate Management Center 4.3 offers enhanced visibility and control over network security in both traditional and virtual network environments, and StoneGate IPS 4.3 protects internal networks and operating systems from malicious traffic.

The StoneGate FW-310, with the UTM (Unified Threat Management) functionality, offers remote offices new generation firewall functionality and increased performance, and StoneGate SSL VPN 1.2 allows full mobility, security and ease of administration.

Strong growth especially in the emerging markets

During 2008 we strengthened our position worldwide, but especially in the emerging markets. In July we executed a significant strategic partnership agreement with the leading Algerian telecommunications company Algeria Telecom and delivered the first order at the value of more than EUR 700,000 to the Algerian Ministry of Healthcare. In addition, we received an order from a major Russian telecom operator at the value of USD 1.9 million. This development proves that we have selected the right strategy and made profitable investments also in these areas.

Network security in physical and virtual environments

In 2008 Stonesoft strengthened its position as a pioneer in the security of virtual environments. Responding to the rapidly increasing demand of virtualization of IT infrastructure, we were among the first to introduce the StoneGate Virtual Firewall and Virtual IPS solutions. Both solutions, like all StoneGate appliances, can be centrally managed with the StoneGate Management Center, which eliminates barriers, limitations and security compromises between virtual and physical networks.

The security of virtual environments has attracted a great deal of interest among our customers and this interest is expected to turn into demand during 2009.

Cost efficiency and benefits to the customers' business

Companies will continue to network with their partners and subcontractors, and this development will create even higher requirements for network security and availability. At the same time, the demand for outsourcing solutions and services will grow. Managed security service providers (MSSPs) have a growing need to provide their customers with the possibility to track the status of their network security while maintaining an overview of their own data network.

The convergence of voice, video and data on IP-based networks will create more demand for capacity and drive the adoption of 10 Gbps networks.

The growing demand for added bandwidth together with new protocols in the IP networks are expected to increase the general demand for better reporting, monitoring and analysis tools. This development will support Stonesoft in achieving its year 2009 growth plan, since these features are the cornerstones in StoneGate Management Center's functionality.

Stonesoft specializes in providing network security solutions to distributed organizations, but also for critical and military-grade network environments. These environments require a different approach from traditional enterprise solutions and set exceptionally high demands to both network architecture and security. I believe our competitiveness in this area helps us to differentiate ourselves even more from our competitors.

Despite the global economical uncertainty we have shown strong growth and commitment to strengthen our product offering, competitiveness and customer base. I believe the investments we have made provide a strong base for positive development and that the cost-efficiency of our products and the benefits they bring to our customers become even more important during economically difficult times.

Stonesoft will continue its decisive and persistent efforts to increase its net sales and improve the profitability of the company. The company's main target for 2009 is to generate improved profitability through strong growth of net sales. I believe we have all the preconditions required to reach this target.

I would like to thank Stonesoft's customers, partners and employees for good cooperation. I hope our cooperation to develop network security will also continue favorably in the future.

Ilkka Hiidenheimo
CEO

Corporate Governance

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

General Meeting

The General Meeting 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 statements, 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.

Board of Directors

Duties and Responsibilities of the Board

- The Board is responsible for supervising the management and proper organization of the Group in accordance with legislation, the Articles of Association and the instructions issued by General Meetings.
- 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 appoints and dismisses the company's CEO and decides on his/her service terms.

The Board meets regularly at least 8 times a year and additionally when necessary. The Board met 23 times in 2008. The average attendance of the directors at the Board meetings was 98 percent.

Election of the Board

The Board of Stonesoft Corporation comprises no fewer than three and no more than seven members. 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 (5) members, one of whom is employed by the company. Having five (5) board members is considered to be suitable for a company of this size.

Composition

Stonesoft Corporation's Board of Directors comprises of the following members:

- Matti Viljo
- Ilkka Hiidenheimo
- Topi Piela
- Timo Syrjälä
- Hannu Turunen

Additional information about the Members of the Board is available on pages 16-18.

Independence

The Board has evaluated the independence of its members regularly in compliance with the guidelines of the Corporate Governance Recommendation issued by OMX Nordic Exchange Helsinki Oy, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers. 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 a shareholder who holds at least 10 % of all the shares or of the aggregate votes in the company.

Independence of the company

It was noted that based on the evaluation all other Board members, except Ilkka Hiidenheimo as CEO, are independent of the company with the following remark: Matti Viljo, Topi Piela and Timo Syrjälä have been granted stock option rights as part of their compensation as Board members.

Independence of significant shareholders

It was noted that Ilkka Hiidenheimo (holding approximately 18 percent of the shares and the votes in the company) and Hannu Turunen (holding approximately 13 percent of the shares and the votes in the company) are significant shareholders themselves, and that all other Board are independent of significant shareholders of the company.

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.

Fees, Share Ownership and Options of Members of the Board

The fees paid to members of the Board in 2008 are 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.

Chief Executive Officer

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 3, 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 again. There is no specific retirement age set forth for the CEO. The CEO's pension is the same Finland's Employee Pension Act (TYEL) 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 is responsible for the operative management of Stonesoft with the assistance of the Executive Management. The Executive Management convenes regularly and all issues addressed in the meetings and related decisions are recorded in the meeting minutes.

The Executive Management were December 31, 2008 as follows:

- Ilkka Hiidenheimo, Chief Executive Officer
- Kim Fagernäs, Vice President of Sales, EMEA and APAC
- Mika Jalava, Chief Technology Officer
- Saara Laine, Senior Vice President & General Counsel, Legal and Human Resources
- Klaus Majewski, Vice President of Marketing
- Mikael Nyberg, Chief Financial Officer

Additional information about the Executive Management is available on pages 13-15.

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

Principles on compensation system targeted to the CEO of the company and other management and the related decision-making procedure

The Board of Directors determines the compensation of the CEO. The CEO determines the compensation of other management. The salary paid to the members of the Executive Management having profit responsibility consists of a fixed salary and a commission and other members have a fixed salary. The members of the Executive Management with a fixed salary participate to the Strategic Bonus Scheme targeted to all employees on fixed salary. The bonuses paid from this Bonus Scheme are determined semi-annually based on the company's result and team targets achieved by individual teams. The Board decides on the granting of stock option rights to the Executive Management.

The Board of Directors and Executive Management shares and share-related rights and corporations over which he or she exercises control in the company 31.12.2008

	Shares		Option Rights		Forward Contract
	Personal	Controlled Corporations	2004	2008	
Fagernäs Kim	0	0	100 000	0	0
Hiidenheimo Ilkka	10 417 400	0	0	0	0
Jalava Mika	1 200	0	40 000	0	0
Laine Saara	5 000	0	80 000	0	0
Majewski Klaus	1 500	0	0	50 000	0
Nyberg Mikael	30 000	0	100 000	0	0
Piela Topi	30 000	90 000	45 000	0	0
Syrjälä Timo	1 024 000	2 959 661	0	0	1 500 000
Turunen Hannu	7 450 000	0	0	0	0
Viljo Matti	0	0	45 000	0	0

Audit

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 company's internal control functions are in place and support 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 the Charter of the Board 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 in the Board meeting, where the auditors 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 Pekka Luoma as responsible auditor. The auditor fees of Stonesoft Group were EUR 128,418.70 in year 2008. Additionally, the auditor was paid EUR 31,287.87 for the services not related to auditing.

Risk Management, Internal Control and Internal Audit

Information regarding Risk Management, Internal Control and Internal Audit can be found on page 28 (Report by the Board of Directors).

Insiders

The Stonesoft Group has complied with the Guidelines of the NASDAQ OMX Helsinki Ltd (formerly Helsinki Exchanges) for Insiders since July 25 2002, 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, assistants of marketing and legal affairs 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).

Executive Management

Ilkka Hiidenheimo

Founder, CEO

- Born: 1960
- Member of the Executive Management Team since 1990
- Education: Studies at Helsinki University of Technology
- Area of responsibility: Americas sales
- Essential work experience:
 - Stonesoft Corporation, CEO 2004-
 - Stonesoft Corporation, CTO 1990-2004
 - Oracle Finland, Consultant 1989-1990
 - Tekla Oy, System designer and Product manager 1985-1989
- Essential positions of trust:
 - Teos, member of the Board
 - Hiidenkivi Investment Oy, member of the Board
 - Tietotalo Infocenter Oy, member of the Board
 - Envault Corporation Oy, member of the Board
- Shares and share-based rights
 - Shares: 1 0417 400 units as a direct owning and 0 units through controlled corporations
 - Stock option rights: 0 units from the program 2004 and 0 units from the program 2008



Saara Laine

Senior Vice President & General Counsel, Legal and Human Resources

- Born: 1954
- Member of the Executive Management Team since 2000
- Education: Master of Law
- Area of responsibility: Legal/business support and Human resources
- Essential work experience:



- Stonesoft Corporation, Director of Legal Affairs 2000-, Personnel Manager 2004-
- Castrén & Snellman Attorneys at Law, Legal Counsel 1998-2000
- Director of legal affairs and member of the Executive Board and Board of Directors of IBM Oy in Finland and IBM's EMEA headquarters in Paris, France (1990-1998).
- Essential positions of trust: None
- Shares and share-based rights
 - Shares: 5 000 units as a direct owning and 0 units through controlled corporations
 - Stock option rights: 80 000 units from the program 2004 and 0 units from the program 2008

Mika Jalava

CTO

- Born: 1968
- Member of the Executive Management Team since 2008
- Education: Studies at Helsinki University of Technology
- Area of responsibility: Product Development, Product Management and Technical Services
- Essential work experience:
 - Stonesoft Corporation, several tasks 1997-
 - Laboratory of Water Resources Research in Helsinki University of Technology
 - Built networks and Internet connections for several schools and institutes and taught information technology courses at Porvoo Commercial College.
- Essential positions of trust: None
- Shares and share-based rights
 - Shares: 1 200 units as a direct owning and 0 units through controlled corporations
 - Stock option rights: 40 000 units from the program 2004 and 0 units from the program 2008



Mikael Nyberg

CFO

- Born: 1960
- Member of the Executive Management Team since 2004
- Education: Master of Science, Business Administration and Master of Science, Engineering
- Area of responsibility: Finance, IT and Order services
- Essential work experience:
 - Stonesoft Corporation, CFO 2004-
 - Tech Data International Switzerland, Managing Director 2001-2003
 - Tech Data Finland, CFO and MD 1997-2001
 - Esso Group, several tasks 1985-1997
- Essential positions of trust: None
- Shares and share-based rights



- Shares: 30 000 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 100 000 units from the program 2004 and 0 units from the program 2008

Kim Fagernäs

Vice President, EMEA and APAC

- Born: 1954
- Member of the Executive Management Team since 2006
- Education: Dip. EMC
- Area of responsibility: EMEA, APAC and Channel sales
- Essential work experience:
 - Stonesoft Corporation, VP 2004-
 - Teleste Broadband Cable Access, VP 1997-2004
 - Teleste Access, Nordic Sales Director 1995-1997
 - Teleste Oyj, several Sales Management tasks 1989-1995
- Essential positions of trust: None
- Shares and share-based rights
 - Shares: 0 units as a direct owning and 0 units through controlled corporations
 - Stock option rights: 100 000 units from the program 2004 and 0 units from the program 2008



Klaus Majewski

Vice President, Marketing

- Born: 1967
- Member of the Executive Management Team since 2008
- Education: Master of Science, Engineering
- Area of responsibility: Marketing
- Essential work experience:
 - Stonesoft Corporation, several positions 1999-
 - IBM Finland, Security Consultant 1996-1999
- Essential positions of trust:
 - Tietoturva ry, member of the Board of Directors
 - ISACA Finland Chapter, member of the Board of Directors
- Shares and share-based rights
 - Shares: 1 500 units as a direct owning and 0 units through controlled corporations
 - Stock option rights: 0 units from the program 2004 and 50 000 units from the program 2008



Board of Directors

Matti Viljo

Chairman of the Board

- Born: 1955
- Member of the Board of Stonesoft since 2006, Chairman of the Board since 2008
- Education: MSc. in Economics and Business Administration
- Main duty: Unisys Corporation, General Manager, Continental Europe
- Essential work experience:
 - TietoEnator Corporation, President, Banking & Insurance Business Area, 2006-2008
 - Oracle Corporation, Vice President, Application Sales, Central and Northern Europe, 2004-2006
 - Oracle Finland Oy, Managing Director, 1998-2004
 - IBM, several sales, service and marketing executive positions in Finland, Europe and in the USA, 1979-1997
- Positions of trust
 - Chairman of the Board of Directors of Master Golf Course
 - Member of the Board of Directors of Mantacore AB
 - Member of the Finnish Association of Professional Board Members (Hallitusammattilaiset ry)
- Shares and share-based rights
 - Shares: 0 units as a direct owning and 0 units through controlled corporations
 - Stock option rights: 45 000 units from the program 2004 and 0 units from the program 2008



Ilkka Hiidenheimo

Member of the Board

- Born: 1960
- Member of the Board of Stonesoft since 1990
- Founder of Stonesoft and Chairman of Board of Stonesoft 1990-1998
- Main duty: Stonesoft Corporation, CEO since 2004
- Essential work experience:
 - Chief Technology Officer at Stonesoft, 1990-2004
 - Consult at Oracle Finland, 1989-1990
 - System designer and product manager at Tekla, 1985-1989
- Positions of trust:
 - Member of the Board of Teos, Tietotalo Infocenter, Envault Corporation and Hiidenkivi Investment
- Shares and share-based rights
 - Shares: 10 417 400 units as a direct owning and 0 units through controlled corporations
 - Stock option rights: 0 units from the program 2004 and 0 units from the program 2008



Topi Piela

Member of the Board

- Born: 1962
- Member of the Board of Stonesoft since 2006
- Education: MSc. in Economics and Business Administration, CEFA
- Main duty: Managing Director, Balance Capital
- Essential work experience:
 - Managing Director, Amanda Capital Plc
 - Co-founder and Managing Director, Arctos Rahasto Oy
 - Investment Director, Ilmarinen Mutual Pension Insurance Company
 - Securities and Investment Director, Ålandsbanken Ab
- Positions of trust:
 - Member of the Board of Amanda Capital Plc, JJPPT Holding Oy, Piela Ventures Oy, CFA-Finland, Balance Capital, Eyemaker's Finland, QPR Software Plc
 - Member of State Pension Fund investments committee
- Shares and share-based rights
 - Shares: 30 000 units as a direct owning and 90 000 units through controlled corporations
 - Stock option rights: 45 000 units from the program 2004 and 0 units from the program 2008



Timo Syrjälä

Member of the Board

- Born: 1958
- Member of the Board of Stonesoft since 2008
- Education: MSc. in Economics and Business Administration
- Main duty: Managing Director, Syrjälä & Co Oy
- Essential work experience:
 - Head Asset Management Oy, Partner
 - Aros Securities Oy, Financial Analyst
 - ABB Treasury Center Oy, Head of Management Consulting
 - Kouri Capital Oy, Director
 - Bensow Oy, stock brokerage, Head of International Sales
 - Lohja Electronics, Marketing Manager
- Positions of trust
 - Efore Oyj, Member of the Board of Directors
 - Orbis Oyj, Member of the Board
 - As Martinson Trigon, Member of the Supervisory Board
- Shares and share-based rights
 - Shares: 1 024 000 units as a direct owning and 2 959 661 units through controlled corporations
 - Stock option rights: 0 units from the program 2004 and 0 units from the program 2008
 - Forward contract: 1 500 000 units

Hannu Turunen

Member of the Board

- Born: 1957
- Chairman of the Board of Stonesoft 2000-2002, Member of the Board of Stonesoft 1992-1999 and since 2007
- Education: MSc. in Electrical Engineering, MBA
- Main duty: Managing Partner, Magnolia Ventures
- Essential work experience:
 - Managing Partner, Magnolia Ventures Oy, 2001-
 - President, Stonesoft Corp., 2000-2001
 - CEO, Stonesoft Corp., 1992-2000
 - Sales Director, Oracle Finland Oy, 1988-1992
- Positions of trust:
 - Chairman of the Board of BLStream Oy, Gamelion Oy and dSign Oy
 - Member of the Board of Men & Mice, Tecnomen Corporation and Snap Group Ltd
 - Member of The Finnish Association of Professional Board Members (Hallitusammattilaiset ry)
- Shares and share-based rights
 - Shares: 7 450 000 units as a direct owning and 0 units through controlled corporations
 - Stock option rights: 0 units from the program 2004 and 0 units from the program 2008



Board of Directors' Report

Summary of the financial period

The comparable figures from 2007 and 2006 are in parentheses and refer to the figures for continuing operations.

