



Fw

Annual Report 2010

Ips

Ssl
VPN

STONESOFT
Network Security

A woman with brown hair, wearing a dark pinstriped blazer over a dark red collared shirt, stands with her arms crossed. To her left is a large, textured graphic of a torn piece of paper or wall, featuring a large, faint number '4' in the background.

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Year 2010 in brief

Main business events and key figures

Main business events

- In January, Stonesoft announced the StoneGate Firewall 5.1 and StoneGate Management Center 5.1 versions.
- In January Stonesoft announced that its IPS (intrusion prevention system) appliances had performed well in the tests of the US-based NSS Labs Inc. testing and certification company.
- In February, Stonesoft warned organizations about heightened security risks associated with recent trends such as credit card payments, social media, cloud computing and mobility.
- In March, Stonesoft introduced the new StoneGate SSL VPN Virtual Appliance, SSL VPN 1.4 and SSL-1060 for secure mobile and remote access.
- In March, Stonesoft conducted a directed share issue to strengthen the company's capital structure and to ensure the positive development according to the company's strategy and growth plan. In the share issue, 5,700,000 new shares were subscribed and registered for experienced and professional domestic investors. The company's own capital grew thereby by MEUR 4.4.
- In March, Stonesoft announced it had signed partnership agreements with four leading Saudi-Arabian system integrators and is in the process to establish a representative office in Riyadh, Kingdom of Saudi Arabia during spring 2010.
- In March, Stonesoft announced it has entered a value added reseller agreement with Teamsun Technology, a leading integrated IT service provider in China.
- In April, Stonesoft shared five tactics organizations can use to protect themselves against security threats and attacks related to cloud services and to improve their IT strategy.
- In May, Stonesoft introduced StoneGate IPS-1205 for advanced gigabit network protection.
- In June, Stonesoft announced its StoneGate IPS (Intrusion Prevention System) provides efficient protection against the latest critical vulnerability that exists in Adobe Flash Player, Adobe Reader and Acrobat as well as the Microsoft vulnerability.
- In July, Stonesoft announced it expects the net sales for the second quarter of 2010 to decline by about 15% compared to the corresponding period in the previous year and expects the operating result to be negative.
- In August, Stonesoft announced the extended availability of the StoneGate MobileID authentication software token for five additional platforms: Apple Mac OS, iPod, iPhone, iPad and Google Android.
- In August, Stonesoft announced a selection of new modular network security appliances. The key benefits offered by the modular appliances are scalability, connectivity and ease of maintenance. Thanks to the modularity, the capacity of StoneGate 5.2 firewall and intrusion prevention system appliances can be raised flexibly to meet network connectivity needs.
- In September, Stonesoft announced it estimates its net sales to grow from the previous year's level but the operating result for the full year 2010 to be negative.
- In September, Stonesoft announced it has extended its strategic partnership with the US-based IT service provider Accuvant.
- In September, Stonesoft announced its StoneGate Firewall/VPN and IPS network security solutions have received FSTEK certifications in Russia. FSTEK is one of the main government authorities regulating information security in the Russian Federation. As a result, Stonesoft's StoneGate solutions are now approved to secure highly critical information systems in state and commercial organizations as well as government authorities.
- In October, Stonesoft announced its research and development unit has discovered a new and significant security threat category, Advanced Evasion Techniques (AETs), which enable intruding into organizations' data systems without leaving a trace. AETs can also transport already known malware or phishing programs, worms and viruses, which otherwise would be detectable and stoppable by network security systems.
- In November, Stonesoft announced Hansel Ltd, the central procurement unit of the Finnish Government, has selected Atea as one of the suppliers of firewalls as well as equipment and services related to them in a new four-year framework agreement. Atea was selected as the distributor of Stonesoft's StoneGate products and services.
- In November, Stonesoft published a new technical paper on advanced evasion techniques, "New

Methods and Combinatorics for Bypassing Intrusion Prevention Technologies.”

- In December, the entire StoneGate Intrusion Prevention System (IPS) suite of appliances successfully attained the ICSA Labs Network Intrusion Prevention System (IPS) Certification.
- In December, Stonesoft announced Tekes, the Finnish Funding Agency for Technology and Innovation had decided to fund its research and development project "Dynamic network security" with more than one million Euros. The funding is distributed mainly during the years 2011 and 2012.
- In December, Gartner, Inc. Positioned Stonesoft in the Niche Players quadrant in the Network Intrusion