- Net sales EUR 24.4 (19.0 and 16.5) million, growth 28%
- Sales of the StoneGate product family, EUR 14.8 (10.6 and 8.3) million, growth 40%
- Operating result EUR –2.3 (–6.5 and –6.6) million
- Operating result as percentage of net sales –9 (–34 and –40)%
- Earnings per share EUR –0.04 (–0.11 and –0.11)
- Cash flow EUR –1.9 (–6.2 and –7.4) million. The total cash flow, including the last payment of the selling price of Embe Systems Oy amounting to EUR 0.8 million, was EUR –1.2 million.
- Liquid assets at the end of the period EUR 7.0 (8.2 and 14.4) million

Reporting is done according to the International Financial Reporting Standards (IFRS). The calculation indicators for the key figures are described in the annexed information of the consolidated Financial Statements, item 33. Definitions for key indications.

Net sales

The Group's net sales totaled EUR 24.4 (19.0 and 16.5) million. Growth compared to the corresponding period in the previous year was EUR 5.4 million or 28%. The operating result (EBIT) was EUR –2.3 (–6.5 and –6.6) million.

The sales of the StoneGate product family, the Group's core business, including Firewall, VPN, SSL VPN and IPS (Intrusion Prevention and Detection System), were EUR 14.8 (10.6 and 8.3) million. In 2008 the growth of the sales compared to the previous year was 40%.

The net sales were distributed geographically as follows: Europe 60 (63 and 63) %, Emerging markets (Russia, North Africa and Middle East) 17 (11 and 7) %, Americas (North and South America) 19 (21 and 22) % and APAC (Asia-Pacific) 4 (5 and 8) %.

Result

Stonesoft's operating result (EBIT) was EUR –2.3 (–6.5 and –6.6) million, i.e. 4.2 million better compared to the previous year. The operating result as percentage of net sales was –9 (–34 and –40) %. The operating result after taxes was EUR –2.0 (–4.2 and –6.4) million. The earnings per share were EUR –0.04 (–0.11 and –0.11). The equity per share was EUR 0.06 (0.10 and 0.17). The dividend per share was EUR 0 (0 and 0).

Finance and investments

At the end of the fiscal year, Stonessoft's total assets were EUR 16.2 (17.7 and 24.5) million. The equity ratio was 46 (52 and 66) % and gearing (the ratio of net debt to shareholders' equity) was EUR -1.99 (-1.46 and -1.50).

The comparable cash flow was EUR -1.9 (-6.2 and -7.4) million. The Group has no interest-bearing debt with the exception of EUR 2 206 related to a financial leasing agreement that is close to expire. The consolidated liquid assets at the end of the fiscal year totaled EUR 7.0 (8.2 and 14.4) million.

At the end of the fiscal year the group had a considerable amount of fiscal losses, for which no deferred tax receivables have been entered into the balance sheet. The total amount of these deferred tax receivables is EUR 23.0 million, of which EUR 22.2 million is accrued in Finland and EUR 0.8 million in the United States.

In order to strengthen the company's capital structure and to ensure the positive development of the company's strategy and growth plan also in the future, the main shareholders of the company have announced in October 2007 their willingness to invest at least EUR three (3) million in the company in the form of a convertible bond. The commitment given by the main shareholders is in force until the end of the AGM in 2009. The company has not executed the convertible bond arrangement.

Investments in tangible and intangible assets totaled EUR 0.5 (0.5 and 0.4) million.

Development of business operations

The company's main target in 2008 was strong increase of net sales and consequently improved profitability. During the fiscal year the company's overall net sales grew by 28%, while the sales of the main product StoneGate grew by 40%. Increase of sales was considerably strong in the emerging markets. During the last quarter, StoneGate sales were, regardless of the economical recession, the highest ever in the company's history and exceeded the sales in the corresponding period in the previous year by 19%. Among this positive development the company's profitability improved by EUR 4.2 million compared to the previous year, even though the operating result (EBIT) remained EUR 2.3 million negative. The development of the company's net sales and cash flow as well as the result corresponded to the future outlook published by the company earlier and to the targets set for 2008.

The company's position as a provider of integrated network security and business continuity was further strengthened when the renowned independent research company Gartner, Inc. positioned Stonessoft in the Challengers Quadrant in its latest Magic Quadrant for Enterprise Network Firewalls research report on network security vendors. In this comparison Gartner positioned Stonessoft in the same quadrant with the market leader Cisco Systems Inc.

The company continued to make strong investments in extending its product line and increasing its competitiveness. During the last quarter of 2008, the company launched the StoneGate FW-310 for remote offices with new generation firewall functionality and increased performance, the StoneGate UTM (Unified Threat Management) solution and the StoneGate SSL VPN 1.2 for full mobility, security and ease of administration.

In 2008, Stonessoft was among the first to introduce new products to VMware virtual environments to respond to the rapidly increasing demand of virtualization of IT infrastructure. During the year, the company launched the StoneGate Virtual Firewall and IPS solutions. Both solutions, like all StoneGate appliances, can be centrally managed with the StoneGate Management Center, which eliminates barriers, limitations and security compromises between virtual and physical networks. The security of virtual environments has attracted a great deal of interest among our customers and this interest is expected to turn into demand during 2009.

Despite the global economical uncertainty the company has shown strong growth and commitment to strengthening its product offering, competitiveness and customer base. The company believes the investments made provide a solid base for positive development in the future.

The main business events in 2008:

- In January Stonesoft received a certification from ICSA Labs, an independent division of Verizon Business. Stonesoft became one of a select few vendors to achieve this distinction for network-based intrusion prevention systems;
- In January Stonesoft introduced the new StoneGate security solution for high capacity networks. StoneGate IPS-6100 and FW-5100 appliances offer managed service providers (MSPs) and large organizations high performance, cost-efficiency and unrivalled flexibility;
- In February Stonesoft became a member of the Technology Alliance Partner (TAP) program of VMware, the world's leading provider of virtualization solutions. The cooperation brings Stonesoft among the first providers to launch security solutions for virtual environments and strengthens its position as a leading expert in network security;
- In May Stonesoft introduced the new StoneGate Management Center 4.3 for advanced unified management. The product offers enhanced visibility and control over network security in both traditional and virtual network environments;
- In May Stonesoft's StoneGate IPS was shortlisted for the 2008 Techworld awards in the category IPS/IDS Product of the Year;
- In May Stonesoft introduced the new StoneGate IPS 4.3 for protecting internal networks and operating systems from malicious traffic. The solution stands out through its scalability: the revolutionary serial clustering technology of the new StoneGate appliances allows adding IPS throughput up to 60%. The system also supports the new IPv6 protocol;
- In July Stonesoft executed a partnership agreement with the leading Algerian telecommunications company Algeria Telecom. The first order at the value of more than EUR 700,000 was delivered to the Algerian Ministry of Healthcare at the end of the second quarter;
- In August Stonesoft certified the VMware ESX server as a supported environment and became a member of the VMware VMsafe™ technology program. In September, Stonesoft's StoneGate Virtual Security Solutions received the VMware certification;
- In September Stonesoft introduced the StoneGate Virtual IPS 4.3.1 (Intrusion Prevention System) to protect internal networks from malicious traffic;
- In September Stonesoft received an order from a major Russian telecom operator at the value of USD 1.9 million;
- In October Stonesoft and Magirus, one of the leading IT solution providers in Europe extended their distribution agreement to cover Europe and the Middle East. The agreement covered originally Germany, Austria, Switzerland and Italy, and now it has been extended to include Great Britain, Denmark, Sweden, the Netherlands, France, Spain, Portugal and the Middle East;
- In October Stonesoft introduced the StoneGate FW-310 firewall, which provides enhanced network security for the remote offices of geographically distributed organizations;
- As an answer to the latest vulnerability announced by Microsoft, Stonesoft announced in October that its StoneGate IPS (Intrusion Prevention System) provided pre-emptive protection against the vulnerability. StoneGate customers have had full protection against this most recent vulnerability since August 2006;
- In November Stonesoft introduced the StoneGate UTM (Unified Threat Management) solution for remote locations. The solution is available as an integral part of the new StoneGate FW-310 firewall appliance launched earlier this autumn;

- In November StoneGate introduced StoneGate SSL VPN 1.2 for full mobility, security and ease of administration. In the new version, log details and monitoring of SSL VPN appliances are integrated with StoneGate Management Center, providing a centralized view of all remote connections;
- In December the research company Gartner, Inc. positioned Stonesoft in the Challengers Quadrant in its latest Magic Quadrant for Enterprise Network Firewalls research report on network security vendors;
- In December Stonesoft's StoneGate SSL VPN solution was named finalist in "the Best IPsec/SSL VPN solution" category of the 2009 SC Awards program of the US SC Magazine;
- The following changes took place during the year in the executive management group of Stonesoft Corporation: in May Outi Torniainen, Vice President of Marketing and Communications, was replaced by Klaus Majewski, Vice President of Marketing, and in October, as Juha Kivikoski, Vice President of Sales, left the company, his responsibilities were transferred to Kim Fagnäs, Vice President of Sales;
- In December Stonesoft delivered to the Supreme Court a petition for leave of appeal and a letter of complaint concerning the verdict given by the Helsinki Court of Appeal on October 2008, reversing the decision given by the District Court of Helsinki in November 2006 dismissing all charges against Stonesoft, and imposing Stonesoft a corporate fine of EUR 20.000 for a security market information offence for a delay of a profit warning in February 2001.

Main business events after the fiscal period

The company has continued tight monitoring of its costs. In addition, the company has concluded in February a new lease agreement concerning its premises enabling to achieve considerable cost savings in the future. As occasional one-time economy measure the company has offered its employees in Finland an option to exchange their holiday bonus to holiday in respect of summer holiday for 2009 on a voluntary basis.

Strategy

During the past years the company has carried out a considerable amount of structural and operational changes as well as widened intensely its product offering. A turning point was achieved in 2006, and the positive development of net sales and result has continued since then. In 2008 this positive trend continued despite the general global deterioration of the economic situation. In 2008 the company's overall net sales grew by 28% and the sales of the main product StoneGate grew by 40%. Increase of sales was considerably strong in the emerging markets. During the last quarter, StoneGate sales were, regardless of the economical recession, the highest ever in the company's history and exceeded the sales in the corresponding period in the previous year by 19%. Among this positive development the company's profitability improved by EUR 4.2 million compared to the previous year, even though the operating result (EBIT) remained EUR 2.3 million negative. The development of the company's net sales and cash flow as well as the result corresponded to the future outlook published by the company earlier and to the targets set for 2008.

The company has established its position in the market as a provider of integrated network security and business continuity, and the organization and sales processes of the company have reached the level required by the growth expectations. Personnel turnover has been low during the past couple years, offering stability and continuity for the development of the company. In the last years, the company has invested in three emerging growth markets: Africa, Russia and China. These investments have turned out to be profitable, especially through the strong and profitable growth that took place in North-Africa and Russia during 2008.

The company will, in accordance with the chosen growth strategy, continue its decisive and persistent efforts to increase its net sales and to improve the profitability of the company. The company's main target in 2009 is the growth of its net sales, and consequently improved profitability.

Resales channel

The sales of the StoneGate product family as Stonesoft's core business are mainly conducted through an international resale channel.

Review of major research and development activities

The company's R&D operations are located in Finland and France. At the end of 2008, R&D employed altogether 66 (69 and 67) persons. The company's R&D investments during the fiscal period for continuing operations totaled EUR 5.2 (5.3 and 4.8) million.

R&D costs represented 21 (22 and 22) % of all expenses for continuing operations.

In January 2008 Stonesoft received the respected ICSA Labs Network Intrusion Prevention System certificate. So far products of only three vendors have been able to pass the requirements for the certification. In February Stonesoft became a member of the VMware Technology Alliance Program (TAP) of VMware, the leading provider of virtual server environments, and introduced the StoneGate Firewall for virtual environments.

In May Stonesoft launched a new version of the StoneGate Management Center. The most significant benefits of the version include assistance to help the user to avoid mistakes that may risk security, monitoring feature with increasingly advanced usability and improved auditing features for controlling requirements set by authorities and standards.

The new StoneGate IPS launched in June offered increased performance as well as support for inspecting IPv6 traffic. During autumn also the StoneGate IPS for virtual environments became available and Stonesoft's StoneGate Virtual Firewall/VPN and Virtual IPS received the certification for VMware platform. The features of the StoneGate Firewall were extended to include UTM (Unified Threat Management) by adding anti-virus and IPS capabilities. The StoneGate SSL VPN offered new features such as log and monitoring in the centralized management system, load balancing and redundancy.

Stonesoft was granted nine patents during the year. The patents were related to, among others, the rule management of security appliances, load balancing and detection of vulnerabilities.

We believe that the above-mentioned incidents will improve the competitiveness of the company in the markets.

Development of share prices and turnover

Stonesoft's share value at the beginning of the fiscal year on January 2, 2009 was EUR 0.29 (0.47 and 0.49). At the end of the fiscal year on December 30, 2008, the share price was EUR 0.32 (0.29 and 0.47). The highest share price was EUR 0.50 (0.56 and 0.61), and the lowest EUR 0.24 (0.22 and 0.41). During 2008, the total turnover of Stonesoft shares amounted to EUR 5.2 (8.4 and 10.9) million and 14.9 (20.0 and 22.3) million shares, which is 26.0 (34.9 and 38.9) % of the total amount of the shares. Based on the share price on December 31, 2008, Stonesoft's market capitalization was EUR 18.3 (16.6 and 26.9) million.

Share capital and stock option programs

At the end of the fiscal year on December 31, 2008, Stonesoft's share capital recorded in the Trade Register totaled EUR 1,146,054. The weighted average value of the numbers of shares corrected by share issue was 57,309,875 (57,302,732 and 57,302,732). The share capital remained unchanged. There is one class of shares and every share has one vote. The shares have no limitations on voting rights. The shares have no nominal value and no bookkeeping equivalent value. There are no redemption or approval clauses related to the shares, or securities entitling to the shares, and no other limitations of transfer. Furthermore, the shares and securities entitling to the shares have no special rights related to the decision making of the company.

The shares of the company have been connected to the book-entry securities system maintained by Euroclear Finland Ltd (former Finnish Central Securities Depository Ltd), which maintains the official shareholder register of the company. The shares of the company are rated on the small company list under the information technology classification with the trade identification SFT1VY in the NASDAQ OMX Helsinki Ltd.

The company has currently two valid stock option programs, Stock Option program 2004–2010 and Stock Option program 2008-2010. Under the Stock Option program 2004-2010, the subscription price is EUR 0.56, and the total number of stock options to be granted based on it is at the maximum 1,500,000. The subscription period of the shares is graded and will end for all stock options on December 31, 2010. At the end of the year 2008 in total 1,061,250 stock options had been granted under this program. Under the Stock Option program 2008-2014, the subscription price is EUR 0.30 and the total number of stock options to be granted based on this program is at the maximum 3,000,000. The subscription period of the shares is graded and will end for all stock options on December 31, 2014. At the end of the year 2008 in total 50,000 stock options had been granted under this program. At the end of the fiscal year in total 858,750 shares could be subscribed based on these programs, which represents 1.50% of the present number of shares and votes in the company. During 2008, no subscriptions were made on the basis of the stock option programs targeted for key persons in the company.

Shareholders

At the end of 2008, the company had 5,877 (6,034 and 6,935) shareholders. Nominee-registered holdings represented 6.8% of the share capital in 2008.

The company gave no notices of change of ownership during the fiscal year.

Division of shareholdings by classes

The amount of shares 31.12.2008	Shareholders	Shares and voting rights	
	number	number	%
1 - 100	1 308	102 315	0,2
101 - 500	1 943	606 932	1,0
501 - 1 000	818	699 993	1,2
1 001 - 5 000	1 207	3 090 102	5,4
5 001 - 10 000	279	2 209 363	3,8
10 001 - 50 000	236	5 074 699	8,9
50 001 - 100 000	39	2 840 262	5,0
100 001 - 500 000	31	7 379 354	12,9
500 001 - 999 999 999 999	16	35 299 712	61,6
In total	5 877	57 302 732	100,0

Division of shareholders by sector

Division of shareholders by sector 31.12.2008

	Shareholders	Shares and voting rights	
	Number	Number	%
Corporations	269	12 125 084	21,1
Financial institutions	15	7 052 560	12,3
Governmental institutions	3	736 500	1,3
Households	5 543	35 507 225	62,0
Non-profit institutions	7	451 289	0,8
Foreign registered	40	1 430 074	2,5
In total	5 877	57 302 732	100,0
Incl. Nominee registrations	11	3 912 607	6,8

Largest shareholders

Largest shareholders 31.12.2008

	Number	%
Hiidenheimo Ilkka	10 417 400	18,2
Turunen Hannu	7 450 000	13,0
Ulkomarkkinat OY	2 499 900	4,4
Nordea Pankki Suomi OYJ*	2 338 957	4,1
Maijos OY	1 873 961	3,2
Veikko Laine OY	1 562 650	2,7
Nordea Pankki Suomi OYJ	1 499 900	2,6
Evli Pankki OYJ*	1 288 970	2,2
Syrjälä & Co Oy	1 035 700	1,8
Syrjälä Timo	1 024 000	1,8
Others*	26 132 836	46,0
*Incl. nominee registrations	57 302 732	100,0

Shareholdings of the Board of Directors and the CEO

On December 31, 2008, the members of the Board of Directors, the CEO and the entities under their control held a total of 23,471,061 shares of the company, which represented 41.0% of the shares and the voting rights. The stock option rights held by the members of the Board of Directors on December 31, 2008 entitled them to a subscription of 90,000 shares.

Proposal by the Board of Directors for distribution of profit

The operating result of the parent company was EUR -1.3 million. At the end of the fiscal year the parent company had no distributable equity in its shareholders' equity. The Board of Directors proposes that the company pay no dividend and that the loss be debited to the Profit/Loss account.

Authorizations of the Board of Directors

The Annual General Meeting of Shareholders (AGM) held on April 23, 2008, decided to grant the Board of Directors a new authorization and to cancel the authorization granted by the AGM in 2007.

According to the new authorization, the Board of Directors is authorized to issue new shares and to grant stock option rights and other special rights, in one or several tranches, to the extent that the total number of new shares may be 11,450,000 at the maximum.

According to the authorization, the Board of Directors may decide to offer new shares to be issued in a new issue for subscription either according to the shareholders' pre-emptive subscription rights, as well as in a directed issuance of shares, or stock options or other special rights in deviation from the shareholders' pre-emptive subscription right in case the deviation is justified by a weighty financial reason for the company, such as financing of an acquisition, other arrangement concerning the business of the company or development of its capital structure, or incentive program directed to the company's personnel.

The issue may be directed partly or in full to the company's main shareholders, Ilkka Hiidenheimo and Hannu Turunen, who have confirmed to be ready to invest at least three (3) million Euros in the company in form of a convertible bond in order to strengthen the company's capital structure with an additional cash reserve and to ensure the continuance of the positive development in the future in line with the company's strategy and growth plan. The commitment given by the main shareholders is in force until the end of the AGM in 2009.

The Board of Directors was authorized to decide other terms and conditions related to the share issues and to the issuance of stock option or other special rights. The authorization is in force until the end of the AGM in 2009.

Based on the authorization given, the Board of Directors of Stonesoft Corporation decided in its meeting on 6 May 2008 to approve the Stock Option Plan 2008, under which new stock option rights can be granted to the members of the Board of Directors, other management and key persons in the personnel of the companies of Stonesoft Group. The total amount of stock option rights that can be granted is 3,000,000 and they entitle to subscribe in total 3,000,000 shares in Stonesoft Corporation. The stock option rights of the Stock Option Plan 2008 are divided into four series, each having an own subscription period as follows:

Series A on March 1, 2010 – December 31, 2014,
Series B on March 1, 2011 – December 31, 2014,
Series C on March 1, 2012 – December 31, 2014, and
Series D on March 1, 2013 – December 31, 2014.

The subscription prices of the shares correspond to the volume-weighted average share price of the Company during the last 90 trading days on the NASDAQ OMX Helsinki Ltd before the Board Meeting deciding on this plan. The subscription price of a share with stock options is EUR 0.30.

In its meeting held on 17 June 2008, the Board of Directors of Stonesoft Corporation decided to supplement the terms in paragraph II 6 and II 7 of the Stock Option Plan 2008 approved earlier in order to grant to a stock option holder the same or equal rights as a shareholder has in case of issuance of new shares, stock options or other special rights prior to share subscriptions as well as in certain other special cases.

The terms and conditions of the Stock Option Plan 2008 are available in full on the company website at <http://www.stonesoft.com>.

The company does not own its shares and the Board of Directors do not have an authorization to acquire its own shares.

The company's Board of Directors, Executive Management and auditors

According to the Articles of Association of the company, the Board of Directors is comprised of three to seven (3–7) ordinary members. The term of the member of the Board of Directors starts at the end of the Annual General Meeting that elects him/her and continues until the end of the next Annual General Meeting. The Annual General Meeting held on April 23, 2008 elected five (5) members to the Board of Directors. Ilkka Hiidenheimo, Topi Piela, Matti Viljo, Hannu Turunen and

Timo Syrjälä were elected to the Board. In its statutory meeting held on April 23, 2008, the Board elected Matti Viljo as Chairman of the Board and Topi Piela as Vice Chairman. Furthermore, the Board decided that there will be no separate Board committees because due to the size of the company's business operations and the size of the Board, there is no need to prepare issues in smaller units than the entire Board.

According to the Articles of Association, the company has a Chief Executive Officer (CEO), who is appointed and discharged by the Board of Directors. In 2008, Ilkka Hiidenheimo was the CEO of the company. The CEO is in charge of the day-to-day management of the company in accordance with the instructions and orders given by the Board of Directors as well as the Companies Act.

The members of the company's Executive Management were Ilkka Hiidenheimo, Kim Fagernäs, Saara Laine, Mikael Nyberg, Mika Jalava and Klaus Majewski.

In 2008, authorized public accountants Ernst & Young Oy acted as Stonesoft's auditor and authorized public accountant Pekka Luoma as the main auditor.

The compensation of the CEO

CEO Ilkka Hiidenheimo will not accept any compensation for his duties until the company is profitable. There is no specific retirement age set forth for the CEO, and the CEO's pension is the same as Finland's Employee Pension Act (TYEL) that is compulsory for all Stonesoft employees. The contract of employment for the CEO provides for notice of six (6) months prior to termination, with compensation being equal to six months' salary and a further optional six (6) months' fixed salary if the company terminates the contract without essential breach of contract by the CEO. Both the pension right and the right to compensation in case of termination of contract are only theoretical as long as the CEO is not receiving any compensation. The same arrangement applies in connection with public take-over bids.

Acquisitions and changes in the structure of the Group

There were no acquisitions or other changes made in the Group structure during the fiscal year.

Foreign branches and representative office

The company has no foreign branches. The company has a representative office in China.

Personnel

The comparable figures from 2007 and 2006 are in parentheses and refer to the figures for continuing operations.

At the end of the fiscal year, the Group's personnel totaled 185 (181 and 181) people, of which 167 (165 and 168) were employees and 18 (6 and 13) had contractual relationships as full-time sales representatives or consultants.

The salaries and other remuneration paid to the employees, including social security payments, were in total EUR 14.8 (14.2 and 13.1) million.

The average number of personnel during the fiscal period was 183 (181 and 182).

The geographical distribution of Stonesoft personnel was Europe 144 (145 and 145), Emerging markets (Russia, North Africa and Middle East) 9 (8 and 5), Americas (North and South America) 28 (23 and 23) and APAC (Asia and Pacific) 4 (5 and 8).

Environment

Due to the nature of the company's business, the direct environmental impacts of its business operations are fairly limited. The activities of the company include internal software development and purchasing of external hardware assembly services and related installation services from a subcontractor. Stonesoft is a member of PYR (The International Register of Packaging PYR Ltd). Stonesoft's products are compliant with RoHS and WEEE directives (directives for restrictions of hazardous substances in electric appliances and recycling of electric appliances).

Corporate Governance

In 2008 Stonesoft complied with the Corporate Governance Recommendations for Listed companies issued in 2003 by OMX Nordic Exchange Helsinki Oy, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industries and Employers. As of January 1, 2009, the company complies with the Corporate Governance Code issued by the Securities Market Association (a cooperation body established by the Confederation of Finnish Industries EK, the Central Chamber of Commerce of Finland and NASDAQ OMX Helsinki Ltd) in October 2008, as explained on the company's web pages.

Short-term risks and business uncertainties

During the fiscal year in 2009, Stonesoft's main risks and business uncertainties relate to the realization timetable of the sales projects and possible production disruption of our subcontractors and suppliers. In addition, the general economic uncertainty has increased strongly lately. In other respects there have been no major changes in Stonesoft's risks and business uncertainties. Furthermore, the identified risks and business uncertainties have had barely any impact on the company's operations or development of the result during 2008.

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, 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 is in charge of 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 global channel partners, using standardized Stonesoft agreements. The sales operations are supported by the company's internal 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 property, operational and liability risks.

Financial risks Stonesoft does not provide financing to its customers, other than generally accepted terms of payment. 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 goals 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 has 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.

Future outlook

Companies will continue to network with their partners and subcontractors, and this development will create even higher requirements for network security and availability. At the same time, the demand for outsourcing solutions and services will grow. Managed security service providers (MSSPs) have a growing need to provide their customers with the possibility to track the status of their network security while maintaining an overview of their own data network. According to the company's view combining security and high availability, which is the cornerstone of the StoneGate product design, will prove its strength even better in this development.

The convergence of voice, video and data on IP-based networks will create more demand for capacity and drive the adoption of 10 Gbps networks. The growing demand for added bandwidth together with new protocols in the IP networks is expected to increase the general demand for better reporting, monitoring and analysis tools. This development will support Stonesoft in achieving its year 2009 growth plan, since these features are the cornerstones in StoneGate Management Center's functionality.

The strong growth of virtualization has created a demand for ensuring network security and business continuity also in virtual environments. StoneGate products are better suited for virtual environments than the competitors' hardware-based products, because they are based on software solutions.

As security threats in the public sector are increasing, growing number of governments have started improving their protection against network attacks and cyber espionage. StoneGate products offer comprehensive, centrally managed protection and suit well to the needs of the public sector.

While the global financial uncertainty continues, companies need to pay more attention to the cost efficiency of their operations. This will further strengthen the competitiveness of the StoneGate solutions and emphasize the possibilities the solutions offer for generating considerable cost savings in relation to infrastructure, communications and operating costs.

Stonesoft will continue its decisive and persistent efforts to increase its net sales and to improve the profitability of the company. The company's main target in 2009 is to grow its net sales and consequently generate improved profitability. Due to the present global economical situation and the prevailing uncertainty in the market, the company considers it difficult to give any estimates on the future development. Accordingly, the company does not see it justified to give any estimate on the future development of its annual operating result for 2009 at this stage.

With regard to the development of the turnover and the operating result, significant variation is expected between the quarters in comparison to the corresponding quarter during the previous year as well as to the previous quarter as a consequence of, among others, long sales cycles, a relatively big impact of individual deals, and the variation between the quarters in the previous year.

Stock Exchange Releases in 2008

7.1.2008	Advance Information on the Sales of Stonegate™ Products and Net Sales of the Fiscal Year 2007
22.1.2008	Advance Information on the Result of the Fiscal Year 2007
15.2.2008	Stonesoft Corporation's Financial Statements Release for January–December 2007
15.2.2008	Corrections to Stonesoft Corporation's Financial Statements Release
29.2.2008	Stonesoft Corporation's Year 2007 Releases
18.3.2008	Changes to Stonesoft's Financial Reports in 2008
31.3.2008	Stonesoft's Annual Report and Financial Statements for 2007
1.4.2008	Proposals of the Board of Directors for the Annual General Meeting
1.4.2008	Notice to Convene Annual General Meeting
10.4.2008	Stonesoft's Annual Report 2007 is Published in English
17.4.2008	Stonesoft Will Publish Interim Report for January–March 2008, April 22, 2008
21.4.2008	Proposal for the Composition of the Board of Directors
22.4.2008	Stonesoft Corporation's Interim Report for January–March 2008
22.4.2008	Correction to Stonesoft Corporation's Interim Report for January–March 2008
23.4.2008	Decisions Made by the Annual General Meeting
6.5.2008	Stonesoft Board Decided on a New Option Plan
18.6.2008	Stonesoft Board Decided to Supplement the New Stock Option Plan
25.6.2008	Stonesoft Has Received a Noticeable Order from the Algerian Ministry of Healthcare
15.8.2008	Stonesoft Corporation Interim Report January–June 2008
30.9.2008	Stonesoft Received Order from Russia at the Value of USD 1.9 Million
23.10.2008	Stonesoft Corporation's Interim Report for January–September 2008
31.10.2008	The Decision of the Helsinki Court of Appeal Concerning Alleged Delay of Stonesoft's Profit Warning in February 2001
17.12.2008	Stonesoft's Financial Reports in 2009
30.12.2008	Stonesoft Corporation Has Delivered a Petition For Leave to Appeal to the Supreme Court

Income Statement (IFRS)

Stonesoft Group

(1 000 Euros)	Note	1.1-31.12.2008	1.1-31.12.2007
Continuing operations			
Net sales	1. 3.	24 427	19 020
Other operating income	4.	1 275	1 144
Material and services		-3 547	-3 064
Personnel expenses	7.	-14 796	-14 218
Depreciation	6.	-483	-449
Other operating expenses	5.	-9 161	-8 946
Operating result		-2 286	-6 514
Financial income and expenses	8. 9.	276	202
Result before taxes		-2 010	-6 312
Taxes	10.	-219	-213
Result from continuing operations		-2 229	-6 525
Profit from discontinued operations	2.	186	2 312
Result for the accounting period		-2 043	-4 212
Earnings per share from continuing operations			
Basic earnings per share (EUR)	11.	-0,04	-0,11
Diluted earnings per share (EUR)		-0,04	-0,11
Earnings per share from discontinued operations			
Basic earnings per share (EUR)	11.	0,00	0,04
Diluted earnings per share (EUR)		0,00	0,04

Balance Sheet (IFRS)

Stonesoft Group

(1 000 Euros)	Note	31.12.2008	31.12.2007
ASSETS			
Non-Current assets			
Tangible assets	12.	692	709
Intangible assets	13.	104	82
Other financial assets	14.	10	0
Deferred tax assets	15.	0	1
Total		806	793
Current assets			
Inventories	16.	911	1 069
Trade and other receivables	17.	7 371	7 498
Prepayments	17.	19	97
Marketable securities	14.	6 310	7 571
Cash in hand and in bank	18.	738	640
Total		15 348	16 874
Total assets		16 154	17 666

EQUITY AND LIABILITIES

(1 000 Euros)	Note	31.12.2008	31.12.2007
Equity attributable to equity holders of the parent	19.		
Share capital		1 146	1 146
Share premium account		76 821	76 821
Conversion differences		-951	-927
Retained earnings		-73 473	-71 461
Total		3 543	5 579
Long-term liabilities			
Provisions	21.	26	56
Other long-term liabilities	23.	2 336	1 722
Total		2 363	1 779
Short-term liabilities			
Trade and other payables	23.	9 991	10 018
Tax liabilities		41	85
Provisions	21.	214	131
Short-term interest bearing liabilities	22.	2	75
Total		10 248	10 309
Total liabilities		12 611	12 088
Total equity and liabilities		16 154	17 666

Cash Flow Statement (IFRS)

Stonesoft Group

(1 000 Euros)	Note	1.1.-31.12.2008	1.1.-31.12.2007
Cash flow from operating activities			
Result for the period		-2 286	-6 514
Adjustments	27.		
Operations without money transfer		285	284
Financial expenses		-93	-83
Financial incomes		409	216
Change in net working capital			
Change of trade and othe receivables		-132	-1 113
Change of inventory		203	-203
Change of trade and other liabilities		543	2 003
Taxes paid		-218	-212
Total cash flow from operating activities		-1 288	-5 622
Cash flow from investing activities			
Investments in tangible assets		-422	-463
Investments in intangible assets		-66	-32
Investments in affiliated company		-0	-1
Investments in shares		-10	0
Net cash flow investing activities continuing operations		-498	-496
Net cash flow investing activities discontinued operations	2.	761	-448
Total cash flow investing activities		263	-944
Cash flow from financing activities			
Payments of financial leasing liabilities		-72	-95
Total cash flow from financing activities		-72	-95

(1 000 Euros)**Note****1.1.-31.12.2008****1.1.-31.12.2007**

Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period		8 210	14 370
Conversion differences		-30	-60
Changes in the market value of investments		-34	69
Discontinued operations	2.	0	492
Total cash and cash equivalents at end of period *)	14. 18.	7 048	8 210
*) Total cash and cash equivalents at end of the period contains pledged securities		315	281

Statement of Changes in Equity (IFRS)

Stonesoft Group

(1 000 Euros) Equity attributable to equity holders of the parent	Share capital	Share premium	Conversion differences	Retained earnings	Total
Shareholders' equity at 1.1.2007	1 146	76 897	-867	-67 410	9 767
Conversion differences			-60		-60
Net income recognised directly in equity			-60		-60
Result for the period				-4 212	-4 212
Total recognised income and expense for the period			-60	-4 212	-4 272
Stock options		84			84
At the closing on the 31.12.2008 transferred stock option expenses accumulated retained earnings		-160		160	0
Shareholders' equity at 31.12.2007	1 146	76 821	-927	-71 461	5 579

(1 000 Euros)

Equity attributable to equity holders of the parent	Share capital	Share premium	Conversion differences	Retained earnings	Total
Shareholders' equity at 1.1.2008	1 146	76 821	-927	-71 461	5 579
Conversion differences			-24		-24
Net income recognised directly in equity			-24		-24
Result for the period				-2 043	-2 043
Total recognised income and expense for the period			-24	-2 043	-2 068
Stock options		32			32
At the closing on the 31.12.2008 transferred stock option expenses accumulated retained earnings		-32		32	0
Shareholders' equity at 31.12.2008	1 146	76 821	-951	-73 473	3 543

Notes to the Consolidated Financial Statements

Stonesoft Group

Corporate information

StoneGate Management Center provides unified management for StoneGate Firewall with VPN, IPS and SSL VPN. StoneGate Firewall and IPS work together to provide intelligent defense throughout the enterprise network while StoneGate SSL VPN provides enhanced security for mobile and remote use. Founded in 1990, Stonesoft Corporation is a global company with corporate headquarters in Helsinki, Finland and Americas headquarters in Atlanta, Georgia. For more information, visit www.stonesoft.com.

The parent company of the Group is Stonesoft Corporation. Its domicile is Helsinki and the registered address is Itälahdenkatu 22 A, 00210 Helsinki. Stonesoft Corporation's shares are quoted on the NASDAQ OMX Stock Exchange Helsinki. A copy of the consolidated Financial Statements is available at the internet address www.stonesoft.com or from the Group headquarters at Itälahdenkatu 22 A, 00210 Helsinki.

Stonesoft Corporation (NASDAQ OMX: SFT1V) is an innovative provider of integrated network security solutions to secure the information flow of distributed organizations. Stonesoft customers include enterprises with growing business needs requiring advanced network security and always-on business connectivity.

The StoneGate™ secure connectivity solution unifies firewall, VPN, IPS and SSL VPN blending network security, end-to-end availability and award-winning load balancing into centrally managed system. The key benefits of StoneGate secure connectivity solution include low TCO, excellent price-performance ratio and high ROI. The virtual StoneGate solution protects the network and ensures business continuity in both virtual and physical network environments.

The Board of Stonesoft Corporation has in its meeting on March 5th, 2009 approved the publication of these Financial Statements. According to the Finnish Companies act the shareholders can approve or dismiss the Financial Statements in the Annual General Meeting held after the publication. The Annual General Meeting can also decide on changing the Financial Statements.

Principles and accounting policies applied preparing the Annual Report

Basis for preparing the Financial Statements

The consolidated Financial Statements have been prepared in accordance with IFRS (International Financial Reporting Standards). IAS and IFRS standards in force 31.12.2008 as well as SIC and IFRIC interpretations have been applied. The notes to the Financial Statements are also compliant with Finnish accounting and company legislation.

The consolidated Financial Statements have been prepared based on original acquisition values with the exception of investments, which are valued at fair values. Share based payment plans have been booked at fair values on their grant date. The consolidated Financial Statements are expressed in thousands of Euros.

Preparing the Financial Statements in accordance with IFRS requires managerial judgment when applying the standards. Information on judgment used by the management when applying the standards, which have had the biggest impact on the figures, presented in the report are presented in "Principles requiring management judgment and main uncertainties related to the estimates".

Principles applied in preparing the consolidated Financial Statements

Group companies

The Group's consolidated Financial Statements include the parent company Stonesoft Corporation and all its daughter companies. A specification of the ownership within the Group can be found in the notes, item 31. Related party transactions.

All the internal business transactions, receivables, liabilities and unrealized profits, as well as internal profit sharing are eliminated in the Group Financial Statements. Daughter companies disposed of are included in the consolidated Financial Statements up to the date when control ceases.

During the financial period 2008 there were no changes in ownership in the subsidiaries.

Conversion of currency items

The result and financial situation of Group entities are measured in the currency primarily used in its operating environment ("operating currency"). The consolidated Financial Statements are presented in Euros, the parent company's operating and reporting currency. Business transactions in foreign currency are booked in the operating currency using the exchange rate of the transaction date.

Currency based monetary values are translated into the operating currency using the exchange rates of the closing day. Otherwise non-monetary values are translated using the transaction day exchange rates. Profits and losses arising from business transactions in foreign currency and from translating monetary items are booked in the income statement. Exchange rate profits and losses related to business transactions are included in the corresponding lines above operating result.

The income statements of foreign Group companies are translated into Euros using the weighted average exchange rate of the period. Corresponding balance sheets are translated using the exchange rate of the closing day. The translation of the result of the reporting period using different exchange rates in the income statement and in the balance sheet results in a translation difference, which is booked into the shareholder's equity.

Tangible assets

Tangible assets are valued at original acquisition prices less cumulated planned depreciation and write-offs based on impairment testing. Repair and maintenance related to tangible assets is booked through the income statement when completed.

Depreciation on tangible assets is booked using flat rates based on the economical life expectancy. The estimated economical lives are:

Computer hardware	3	years
Machinery	3-5	years
Equipment	5	years
Other tangible assets	3-5	years

The remaining value and economic life of tangible assets are evaluated at each closing and, if needed, corrected to comply with the changes in the expectations of economical benefit.

Trade profits or losses arising from selling or scrapping tangible assets are included in either other operating income or costs.

Costs related to liabilities

Costs related to liabilities are booked in the period during which they originate.

Intangible assets

Goodwill

The group has no goodwill in its balance sheet 31.12.2008.

Research and development costs

The Group's products require ongoing research and development in order to meet the changing security risks.

Costs related to the development of new products are not activated due to e.g. that the future cash flows related to them can only be properly estimated when the products hit the market. Research and development costs are booked as costs during the reporting period they are generated. No R&D costs have been activated at the closing date.

The capacity for gathering information for activation has been developed in order to be able to do so in case a development project would meet the requirements for activation.

Tekes has granted Stonesoft Corporation financing for a development project called "Protecting the internal networks of the future". The project duration was 1.3.2007-15.12.2008. The Group has booked subsidies from Tekes for a total of 377 thousand Euros in other operating income in 2008 (258 thousand Euros in 2007).

Other intangible assets

Intangible assets are activated only if the acquisition value can be defined reliably and it is reasonable to assume the economical benefit that can be expected will benefit the company.

Intangible assets, which have a limited economical life, are activated at their original acquisition value and depreciated linearly based on their known or estimated economical life. Intangible assets with an indefinite economical life are not depreciated, but instead tested for impairment on a yearly basis.

The estimated useful lives of intangible assets are:

Computer software	5	years
Other intangible assets	5	years

Inventories

Inventories are valued at acquisition cost or a lower, probable net realization value. The acquisition value is based on the FIFO principle. Net realization values are the estimated obtainable sales price in a normal business situation, are less estimated costs of sale.

Leases

Leases of tangible assets where the Group carries a substantial part of the risks and benefits normally associated with ownership are classified as financial leases. Assets obtained through financial leases are booked into the balance sheet at the beginning of the lease at the fair value of the leased asset or a lower net present value of the minimum lease payments.

Assets obtained through financial leasing are depreciated during the economical life of the asset or if shorter the lease time. Lease payments are split into financial costs and debt amortizations. Parts of the IT equipment used in Finland and France are classified as financial leases. A more detailed specification of financial leases can be found in the notes, item 22. Financial liabilities.

Leases where risks and benefits associated with ownership are with the lessor are treated as other rental agreements. Rents paid based on other rental agreements are booked as costs during the rental period. A more detailed specification of other rental agreements can be found in the notes, item 29. Operating lease commitments.

Impairment

The Group estimates on each closing date whether there are signs indicating that the value of some assets would have been impaired. If such signs appear, the potential cash flow that this asset can generate is assessed. The cash flow that can be generated through the following assets are tested on a yearly basis, independent on whether there are signs of impairment: goodwill, intangible assets with limited economical life and intangible assets under work. The impairment is tested on the level of units generating cash flow, i.e. on the lowest unit level, which is mainly independent of other units and has a cash flow, which can be separated from other cash flows.

The cash flow that an asset can generate is its fair value, less the cost of handing it over or, if higher, a value in use. The value in use means the estimated future net cash flow obtainable from the asset or the cash generating unit in question, discounted to their net present value. For financial assets the cash flow that can be generated is either the fair value or the net present value of estimated future cash flows, discounted using the effective interest rate.

Losses due to impairment are booked when the book value is greater than the value of the cash flow that can be generated by the asset. Losses through impairment are booked through the income statement when the book value of the asset is larger than the sum of money than can be generated thereof. An impairment loss is reversed if changes in the environment occur and the cash flow that the asset can generate has changed since the impairment loss booking date. Impairment losses are not reversed with a larger amount than the originally booked impairment loss. Impairment losses on goodwill are not reversed under any conditions.

Employee benefits

Pensions

The pension arrangements of the Group in different countries abide with local regulations and practices.

The pension arrangements are classified as payment based and booked through the income statement during the period the charges related to.

Share-based payment plans

The Group has stock option based incentive programs, which are paid with equity based instruments. Stock options are valued at market prices on the granting date and booked as costs evenly during the period of earning.

The cost defined at the moment of the option grant is based on the Group's estimate on the amount of options to which the right to subscribe is expected to be born at the end of the subscription period.

The cost of the stock options at the granting date is based on the Group's estimate of the number of stock options, which will be vestable by the end of the subscription period.

The fair values of the share-based payment plans are calculated using the Black-Scholes –pricing model. Impacts of non-market-based conditions like profitability or a given profit growth target are not included in the fair value of the option but taken into consideration when estimating the number of options that will be vestable at the end of the earning period. The Group updates the assumptions on the final number of options at each closing date. The changes are booked through the income statement. When an option is exercised, the received funds (corrected for possible transaction costs) are booked into share capital (book value) and share premiums (before the new Companies Act came into force 1.9.2006 options granted) or paid-up unrestricted equity reserve (after the new Companies Act came into force 1.9.2006 options granted).

Provisions

A provision is booked if the Group, based on earlier transaction, has a legal or factual liability, a payment liability is probable and the magnitude of the liability can be assessed reliably. The existing provisions are related to guarantees, contracts resulting in losses and restructuring cases. If it is possible to receive compensation from a third party for part of a liability, the compensation is booked as an asset. This is only done when receiving the compensation in practice is definite. The provisions are valued at net present value of the costs required to cover the liability. A more detailed specification of the provisions is presented in the notes, item 21. Provisions.

A guarantee provision is booked when the guarantee for a sold product granted to the customer surpasses the guarantee granted by the supplier. The amount of the provision is based on experience of actual guarantee related costs.

A provision for loss-making contracts is booked when the required expenditure to fulfill the obligations of the contract exceeds the benefits.

Income taxes

The taxes in the income statement consist of the tax based on the income of the reporting period and deferred taxes. The tax based on the income of the reporting period is calculated for each country using their tax rate in force. Taxes are corrected for possible taxes related to previous periods.

Deferred taxes are calculated using tax rates valid at the closing date.

Deferred tax receivables have been booked up to a value against which it is likely that future taxable income will be generated and against which the difference can be applied.

Revenue recognition – sold products and services rendered

Income from the licenses and products sold when the major risks and benefits related to the title of the product have been transferred to the buyer. At this stage the Group no longer has right of disposal to or control of the product. In most cases this coincides with the delivery of the product to the customer in accordance with the delivery terms clause.

Rental income is booked linearly during the rental period. Incomes from services are booked when they have been delivered.

Income from support and maintenance contracts and fixed-term licenses are uniformly distributed over the contract periods.

Net sales include income from sales of products and services, corrected for indirect taxes and exchange differences related to sales in foreign currencies.

Interest and dividends

Interest income has been booked in accordance with the effective interest method.

The Group booked no dividend income during financial years 2008 and 2007.

Assets Held for Sale and discontinued operations

Assets and liabilities to be disposed of are classified as Held for Sale if the book value will be primarily received through sale of the asset instead of through continuous operation. The preconditions for classifying an asset as Held for Sale are deemed to be fulfilled when the sale is very likely and the asset (or the group of disposal assets) are immediately sellable in their current condition under general and customary terms and conditions, when management has committed to sell and the sales transaction is expected to happen within one year from the classification.

Immediately prior to the classification into Held for Sale the assets or groups of assets and liabilities are valued in accordance with applicable IFRS standards. From the moment of classification the assets (or groups of disposal assets) are valued at book values or if lower the fair value less the costs of selling. Depreciation on these assets are stopped when classified into this group.

Assets to be discontinued, which do not belong to the valuation principles of IFRS 5, and liabilities, are valued based on IFRS standards applicable also after the re-classification.

The Profit/Loss of the discontinued operations is presented separately in the Income Statement. Assets Held for sale, groups of assets, bookings made into equity related to assets Held for Sale and liabilities linked to discontinued assets are shown separately from other assets in the Balance Sheet.

The final selling price of Embe Systems Oy, which in the previous Financial Statements was classified as Held for Sale, was determined in February 2008. The final selling price was impacted by the profit of EMBE Systems Oy in the 2007 reporting period.

In the Balance Sheet of 31.12.2008 there are no assets classified as Held for sale.

Financial assets and financial liabilities

The Group's financial assets are classified in accordance with the IAS 39 Financial instruments: Booking and valuating standard. The classification is done based on the purpose of obtaining the financial assets, and they are classified in conjunction with the original acquisition. All purchases or sales are booked on the transaction days.

Tradeable financial assets and financial assets due within 12 months are included in short term assets. Items in this class are valued at fair value. Fair values of all items in this class are defined as published prices on functioning markets, i.e. based on purchasing prices on the closing day. Both realized and unrealized profits and losses originating from changes in fair values are booked through the income statement in the period during which they occur.

Cash in hand and in bank consists of cash, avista bank accounts and other short term, liquid investments.

Assets classified as financial assets have a maximum maturity of three months calculated from their acquisition date.

Financial liabilities are originally booked at fair value. Financial liabilities are included in short term liabilities and they may or may not be interest bearing.

The principles for defining the fair value of all financial assets and liabilities are presented in the notes, item 26. Fair value of financial assets and liabilities.

The Group estimates on each closing day if there is objective proof of impairment of individual financial assets or groups of assets.

The Group books impairment losses on Accounts receivable if there is objective proof that the receivable can not be collected in full. Significant economical problems, likelihood of bankruptcy, non-payment or payment delays in excess of 60 days are proof of impairment of receivables. In case the impairment loss in a later reporting period diminishes and the deduction can objectively be linked to a transaction taking place later than the impairment booking, the loss is reversed into a profit.

Derivative contracts and hedge accounting

The Group had no derivatives in its balance sheet in 2008 or 2007.

Equity

The common shares issued are presented as equity.

Operating result

The IAS 1 "Presentation of Financial Statements" standard does not define Operating result. The Group has defined it as follows: Operating result is the net amount arising from adding other income to revenue, deducting cost of sales corrected for changes in inventories and cost of products taken into own use, deducting costs related to employee benefits, depreciation and possible impairments as well as other operating expenses. Foreign exchange differences are included in operating result in case they originate from operating items, otherwise they are booked in financial income and expenses.

Preparing principles requiring judgement by management and main uncertainties related to estimates done

In preparing the Financial Statements one is forced to make estimates and assumptions related to the future, which may deviate from the final outcome.

The Group management uses judgement in choosing what principles to use and how to apply them when preparing the Financial Statements. This concerns particularly cases where the IFRS norms in force include alternative ways of booking, valuing or presenting. Areas where judgement has been used include the groups depreciation, options, provisions and valuation of the receivables and inventory. The value of the assets where judgement has been used is small compared to the total.

Testing for impairment

The Group tests intangible assets with indefinite economical life for impairment on a yearly basis. Signs of impairment are estimated in accordance with the basis of preparation described earlier. The cash flow generated by units producing cash flow has been estimated as calculations of value in use. These calculations require judgement.

Applying new or changed IFRS standards

IASB has published the following new or renewed standards and interpretations, which are not yet in force and which the Group has not applied. The Group will apply them starting from the date of validity for each of the standards and interpretations, or in case the validity date is not the first day of the reporting period, starting from the beginning of the following report period.

- IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009).
- IFRS 3 Business combinations (effective for annual periods beginning on or after 1 July 2009).
- IAS 27 Consolidated and separate Financial Statements (changed 2008, effective for annual periods beginning on or after 1 July 2009).
- Changes to the IFRS 2 Share based payments standard Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009).
- Changes to the IAS 32 Financial Instruments Presentation - Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009).
- Improvement to IFRS -changes (Annual Improvements 2007, mostly effective for annual periods beginning on or after 1 January 2009).
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008).
- Changes to the IAS 39 Financial Instruments: Recognition and Measurement - (Eligible Hedged Items) (effective for annual periods beginning on or after 1 July 2009).

1. Segment information

The segment reporting used by the Group is geographical. The segments are based on the internal organizational structures and reporting.

Due to the strong growth in certain geographical areas Stonesoft has decided to change its segment reporting effective 1 January 2008. The EMEA area is split into areas called Europe and Emerging Markets. Emerging Markets is defined as Russia, North Africa and Middle East. The history data has been changed to reflect the new split. With regards to the Americas and APAC areas no changes have been done in the reporting.

The net sales, assets and liabilities of the segments are presented based on where the customers are geographically situated.

The operating result of a segment consists of geographical sales, local costs of Group companies and cost allocations from headquarters. In allocating costs, the Group uses net sales as basis.

This may impact comparability between periods. The business practices of different geographical areas differ from each other. Due to this the risks and profitability of the segments may differ from each other.

The assets and liabilities of a segment are items which the segment uses in its business and which sensibly can be attributed to the segment.

Unattributed items consist of items common to the whole Group as well as tax and financial assets. Investments consist of additions of tangible assets to be used during multiple reporting periods.

Geographical segments

The geographical segments of the Group are

Europe	Europe
Emerging Markets	Russia, North Africa and the Middle East
Americas	North and South America
APAC	Asia and the Pacific

Geographical segments 1.1. - 31.12.2008

(1 000 Euros)	Europe	Emerging Markets	Americas	APAC	Total
External sales					
Software	1 882	185	389	100	2 555
Services	6 223	761	2 011	465	9 460
Security appliances	6 703	3 133	2 015	487	12 338
Other sales	-68	44	80	17	73
External sales total	14 740	4 123	4 495	1 069	24 427
Internal sales	0	0	0	0	0
Net sales	14 740	4 123	4 495	1 069	24 427
Operating result	-1 061	338	-1 532	-31	-2 286
Result from continuing operations	-1 061	338	-1 532	-31	-2 286
Result from discontinued operations	186	0	0	0	186
Unallocated					57
Result for the accounting period					-2 043
Assets	6 586	1 646	1 366	237	9 835
Unallocated					6 319
Total assets					16 154
Liabilities	9 388	1 248	1 824	150	12 611
Unallocated					0
Total liabilities					12 611
Investments	447	-13	52	1	488
Depreciation	441	10	32	1	483

Geographical segments 1.1. - 31.12.2007

(1 000 Euros)	Europe	Emerging Markets	Americas	APAC	Total
External sales					
Software	976	131	233	180	1 520
Services	5 225	577	1 979	622	8 403
Security appliances	5 874	1 300	1 756	239	9 169
Other sales	0	-4	-63	-5	-72
External sales total	12 075	2 004	3 906	1 036	19 020
Internal sales	0	0	0	0	0
Net sales	12 075	2 004	3 906	1 036	19 020
Operating result	-4 068	-282	-2 038	-126	-6 514
Result from continuing operations	-4 068	-282	-2 038	-126	-6 514
Result from discontinued operations	2 312	0	0	0	2 312
Unallocated					-11
Result for the accounting period					-4 212
Assets	8 116	326	1 563	116	10 121
Unallocated					7 546
Total assets					17 666
Liabilities	9 025	910	1 956	196	12 088
Unallocated					0
Total liabilities					12 088
Investments	430	20	45	0	495
Depreciation	422	3	24	0	449

In the accounting periods 2008 and 2007 the turnover contains no eliminated events on group level.

2. Assets held for sale and discontinued operations

Stonesoft Corporation signed a contract in December 2006 concerning selling all the shares of Embe Systems Oy, a part of its Europe segment, to Nice-business Solutions Finland Oy.

As per the agreement reached at the end of 2006 the final price was partly determined based on the 2007 result of EMBE Systems Oy. The Stonesoft group has booked 186 thousand Euros sales profit in the fiscal year 2008 based on EMBE Systems 2007 result (profit 2 312 thousand Euros for 2007).

Stonesoft does not pay taxes on the profit of the sale. The ownership and the control of the company was transferred to the buyer on 1.1.2007.

The Profit/Loss of the sold unit, the profit loss as a result of the sale and its share of the cash flow were the following:

(1 000 Euros)	1.1.-31.12.2008	1.1.-31.12.2007
EMBE Systems Oy		
Income	186	2 312
Costs	0	0
Result before taxes	186	2 312
Taxes	0	0
Profit from discontinued operations	186	2 312

Impact of the sale of Embe Systems Oy on the Group's financial situation	2008	2007
Received as cash	761	44
Cash of the discontinued operation	0	-492
Impact on cash flow	761	-448

The sold unit was not attributed any goodwill for periods 2008 and 2007.

3. Net Sales

(1 000 Euros)	2008	2007
Income from sales of softwares	2 555	1 517
Income from sales of services	9 460	8 405
Income from sales of appliances	12 338	9 169
Other sales	73	-72
Total	24 427	19 020

The Group has no unfinished long-term assets in its financial statements in 2008 and 2007.

4. Other operating income

(1 000 Euros)	2008	2007
Leasing income	723	670
Public grants for product development	377	258
Others	175	215
Total	1 275	1 144

5. Other operating expenses

(1 000 Euros)	2008	2007
Optional personnel expenses	296	283
Leasing and other building expenses	2 442	2 406
Office expenses	237	415
EDP-expenses	596	642
Travel expenses	802	736
Car expenses	218	219
Entertainment expenses	164	156
Marketing expenses	1 415	1 360
Telephone expenses	377	425
External services	1 931	1 872
Other expenses	683	432
Total	9 161	8 946

The Stonesoft group has starting 1.1.2008 changed the booking principles of consultant fees paid to consultants working full time in the Stonesoft sales and presales functions so that they are now included in personnel costs. The history data has been changed to reflect the new booking principles.

Auditors' fees

(1 000 Euros)	2008	2007
Auditors	128	117
Tax Advice	30	18
Other services	1	1
Total	160	136

6. Depreciation, amortization and impairment

(1 000 Euros)	2008	2007
Depreciation and amortization by asset type		
Intangible assets		
Other Intangible assets	44	87
Tangible assets		
Machinery and equipment	422	348
Other tangible assets	17	13
Total	483	449

7. Personnel expenses

(1 000 Euros)	2008	2007
Wages and salaries	12 276	11 627
Pensions – defined contribution plans	1 306	1 209
Granted share based and paid options	32	84
Other personnel costs	1 182	1 299
Total	14 796	14 218

Average number of personnel in Group	2008	2007
Europe	145	146
Emerging Markets	8	6
Americas	26	23
APAC	4	6
Total	183	181

Information on benefits offered to the management is presented in the notes, item 31. Related party transactions

Information on granted options are presented in the notes, item 20. Share based payment plans.

8. Financial income

(1 000 Euros)	2008	2007
Interest income	50	45
Exchanges gains	112	11
Fair value gains and losses on financial instruments	-34	69
Sales profit of securities held for trading	240	160
Other financial income	7	0
Total	375	285

Exchange gains included in operating result total 483 thousand Euros in 2008 (141 thousand Euros in 2007).

9. Financial expenses

(1 000 Euros)	2008	2007
Interest expenses	3	10
Exchange expenses	90	69
Other financial expenses	6	5
Total	99	84

Exchange losses included in operating result total 333 thousand Euros in 2008 (148 thousand Euros in 2007). Other financial expenses include 3 thousand Euros in 2008 of interest booked during the period related to financial leases (10 thousand Euros in 2007).

10. Income taxes

(1 000 Euros)	2008	2007
Current income tax for the year	214	225
Current income tax of previous years	4	-13
Deferred tax	1	0
Total	219	213

Reconciliation of taxes booked in the income statement in Finland and the taxes calculated using 26% tax rate:

(1 000 Euros)	2008	2007
Profit before tax	-2 010	-6 312
Tax calculated at Finnish statutory tax rate	-523	-1 641
Unrecognized tax receivables of losses	881	1 956
Effect of different tax rates in foreign subsidiaries	31	62
Income not subject to tax	-294	-149
Expenses not deductible for tax purposes	126	26
Previously unbooked usage of tax losses	-43	-46
Current income tax of previous years	-10	-13
Other	51	17
Tax charge	219	213

Taxes related to discontinued operations are presented in the notes, item 2. Assets Held for Sale.

11. Earnings per share

The non-diluted earnings per share is calculated by dividing the profit of the reporting period belonging to the owners of the parent company by the weighted average of outstanding shares.

When calculating the diluted earnings per share the weighted number of outstanding shares includes the full impact of all potential shares causing dilution. The diluting instruments of the Group adding the number of shares are share options. The share options have a diluting impact when the vesting price is lower than the fair price of the share. The dilution effect is the number of shares that need to be issued at nil cost since the company could not issue the same amount of shares against fair value with the funds received for exercising the options. The fair value of shares is based on the average price of the share during the reporting period.

	2008	2007
Profit attributable to equity holders of the parent company, continuing operations (1 000 Euros)	-2 229	-6 525
Profit attributable to equity holders of the parent company, discontinued operations (1 000 Euros)	186	2 312
Weighted average number of shares outstanding (1 000 pcs)	57 303	57 303
Effect of issued share options (1 000 pcs)	5	0
Diluted weighted average number of shares outstanding (1 000 pcs)	57 308	57 303
Diluted earnings per share (1 EUR), continuing operations	-0,04	-0,11
Diluted earnings per share (1 EUR), discontinued operations	0,00	0,04

12. Tangible assets

(1 000 Euros)	Machinery and equipment	Other tangible assets	Total
Acquisition cost at 1.1.2008	3 265	1 220	4 485
Correction for the acquisition cost	27	-6	21
Additions	425	29	454
Disposals	-416	-28	-444
Acquisition cost at 31.12.2008	3 301	1 215	4 516
Accumulated depreciation at 1.1.2008	2 601	1 175	3 776
Correction to the accumulated depreciation	26	-6	20
Depreciation during the financial year	422	17	439
Disposals	-411	0	-411
Change in exchange rates	0	0	0
Accumulated depreciation at 31.12.2008	2 639	1 186	3 825
Book value at 1.1.2008	664	45	709
Book value at 31.12.2008	663	29	692

(1 000 Euros)	Machinery and equipment	Other tangible assets	Total
Acquisition cost at 1.1.2007	3 077	1 203	4 280
Correction for the acquisition cost	-95	2	-93
Additions	444	22	467
Disposals	-160	0	-160
Change in exchange rates	0	-8	-8
Acquisition cost at 31.12.2007	3 265	1 220	4 485
Accumulated depreciation at 1.1.2007	2 506	1 166	3 672
Correction to the accumulated depreciation	-93	1	-93
Depreciation during the financial year	348	13	362
Disposals	-159	0	-159
Change in exchange rates	0	-6	-6
Accumulated depreciation at 31.12.2007	2 601	1 175	3 776
Book value at 1.1.2007	571	37	608
Book value at 31.12.2007	664	45	709

The tangible assets include assets rented through financial leasing contracts for a value of 14 thousand Euros in 2008 (325 thousand Euros in 2007).

The acquisition value remaining after depreciation of machinery and equipment in tangible assets is 661 thousand Euros 31.12.2008 (595 thousand Euros 31.12.2007).

Tangible assets include assets rented through financial leases as follows:

1.1. - 31.12.2008

(1 000 Euros)	Machinery and equipment
Acquisition cost at 1.1.2008	325
Additions	0
Disposals	-311
Acquisition cost at 31.12.2008	14
Accumulated depreciation at 1.1.2008	256
Depreciation on disposals	-306
Depreciation during the financial year	62
Accumulated depreciation at 31.12.2008	12
Book value at 1.1.2008	69
Book value at 31.12.2008	2

1.1. - 31.12.2007

(1 000 Euros)

Machinery and equipment

Acquisition cost at 1.1.2007	472
Additions	14
Disposals	-160
Acquisition cost at 31.12.2007	325
Accumulated depreciation at 1.1.2007	309
Depreciation on disposals	-160
Depreciation during the financial year	108
Accumulated depreciation at 31.12.2007	256
Book value at 1.1.2007	163
Book value at 31.12.2007	69

Additions to acquisition costs of tangible assets do not include assets acquired through financial leases in 2008 (14 thousand Euros in 2007).

13. Intangible assets

(1 000 Euros)

Other intangible assets

Acquisition cost at 1.1.2008	1 595
Additions	2
Disposals	66
Change in exchange rates	-71
Acquisition cost at 31.12.2008	1 592
Accumulated depreciation at 1.1.2008	1 513
Depreciation during the financial year	2
Disposals	44
Change in exchange rates	-71
Accumulated depreciation at 31.12.2008	1 488
Book value at 1.1.2008	82
Book value at 31.12.2008	104

(1 000 Euros)**Other intangible assets**

Acquisition cost at 1.1.2007	1 575
Additions	32
Disposals	-6
Change in exchange rates	-6
Acquisition cost at 31.12.2007	1 595
Accumulated depreciation at 1.1.2007	1 438
Depreciation during the financial year	87
Disposals	-6
Change in exchange rates	-6
Accumulated depreciation at 31.12.2007	1 513
Book value at 1.1.2007	137
Book value at 31.12.2007	82

14. Other investments and marketable securities**(1 000 Euros)****2008****2007**

Available for sale financial assets		
Unquoted equity investments	10	0
Securities held for trading	6 310	7 571
Total	6 320	7 571

These financial assets in accounting periods 2008 and 2007 are all in Euros.

The Group has decided to book investments in interest bearing instruments made during the reporting period at fair values as securities held for trading.

During the accounting periods 2008 and 2007, the group has not re-classified neither financial assets booked at fair value through profit/loss nor assets valued at amortized cost.

Securities held for trading consist primarily of mutual money market funds and all are in Euros. The principles for defining fair values is defined in the notes, item 26. Fair value of financial assets and liabilities.

Profits from securities held for trading are presented in the notes, item 8. Financial income, and losses in the notes, item 9. Financial expenses.

During the year ended group did not sell any unquoted shares.

15. Deferred tax receivables and liabilities

Change in the deferred taxes

(1 000 Euros)	31.12.2007	Changed to statement of earnings	Changed to shareholders' equity	31.12.2008
Deferred tax receivables:				
Other	1	1	0	0
Total	1	1	0	0
Deferred tax liabilities:	0	0	0	0
Total	0	0	0	0
(1 000 Euros)	31.12.2006	Changed to statement of earnings	Changed to shareholders' equity	31.12.2007
Deferred tax receivables:				
Other	2	0	0	1
Total	2	0	0	1
Deferred tax liabilities:	0	0	0	0
Total	0	0	0	0

The Group has cumulated, taxable losses for a total of 87 386 thousand Euros at the closing on the 31.12.2008. Losses confirmed in the 2007 taxation equal 85 158 thousand Euros, expiring in the years 2011-2021. There is no certainty about the parent company generating taxable income within the time frame 2011-2017 against which the losses could be utilized. No deferred tax income has been booked related to the cumulated losses.

16. Inventories

(1 000 Euros)	2008	2007
Finished goods	911	738
Goods in transit	0	331
Total	911	1 069

Impairment costs have been booked related to inventories for a total of 78 thousand Euros in 2008 (46 thousand Euros in 2007).

17. Trade and other receivables

(1 000 Euros)	2008	2007
Trade receivables	6 187	5 227
Prepayments	19	97
Accrued incomes	892	1 932
Other receivables	292	339
Total	7 389	7 595

Writedowns on unsure receivables have been reduced in 2008 for a total value of 41 thousand Euros (reversed in 2007 booked for a value of 29 thousand Euros).

The Group has booked credit losses on its receivables for a total of 68 thousand Euros in 2008 (80 thousand Euros in 2007). The Balance Sheet values equal the amount of money, which are estimated to be received. No major concentration of credit risk is linked to the receivables.

The main items in Accrued incomes are related to fixing of costs to the correct reporting period.

The ageing analysis of trade receivables is as follows:

(1 000 Euros)	2008	Impairment losses	Net 2008
Non-overdue	3 332	0	3 332
Past due			
Less than 30 days	1 357	0	1 357
30-60 days	795	0	795
61-90 days	564	21	543
Over 90 days	236	76	160
Total	6 284	97	6 187

(1 000 Euros)	2007	Impairment losses	Net 2007
Non-overdue	4 203	0	4 203
Past due			
Less than 30 days	619	0	619
30-60 days	261	0	261
61-90 days	102	7	95
Over 90 days	98	49	49
Total	5 283	56	5 227

The currency split of short-term receivables is following:

(1 000 Euros)	2008	2007
Euro	4 726	5 850
USD	2 610	1 668
GBP	29	25
Other currencies	23	52
Yhteensä	7 389	7 595

18. Cash on hand and on deposit

(1 000 Euros)	2008	2007
Cash and bank	738	640
Total	738	640

Cash and cash equivalents divided by currency:

(1 000 Euros)	2008	2007
Euro	439	369
USD	202	124
GBP	8	32
Other currencies	90	114
Total	738	640

According to cash flow statement:

(1 000 Euros)	2008	2007
Cash and bank	738	640
Securities held for trading	6 310	7 571
Total	7 048	8 210

Total cash and cash equivalents contains pledged securities for a total of 315 thousand Euros in 2008 (281 thousand Euros in 2007).

19. Share capital of the parent company

(1 000 Euros)	Number of shares	Share capital	Share premium	Total
31.12.2006	57 302 732	1 146	76 897	78 043
Stock options			84	84
At the closing on the 31.12.2008 transferred stock option expenses accumulated retained earnings			-160	-160
31.12.2007	57 302 732	1 146	76 821	77 967
Stock options			32	32
At the closing on the 31.12.2008 transferred stock option expenses accumulated retained earnings			-32	-32
31.12.2008	57 302 732	1 146	76 821	77 967

The Group is not IFRS-compliant reporting after the actual stock certificates issued labeling options. The Group has transferred its financial statements 31.12.2008 premium incorrectly recorded stock option expenses accumulated retained earnings.

Stonesoft Corporation has one class of shares. All issued shares are fully paid.

A description of the equity reserves is presented below:

Foreign currency translation

The foreign currency translation reserve consists of translation differences arising from translating foreign units' Financial Statements.

Dividends

After the closing date the Board has proposed that no dividends will be paid. During years 2008 and 2007 no dividends have been paid.

20. Share based payment plans

Share based stock options expire unless they are vested before or on the vesting date defined in the option plan. Stock options are lost if the person leaves the company before he/she has the right to exercise the stock options. During the reporting period 2008 and 2007 the Group has had two separate option programs in place for its employees. The main terms of the stock option programs are presented below.

A total of 32 thousand Euros has been booked as provisions against equity for benefits of employment based on stock options during the reporting period 2008 (84 thousand Euros in 2007). A cost of 131 thousand Euros in 2009 is estimated to arise from the stock options.

The Group has the following stock option plans:

Stock option plan 2004

The extraordinary general meeting of shareholders of Stonesoft Corporation, held on November 24, of 2004 approved a new stock option plan proposed by the Board of Directors.

Under this plan, a total of 1 500 000 stock options can, in deviation from the shareholders' pre-emptive subscription rights, be offered for subscription to the members of the Boards of Directors of the companies in the Stonesoft Group, other management or staff. Each stock option entitles the holder to subscribe for one share in Stonesoft. The subscription periods for the shares begin in stages as follows: January 1, 2006, January 1, 2007, January 1, 2008 and January 1, 2009. The subscription period for all the shares ends on December 31, 2010. The share subscription price for all stock options shall be 0.56 Euros.

Stock option plan 2008

The board of Stonesoft corp approved the new option plan 6.5.2008 and 17.6.2008. Under the stock Option Plan a maximum of 3 000 000 option rights are offered, deviating from the stock owners subscription rights, to the Stonesoft group companies' members of the Board of Directors, other management and personnel. Each option right entitles to subscribing one Stonesoft share. The subscription periods start as follows: March 1, 2010, March 1, 2011, March 1, 2012 and March 1, 2013. The subscription period ends for all option rights on the December 31, 2014. The exercising price is 0.30 Euros.

The Group has not exercised options for financial years 2008 and 2007.

The terms of the option plans are the following:

Option right	Subscription price for one share	Subscription period	Options
Option plan 2004 A	0,56	1.1.2006 - 31.12.2010	307 500
Option plan 2004 B	0,56	1.1.2007 - 31.12.2010	287 500
Option plan 2004 C	0,56	1.1.2008 - 31.12.2010	263 750
Option plan 2004 D	0,56	1.1.2009 - 31.12.2010	202 500
Option plan 2008 A	0,30	1.3.2010 - 31.12.2014	50 000
Option plan 2008 B	0,30	1.3.2011 - 31.12.2014	0
Option plan 2008 C	0,30	1.3.2012 - 31.12.2014	0
Option plan 2008 D	0,30	1.3.2013 - 31.12.2014	0

The Group uses the Black-Scholes-model for option plans for which there are no special conditions. The expected volatility has been defined as the historic volatility of the Group's shares. The historic volatility is calculated as the weighted average for the vesting period of the options.

The changes in options and weighted average exercise prices during the reporting period are:

Amount of option rights issued	2008 Weighted average exercise price Euros/share	Number of options	2007 Weighted average exercise price Euros/share	Number of options
At the beginning of the financial year	0,56	1 087 500	0,56	595 000
Allocated new options	0,46	125 000	0,56	500 000
Forfeited options	0,56	-101 250	0,56	-7 500
At the end of the financial year	0,55	1 111 250	0,56	1 087 500
Vested options outstanding at end of the financial year	0,56	858 750	0,56	557 500
Vested options during the financial year		0		0

Outstanding options at end of the financial year:

Ending of exercised	Subscription price (Euros)	2008 Number of shares	2007 Number of shares
2010	0,56	1 061 250	1 087 500
2014	0,30	50 000	0
Total		1 111 250	1 087 500

The fair value of the shares in the option programmes, based on which shares are granted, have been based on actual share prices. Payments of dividends are not foreseen and therefore the calculation of the fair value of the options also excludes dividends. The total cost booked is presented in the notes, item 7. Personnel expenses.

21. Provisions

(1 000 Euros)	Guarantee provision	Losses on projects	Other provisions	Total
31.12.2007	3	82	102	188
Additional provisions	29	1	90	120
Used reservations	0	-29	0	-29
Utilized during year	-3	0	-34	-37
31.12.2008	29	54	158	241
(1 000 Euros)			2008	2007
Short term			214	131
Long term			26	56
Total			241	188

Guarantee provision

In some cases the group grants guarantees to customers which exceed the guarantee granted by the supplier. During the guarantee period the faults of the products are corrected or the customer is given a corresponding product, cost covered by the group.

At the end of 2008 guarantee provisions were 29 thousand Euros (3 thousand Euros 31.12.2007). The guarantee provision is based on experience of faulty products in previous years. The guarantee provisions are expected to be used during the next two years.

Losses on contracts

The Group has until the end of 2010 fixed lease contract on its headquarter offices, which the Group does not fully utilize in its own business. The group has sublet the non-used parts. The rental income related to this does not fully cover the rents paid by the Group. The provision related to losses on contracts covers the net loss of these contracts in full. The discounting rate used when calculating the net present value is 6.5 %.

Other provisions

Other provisions are related to possible litigation costs in conjunction with personnel arrangements. The group has three personnel disputes in its daughter companies.

22. Financial liabilities

(1 000 Euros)	2008	2007
Short term interest bearing liabilities valued at amortized cost		
Finance lease liabilities	2	75

The principles for defining the fair value of interest bearing debt are presented in the notes, item 26. Fair value of financial assets and liabilities

The fair values are based on discounted cash flows. The discounting interest equals the interesting rate with which the leasing liability is fully amortized by the end of the contract.

All financial liabilities are in Euros.

The weighted averages of effective interest rates in the long term, interest bearing debt 31.12.2008 and 31.12.2007 were:

	2008	2007
Short-term finance lease liabilities	7,89 %	4,16 %

Finance lease liabilities are payable

(1 000 Euros)

2008

2007

Finance lease liabilities - Minimum lease payments		
In less than one year	2	77
Total minimum lease payments	2	77
Finance lease liabilities - Present value of minimum lease payments		
In less than one year	2	75
Total present value of minimum lease payments	2	75
Future financial charges	0	2
Finance lease liabilities total	2	75

23. Trade and other payables

(1 000 Euros)

2008

2007

Short term payables valued at amortized cost		
Trade payables	1 196	1 933
Accrued expenses	8 285	7 554
Other	510	531
Total	9 991	10 018

Long term payables valued at amortized cost		
Accrued expenses	2 336	1 722
Total	12 327	11 740

The material items in accrued expenses consist of periodizations of sold maintenance contracts, prepaid by customers. Fair value of trade and other payables are presented in the notes, item 26. Fair value of financial assets and liabilities.

The currency split of short-term liabilities is as follows:

(1 000 Euros)	2008	2007
Euro	9 506	9 647
USD	535	428
GBP	202	146
Other currencies	3	14
Total	10 246	10 235

24. Management of financial risks

The Group is exposed to financial risks in its normal business. The aim of the Group's risk management is to minimize negative impacts of changes on financial markets to the Group's income. The Group's largest financial risk is the currency risk. The general risk management principles of the Group are approved by the Board and the execution lies with the finance department.

Foreign currency risk

The Group operates on four continents but uses as its main invoicing currency Euros and to a lesser extent US dollars. The cost structure Forward contracts were used in 2008 to hedge USD receivables. The cost structure also consists mainly of Euros, to a lesser extent US dollars and of currencies linked to both of these. Transaction risks are managed based on the net position using, when required, forward contracts or options.

There are no forward contracts open in the 2008 balance sheet. The balance sheets of the daughter companies do not contain notable balance items whereby the conversion risk is deemed low.

The operating currency of the parent company is Euro. Assets and liabilities in foreign currencies transformed into Euros using the values of the closing date are:

Nominal values

(1 000 Euros)	2008 USD	2007 USD
Current assets	2 826	1 431
Short-term liabilities	129	58
Possible change in exchange rate effect to short-term liabilities	-78	-14

The effect of the Euro strengthening or weakening vs the US dollar is shown in the table below, assuming all other factors unchanged. The change percentages represent the average volatility of the corresponding 12 months. The sensitivity analysis is based on the assets and liabilities in USD on the day of closing.

The change in US dollars would primarily have been related to receivables and non-interest bearing liabilities.

(1 000 Euros)	2008 USD
Increase / decrease	5,4 %
Effect on profit after tax	-145

(1 000 Euros)	2007 USD
Increase / decrease	6,6 %
Effect on profit after tax	134

The Group does not have any larger amounts of interest bearing debt and therefore no need for protection related to interest risk.

The market risk related to investments

The Board has defined a policy for investing liquid funds. As per this policy funds are invested in low risk, short term interest bearing papers. The investments consist mainly of governmental eurobonds issued by countries belonging to the European economical area.

The table below shows the earnings risk of the investments for a situation where the annual interest rate would change by +2%, all other parameters unchanged. The value changes in financial assets booked at fair values are booked in the income statement in line Financial income and expenses. The calculation below assumes that the Group's investments changes with the three month Euribor.

Change in income statement

(1 000 Euros)	2008	2007
3 month Euribor	100	120

Credit risk

The credit extending principles are defined in the Group's credit policy. As per these principles the credit risks related to an individual customer is linked to the strength of that company. Credit ratings provided by outside sources as well as published Income statements and Balance sheets are utilized to define this strength. As the Group is working with a large number of partners the credit risk is spread and lowered. Continuous customer specific follow up and active collection form the basis of the credit management. The Group has applied for and received the largest individual sales transactions for credit Finnvera warranty. The Group does not use any other credit insurance

The Group does not have any significant pools of receivables and credit risk related thereto. The credit losses impacting the result of the reporting period amounted to 68 thousand Euros during 2008 (80 thousand Euros in 2007). The credit losses were a result of sudden, unexpected changes in the customers economical environment. The age distribution of the receivables has been presented in the notes, item 17. Trade and other receivables.

Liquidity risk

There is no liquidity risk related to the Group since the invested funds, which are sizeable in comparison with the cash flow, are available on a next day basis. The Group does not hedge the liquidity risk.

The following table shows a maturity analysis based on contracts. The figures are not discounted and include both interest and capital payments.

2008 (1 000 Euros)	Balance Sheet value	Cash flow	Less than 1 year
Interest bearing liabilities	2	2	2
Trade and other payables	1 196	1 196	1 196

2007 (1 000 Euros)	Balance Sheet value	Cash flow	Less than 1 year
Interest bearing liabilities	75	75	75
Trade and other payables	1 933	1 933	1 933

Commodity risk

As sales is more and more appliance based, the availability of certain components and price fluctuation of these components may create a commodity risk. This risk is estimated to be small. The group has split it's appliance purchasing to multiple suppliers thereby reducing it's subcontracting risk. If the commodity risk materializes there may be delays in deliveries. No hedging methods are used related to the commodity risk.

Capital management

The Group's financing structure became own capital oriented in the public offerings at the time of the millenium, primarily euro based. The conversion risk of capital is deemed very small. External capital has not been used with the exception of some leasing.

The Group's capital structure is monitored by gearing. The Group's interest bearing liabilities were at the end of 2008 2 thousand Euros (25 thousand Euros 2007) and the gearing was -1.99 % (-1.46 % in the reporting period 2007). In calculating the gearing, the net interest bearing liabilities are divided by own capital. Net interest bearing liabilities are calculated as interest bearing liabilities less interest bearing receivables and assets.

(1 000 Euros)	2008	2007
Interest bearing liabilities	2	75
Cash and cash equivalents	-6 384	-8 210
Net liabilities	-6 381	-8 135
Shareholders' equity total	3 543	5 579
Net gearing	-1,99 %	-1,46 %

25. Financial assets and liabilities by categories

Financial assets and liabilities in the tables below are split into categories in accordance with IAS 39. The categories are further split into classes, which are the basis for valuing respective assets or liability. Further information can be found in the Notes mentioned in the table Financial assets by categories 2008

Financial assets by categories 2008	Note	Loans and receivables Amortised cost	Financial assets at fair-value through profit and loss Fair-value recognise	Total financial assets
(1 000 Euros)				
Financial instruments in non-current assets				
Trade receivables	17.	6 187	0	6 187
Marketable securities	14.	0	6 310	6 310
Cash and cash equivalents	18.	738	0	738
Total		6 925	6 310	13 234

Financial assets by categories 2007	Note	Loans and receivables Amortised cost	Financial assets at fair-value through profit and loss Fair-value recognise	Total financial assets
(1 000 Euros)				
Financial instruments in current assets				
Trade receivables	17.	5 227	0	5 227
Marketable securities	14.	0	7 571	7 571
Cash and cash equivalents	18.	640	0	640
Total		5 867	7 571	13 437

Financial liabilities by categories 2008	Note	Other financial liabilities Amortised cost	Total financial liabilities
(1 000 Euros)			
Financial instruments in current liabilities			
Interest-bearing liabilities	22.	2	2
Trade payables	23.	1 196	1 196
Total		1 199	1 199

Financial liabilities by categories 2007	Note	Other financial liabilities amortised cost	Total financial liabilities
(1 000 Euros)			
Financial instruments in current liabilities			
Interest-bearing liabilities	22.	75	75
Trade payables	23.	1 933	1 933
Total		2 008	2 008

26. Fair value of financial assets and liabilities

The fair values of financial assets and liabilities include non-interest bearing components of the net working capital, investments booked at fair value and financial lease debts valued at book values.

Investments in shares, mutual funds and other investments

In the Financial Statements 31.12.2008 there are no non-quoted shares in the continuous operations assets for a total of 10 thousand Euros (0 Euros in 2007). These non-quoted equity investments are valued at cost, because their measurement at fair value is impossible.

The financial assets booked at fair values are either tradable or then the value used by the counterparts purchasing price on the closing data has been used.

Derivatives

The Group has no derivatives in it's balance sheet on the 31.12.2008.

27. Adjustments for cash flow from operating activities

(1 000 Euros)	2008	2007
Non-cash transactions		
Depreciations	483	449
Decrease in fair values	49	17
Employment benefits	32	84
Provisions	0	-8
Deferred transactions	-279	-258
Financial expenses	-93	-83
Financial incomes	375	285
Fair value gains/loss of financial instruments hold for trading	34	-69
Total	601	417

28. Subsidiaries

The information is presented in the notes, item 31. Related party transactions.

29. Operating lease commitments

Group as leaseholder

Minimum rents to be paid based on non revocable lease contracts:

(1 000 Euros)	2008	2007
In less than one year	1 765	1 755
Between one and five years	1 612	2 869
Total	3 377	4 624

The Group rents the offices it utilizes. The remaining duration of the rental contracts is 0–2 years. Normally the contracts include prolongation options past the original ending date. The index, renewal and other terms and conditions differ from contract to contract.

The income statement for year 2008 contains rents paid based on rental agreements for a total of 1 940 thousand Euros (1 948 thousand Euros in 2007).

The Group has sublet a part of its offices. The rental costs related to the offices is 711 thousand Euros in 2008 (706 thousand Euros in 2007). The rental income related to the subleases is 723 thousand Euros in 2008 (670 thousand Euros in 2007). The Group has made a provision of 54 thousand Euros in 2008 (82 thousand Euros in 2007) linked to the subleases. Information on provisions are presented in the notes, item 21. Provisions.

Group as landlord

Minimum rents to be received based on non-revocable lease contracts:

(1 000 Euros)	2008	2007
In less than one year	373	521
Between one and five years	172	38
Total	545	559

The Group has sublet the parts of its headquarters in Helsinki, which it does not need. The duration of the rental agreements are 0-2 years.

30. Contingent liabilities

(1 000 Euros)	2008	2007
Other contingent liabilities		
Other contingent liabilities	63	20

Disputes and litigations

Charges were raised against Stonesoft in February 2006 for an alleged security market information offence for a delay of a profit warning in February 2001. The District Court of Helsinki dismissed all charges in November 2006. The prosecutor appealed to the Helsinki court of Appeal in January 2007. The Helsinki court of Appeal gave its verdict on the 31.10.2008. The Helsinki court of Appeal reversed the freeing verdict of the District court of Helsinki and imposed Stonesoft Corporation a corporate fine of EUR 20,000 for a security market information offence. Ilkka Hiidenheimo and Hannu Turunen as the members of the company's year 2000 Board of Directors and Esa Korvenmaa as the former CEO were each sentenced to 30 daily fines.

On 29.12.2008 Stonesoft delivered to the Supreme Court a petition for leave of appeal and a letter of complaint concerning the verdict. Stonesoft Corporation has paid the imposed corporate fine in November 2008.

In addition there is a reservation in the books for litigation costs related to three ongoing personnel related disputes in daughter companies.

Other rental contracts

The groups rental liabilities for other rental agreements are presented in 29. Operating lease commitments.

31. Related party transactions

Related parties include Group companies, Board members, Chief Executive Officers and members of the Management Group.

The parent and the Group companies are:

Company	Home country	Ownership %	Voting right %
Parent company Stonesoft Oyj	Finland, Helsinki		
Stonesoft Finland Oy	Finland, Helsinki	100,00	100,00
Stonesoft Inc	USA, Atlanta	100,00	100,00
Stonesoft AB	Sweden, Stockholm	100,00	100,00
Stonesoft Networks (UK) Ltd	Great Britain, Surrey	100,00	100,00
Stonesoft France S.A.S.	France, Sophia Antipolis	100,00	100,00
Stonesoft Germany GmbH	Germany, Frankfurt	100,00	100,00
Stonesoft Espana S.A.	Spain, Madrid	100,00	100,00
Stonesoft Singapore PTE Ltd	Singapore	100,00	100,00
Stonesoft Canada Inc	Canada, Ontario	100,00	100,00
Stonesoft Italy S.r.l	Italy, Milan	99,99	99,99
Stonesoft LTDA	Brasil, São Paulo	99,99	99,99
Stonesoft Tunis SARL	Tunis, Ariana	99,99	99,99
BVBA Stonesoft Belgium	Belgium, Diegem	99,00	99,00

Transactions related to products and services done with related parties are based on market prices.

Employee benefits of Directors and Executive Officers

(1 000 Euros)	2008	2007
Salaries and other short term employee benefits	851	770
Other long term payments	11	10
Share based payments	13	51
Total	874	831

Remuneration for Board of Directors and Managing Directors

(1 000 Euros)

2008

2007

Managing Directors	0	0
Board of Directors		
Viljo Matti, Chairman of the Board with effect from 23.4.2008	46	25
Hiidenheimo Ilkka	0	0
Piela Topi	30	25
Turunen Hannu, from 21.3.2007	0	0
Syrjälä Timo, from 23.4.2008	16	0
Virtanen Matti Tapani, until 21.3.2007	0	6
Ervi Pertti, Chairman of the Board until 23.4.2008	16	49

The impacts of the stock options are presented in the notes, item 20. Share based payment plans. The Chairman of the Board has not received consultation fees during the reporting period 2008 (73 thousand Euros in 2007).

The company management and Board were given 125 000 stock options in 2008, (380 000 in 2007), 3 750 units were sought back during the year 2008. The stock options of the management and the Board have same terms and conditions. The management and the Board had on the 31.12.2008 a total of 460 000 granted stock options out of which 307 500 were vestable (687 500 in 2007 out of which 357 500 vestable).

32. Events after the Balance Sheet Date

The Group has had no reportable events after the Balance Sheet Day.

33. Key Ratios

(1 000 Euros)

	IFRS 2008	IFRS 2007	IFRS 2006	IFRS 2005	IFRS 2004
Net sales	24 427	19 020	21 879	22 237	22 490
Net sales change-%	28	-13	-2	-1	-3
Net sales, continuing operations	24 427	19 020	16 479	16 453	
Net sales change-%	28	15	0		
Net sales, discontinued operations	0	0	5 400	5 783	
Net sales change-%	-	-	-7		
Operating result	-2 286	-6 514	-6 536	-6 258	-8 988
% of Net sales	-9	-34	-30	-28	-40
Operating result, continuing operations	-2 286	-6 514	-6 608	-6 460	
Operating result, discontinued operations	0	0	72	202	
Result before taxes	-2 010	-6 312	-6 170	-5 719	-8 532
% of Net sales	-8	-33	-28	-26	-38
Result for the accounting period	-2 043	-4 212	-6 448	-6 008	-12 981
% of Net sales	-8	-22	-29	-27	-58
Return on equity (ROE) %	-49	-85	-50	-31	-46
Return on investment (ROI) %	-40	-78	-46	-29	-27
Equity ration %	46	52	66	74	81
Net gearing	-1,99	-1,46	-1,50	-1,14	-0,98
Capital investments	488	495	381	437	501
% of Net sales	2	3	2	2	2
R&D costs	5 230	5 285	4 804	4 612	5 075
% of Net sales	21	28	22	21	23

	IFRS 2008	IFRS 2007	IFRS 2006	IFRS 2005	IFRS 2004
Number of employees (weighted average)	183	181	251	247	258
Number of employees at the end of the year	185	181	254	252	237
Earnings per share	-0,04	-0,07	-0,11	-0,10	-0,23
Earnings per share, continuing operations	-0,04	-0,11	-0,11	-0,11	
Earnings per share, discontinued operations	0,00	0,04	0,00	0,00	
Equity per share	0,06	0,10	0,17	0,28	0,38
Dividend	0,00	0,00	0,00	0,00	0,00
Dividend per share	0,00	0,00	0,00	0,00	0,00
Dividend/profit %	0	0	0	0	0
Average number of shares adjusted for share issue	57 307 748	57 302 732	57 302 732	57 302 732	57 302 732
Number of shares adjusted for share issue at year end	57 309 875	57 302 732	57 302 732	57 302 732	57 302 732

Definitions for key indications

Return on equity (ROE) %	$\frac{(\text{Profit before taxes} - \text{taxes}) \times 100}{\text{Equity} + \text{minority interest}}$
Return on investment (ROI) %	$\frac{(\text{Profit before taxes} + \text{interest expenses} + \text{net other financial expenses}) \times 100}{\text{Balance sheet total} - \text{Interest-free liabilities (average)}}$
Equity ration % =	$\frac{(\text{Equity} + \text{minority interest}) \times 100}{\text{Balance sheet total} - \text{advances received}}$
Net gearing =	$\frac{\text{Interest bearing net debt} - \text{cash in hand and on deposit} - \text{marketable securities}}{\text{Equity} + \text{minority interest}}$
Earnings per share =	$\frac{\text{Profit before taxes} - \text{minority interest} - \text{taxes}}{\text{Average number of shares outstanding}}$
Equity per share =	$\frac{\text{Equity}}{\text{Issue-adjusted number of shares at December 31}}$
Dividend per share =	$\frac{\text{Total dividend}}{\text{Issue-adjusted number of shares at December 31}}$
Dividend / profit % =	$\frac{\text{Total dividend}}{\text{Earning per share}}$

Income Statement (FAS)

Stonesoft Corporation

(1 000 Euros)	Note	1.1.-31.12.2008	1.1.-31.12.2007
Net sales	1.	24 427	19 020
Other operating income	2.	1 191	1 141
Materials and services	3.	-3 547	-3 064
Personnel costs	4.	-7 191	-6 396
Depreciations and reduction in value	5.	-197	-213
Other operating expenses		-17 612	-17 704
Operating result		-2 929	-7 216
Financial income and expenses	6.	1 402	275
Result before extraordinary items		-1 527	-6 941
Extraordinary items +/-	7.	233	521
Result before appropriations and taxes		-1 294	-6 421
Direct taxes	8.	-1	6
Result for financial year		-1 294	-6 414

Balance Sheet (FAS)

Stonesoft Corporation

(1 000 Euros)	Note	31.12.2008	31.12.2007
ASSETS			
Non-current assets			
Intangible assets	9.	120	115
Tangible assets	10.	235	202
Investments	11.	1 017	1 014
Non-current assets total		1 372	1 331
Current assets			
Inventories		911	1 069
Short-term receivables	12.	7 076	7 188
Marketable securities	13.	6 270	7 471
Cash in hand and at banks		546	450
Current assets total		14 804	16 177
Total		16 176	17 509

EQUITY AND LIABILITIES

(1 000 Euros)	Note	31.12.2008	31.12.2007
Shareholders' equity			
Share capital	14.	1 146	1 146
Share premium account	14.	76 821	76 821
Retained earnings/loss	14.	-73 718	-67 304
Profit/loss for the financial year	14.	-1 294	-6 414
Shareholders' equity total		2 955	4 249
Provisions	15.	83	86
Liabilities			
Short term liabilities	16.	13 138	13 174
Liabilities total		13 138	13 174
Total		16 176	17 509

Cash Flow Statement (FAS)

Stonesoft Corporation

(1 000 Euros)	1.1.-31.12.2008	1.1.-31.12.2007
Cash flow from operating activities		
Operating result	-2 929	-7 216
Adjustments to operating result	16	-96
Financial income and expenses	513	125
Change in net working capital	456	897
Taxes paid	-1	6
Total	-1 944	-6 284
Cash flow from investing activities		
Investments to intangible and tangible assets	-234	-164
Investments to (-) / sales of (+) shares in subsidiaries	186	33
Dividends received	889	150
Other sales of shares / investments	-10	0
Total	830	19
Cash flow from financing activities		
Total	10	0
Change in cash and cash equivalents	-1 104	-6 261
Cash and cash equivalents at the beginning of the period	7 920	14 181
Cash and cash equivalents at the end of the period	6 816	7 920

Notes to the Financial Statements

Stonesoft Corporation

Accounting Principles

Items in foreign currency

The financial statements have been prepared in Euros. Receivables and payables in foreign currency have been converted to euros using end rates of the closing day. Exchange rate differences from accounts receivable have been recorded to sales adjustments and from accounts payable to exchange rate adjustments of purchases. Other exchange rate differences have been entered to exchange rate adjustments in financial income and expenses.

The profit and loss accounts of foreign subsidiaries have been converted using the average exchange rate of the period and the balance sheets have been converted using the exchange rate of the closing day. Translation differences from the shareholders' equity and other restricted capital are included in other restricted capital. Translation differences from retained earnings and profit/loss for the financial year are included in retained earnings.

Pension expenses

Company's pension arrangements have been made in compliance with local legislation. Pension costs are recorded as expenses for the financial period. The statutory pension liability has been fully covered by annual pension insurance payments.

Research and development

R&D expenses have been recorded as annual expenditure for the year they incurred.

Rents

Rental expenses are recorded as expenditure for the financial period they incurred. The rental liabilities include future rental payments according to current contract terms.

Valuation of capital assets

Capital assets have been entered in the balance sheet at acquisition price less scheduled depreciation. The scheduled depreciation has been calculated using the straight line method on the basis of the economic lifespan of the capital asset.

Depreciation period of capital assets	2008	2007
Machinery	3-5	3-5
Equipment	5	5
Other tangible assets	5	5
Other long term expense items	3-5	3-5
Consolidated goodwill	5	5

Securities included in financial assets

Securities included in financial assets have been valuated at the acquisition price or the market price, whichever is lower.

Notes to the Income Statement

Stonesoft Corporation

(1 000 Euros)

1a. Net sales by market area

	2008	2007
Europe	14 740	12 075
Emerging Markets	4 123	2 004
Americas	4 495	3 906
APAC	1 069	1 036
Total	24 427	19 020

1b. Net sales by business functions

	2008	2007
Software and appliance revenue		
Own licenses and appliances	14 894	10 687
Software and appliance revenue total	14 894	10 687
Service revenue		
Consultation and training	635	620
Support, own	8 825	7 785
Service revenue total	9 460	8 405
Other revenue		
Other revenue	73	-72
Total	24 427	19 020

2. Other income from business operations

	2008	2007
Sales of fixed assets	1	2
Rental income	723	670
Lunch sold to employees	90	211
Tekes allowance	377	258
Total	1 191	1 141

3. Materials and services

	2008	2007
Materials and goods		
Purchases during the financial period	3 323	3 168
Change in stocks	157	-157
	3 480	3 011
External services	67	53
Total	3 547	3 064

4. Wages, salaries and indirect employee expenses

	2008	2007
Wages and salaries	6 022	5 247
Pension expenses	917	845
Other indirect employee expenses	252	304
Total	7 191	6 396
Salaries and fees paid to the Board of Directors and CEO	96	102
Consultation fees paid to Members of the Board	0	73
Number of personnel, average	109	104

5. Depreciation

	2008	2007
Goodwill	2	20
Tangible assets	143	101
Intangible assets	52	92
Total	197	213

6. Financial income and expenses

	2008	2007
Dividend income from Group companies	889	150
Interest and other financial income	604	194
Financial income, total	1 493	344
Interest and other financial expenses	91	69
Financial income and expenses, total	1 402	275
Financial income and expenses includes		
Exchange rate gains/losses (net)	25	-58
Gains/losses from securities market	240	146

7. Extraordinary items

	2008	2007
Extraordinary income		
Profit from sold subsidiary	186	515
Group contribution	47	6
Extraordinary income, total	233	521
Extraordinary items, total	233	521

8. Income taxes

	2008	2007
Taxes from previous financial periods	-1	6
Direct taxes, total	-1	6

Notes to the Balance Sheet

Stonesoft Corporation

(1 000 Euros)

9. Intangible assets

	2008	2007
Intangible rights		
Acquisition cost 1.1.	1 476	1 448
Additions	59	28
Acquisition cost 31.12.	1 535	1 476
Accumulated depreciation 1.1.	-1 396	-1 314
Depreciation for financial period	-38	-82
Accumulated depreciation 31.12.	-1 434	-1 396
Balance sheet value 31.12	101	80
Goodwill		
Acquisition cost 1.1.	100	100
Additions	0	0
Acquisition cost 31.12.	100	100
Accumulated depreciation 1.1.	-98	-78
Depreciation for financial period	-2	-20
Accumulated depreciation 31.12.	-100	-98
Balance sheet value 31.12.	0	2
Other long term expense items		
Acquisition cost 1.1.	1 201	1 178
Additions	0	23
Acquisition cost 31.12.	1 201	1 201

	2008	2007
Accumulated depreciation 1.1.	-1 168	-1 158
Depreciation for financial period	-14	-10
Accumulated depreciation 31.12.	-1 182	-1 168
Balance sheet value 31.12.	19	33

10. Tangible assets

	2008	2007
Machinery and equipment		
Acquisition cost 1.1.	1 414	1 298
Additions	175	116
Acquisition cost 31.12.	1 589	1 414
Accumulated depreciation 1.1.	-1 217	-1 116
Depreciation for financial period	-143	-101
Accumulated depreciation 31.12.	-1 360	-1 217
Balance sheet value 31.12.	229	197
Other tangible assets		
Acquisition cost 1.1.	5	5
Additions	29	41
Reductions	-28	-41
Acquisition cost 31.12.	6	5
Accumulated depreciation 1.1.	0	0
Depreciation for financial period	0	0
Accumulated depreciation 31.12.	0	0
Balance sheet value 31.12.	6	5

11. Investments

	2008	2007
Stocks and shares		
Acquisition cost 1.1.	1 001	4 735
Additions	0	0
Reductions	-7	-3 734
Acquisition cost 31.12.	994	1 001

A specification of the daughter companies including ownership information can be found in item 31. Related party transactions in the financial statements of the Group. Reductions for financial period 2007 due from sale of Embe Systems Oy.

	2008	2007
Capital loans to Group companies		
Balance sheet value 1.1.	13	3
Additions	0	10
Balance sheet value 31.12.	13	13
Other shares and participations		
Balance sheet value 1.1.	0	0
Additions	10	0
Balance sheet value 31.12.	10	0

12. Short term receivables

	2008	2007
Accounts receivable	6 179	5 227
Receivables from Group companies		
Other receivables	99	70
Other receivables		
VAT receivables	144	152
Prepayments and accrued income		
Rental deposits	15	18
Tekes	279	258
Nice Business Solutions	0	575
Other prepayments and accrued income	360	888
Short term receivables, total	7 076	7 188

Stonesoft Corporation has cumulated, taxable losses for a total of 85 469 thousand Euros at the closing on the 31.12.2008. Losses confirmed in the 2007 taxation total 83 177 thousand Euros, expiring in the years 2011-2017. There is no certainty about the parent company generating taxable income within that timeframe against which the losses could be utilized. No deferred tax income has been booked related to the cumulated losses.

13. Securities included in financial assets

Marketable securities

	2008	2007
Replacement value	6 309	7 544
Book value	6 270	7 471
Difference	39	73

14. Shareholders' equity

	2008	2007
Share capital		
Share capital 1.1	1 146	1 146
Share capital 31.12	1 146	1 146
Other restricted shareholders' equity		
Share premium account 1.1	76 821	76 821
Share premium account 31.12	76 821	76 821
Other restricted shareholders' equity total	76 821	76 821
Retained earnings/loss		
Retained earnings/loss 1.1	-73 718	-67 304
Retained earnings/loss 31.12	-73 718	-67 304
Result for the financial period	-1 294	-6 414
Shareholders' equity, total	2 955	4 249

Calculation on distributable funds

	2008	2007
Retained earnings/loss	-73 718	-67 304
Result for the financial period	-1 294	-6 414
Total	-75 012	-73 718

15. Provisions

	2008	2007
Other provisions		
Losses on contracts	54	82
Guarantee reserve	29	4
Total	83	86

16. Liabilities

	2008	2007
Short term liabilities		
Accounts payable	1 082	1 729
Debts to the Group companies		
Other debts	2 151	3 119
Substantial items included in deferred liabilities		
Matched maintenance cost	8 372	6 988
Other deferred liabilities	1 382	1 170
Other debts	151	168
Short term liabilities total	13 138	13 174
Liabilities total	13 138	13 174

17. Contingent liabilities

	2008	2007
Leasing liabilities		
Payable in year 2008	38	109
Payable later	34	28
Leasing liabilities to the Group companies		
Payable in year 2008	149	100
Payable later	126	131
Rental liabilities and pledges		
Rental liabilities	2 603	3 778
Performance bond	63	20
Contingent liabilities total	3 013	4 166

For performance bond collateral pledged to Marketable securities 57 thousand Euros in the financial year 2008.

Stonesoft Corporation

Signatures to the Financial Statements and Board of Director's Report

Helsinki, March 5, 2009

Matti Viljo

Chairman of the Board

Hannu Turunen

Member of the Board

Topi Piela

Member of the Board

Timo Syrjälä

Member of the Board

Ilkka Hiidenheimo

CEO

Auditor's Note

The year-end Financial Statements and the Annual Report have been prepared according to good accounting practices. An Auditor's Report concerning the performed audit has been given to date.

Helsinki, March 5, 2009

Ernst & Young Oy

Authorised Public Accountant Firm

Pekka Luoma

Authorized Public Accountant Firm

Auditor's Report

To the Annual General Meeting of Stonesoft Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Stonesoft Oyj for the year ended on 31 December, 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

The responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements, together with the consolidated financial statements included therein, and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

The members of the Board of Directors and the Managing Director can be discharged from liability for the period audited by us.

Helsinki, 5 March 2009

Ernst & Young Oy

Authorized Public Accountant Firm

Pekka Luoma

Authorized Public Accountant

Forward-looking Statements

This report contains statements concerning, among other things, Stonesoft's financial condition and the results of operations that are forward-looking in nature. Such statements are not historical facts, but rather represent Stonesoft's future expectations. The company believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions. However, these forwardlooking statements involve inherent risks and uncertainties, which could cause actual results or outcomes to differ materially from those anticipated in the statements. These risks and uncertainties may include, among other things,

- (1) changes in our market position or in the Firewall/ VPN and Intrusion detection and prevention market in general;
- (2) the effects of competition;
- (3) the success, financial condition, and performance of our collaboration partners, suppliers and customers;
- (4) our ability to source quality components without interruption and at acceptable prices;
- (5) our ability to recruit, retain and develop appropriately skilled employees;
- (6) exchange rate fluctuations, including, in particular, fluctuations between the Euro, which is our reporting currency, and the US dollar;
- (7) other factors related to sale of products, economic situation, business, competition or legislation affecting the business of Stonesoft or the industry in general and
- (8) our ability to control the variety of factors affecting our ability to reach our targets and give accurate forecasts.

STONESOFT

Secure Information Flow

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