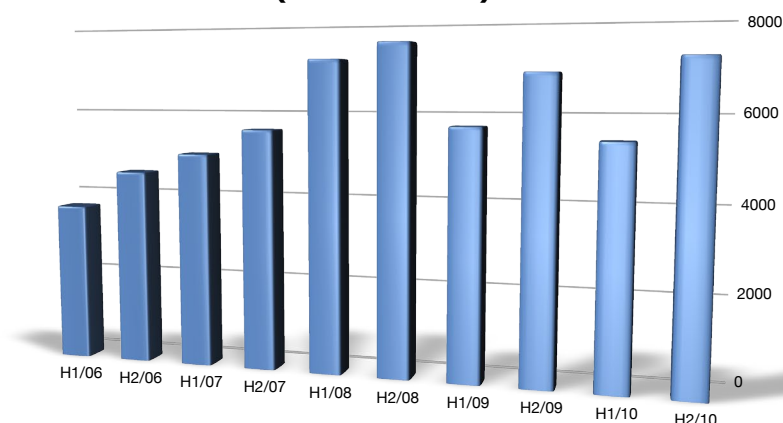
Prevention System (IPS) Magic Quadrant based on evaluation of its StoneGate IPS.

- In December, Stonesoft published detailed technical descriptions of the first set of Advanced Evasion Techniques (AETs). The first samples comprising of 23 evasion methods and their descriptions were delivered to CERT-FI in May, September and October 2010. Within the CERT-FI vulnerability coordination process, security vendors have had up to six months time to find a way to update their systems against these newly found threats.
- In December, Stonesoft announced its year 2004 Option Plan subscription period of shares will expire December 31, 2010 for all the stock options.

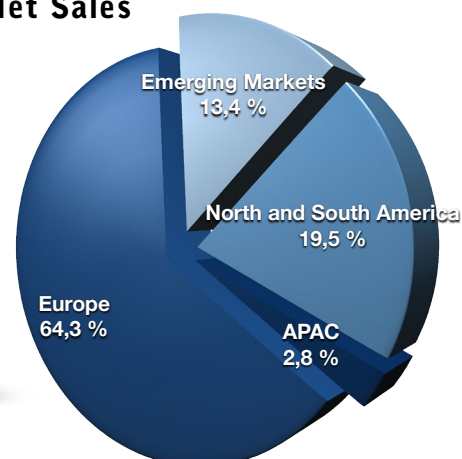
Key Figures

(1 000) Euros	2010	2009
Net sales	24 341	23 597
Operating profit/loss	-2 685	-1 048
% of net sales	-11	-4
Operating result before taxes	-2 468	-731
% of net sales	-10	-3
Return on equity (ROE) %	-74	-31
Return on investment (ROI) %	-65	-19
Equity ratio %	49	40
Net Gearing	-1,75	-2,31
Capital investments	566	328
% of net sales	2	1
R&D costs	5 639	4 918
% of net sales	23	21
Number of employees (weighted average)	191	178
Number of employees at the end of the year	201	174
Earnings per share	-0,04	-0,02
Equity per share	0,07	0,05
Dividend	0,00	0,00
Dividend per share	0,00	0,00
Dividend/profit, %	0	0
Average number of shares adjusted for share issue	61 855 279	57 723 942
Number of shares adjusted for share issue at year end	64 283 238	57 727 732

StoneGate Sales Development 2006-2010 (1 000 Euros)



Geographical Distribution of Net Sales





CEO's Review

The year 2010 was a very interesting and eventful year for the security industry as well as for our company.

The positive development of Stonesoft's business that began in 2009 continued during the first quarter of 2010. Net sales grew strongly and the operating result was 81% better than in the previous year. However, during the second quarter of the year, this positive development slowed down as economic uncertainty increased in our key markets and large customers started to postpone their investment decisions, especially in the government sector in Southern Europe.

Nevertheless, we continued our long-standing investments in significant markets and customer segments as well as developing our partner network. These investments helped us reach the all-time record in StoneGate sales during the last quarter of the year. We can also be proud of holding the highest retention rate on the market, which we have achieved thanks to our competitive products and first-class customer support.

Changed security landscape

It is not an exaggeration to say that the year 2010 has permanently changed the security landscape. Three different phenomena, Wikileaks, Stuxnet and Advanced Evasion Techniques have shaken the presumptions of security thinking. These phenomena acted as wake-up calls in a strategic sense to enterprises and governmental organizations, who should re-evaluate their existing risk management and security architecture at all levels.

Wikileaks is an organization that publishes submissions of private, secret, and classified media from anonymous news sources and news leaks. While it has received praise and won a number of awards, it has also been criticized for exposing classified information, harming national security, compromising international diplomacy and lack of editorial discretion. This has led to the need for organizations to consider whether they can still afford to have business information and habits which, if disclosed to the public, would harm or in the worst case even destroy their business. Confidential data capital must be protected properly and with great care.

Stuxnet is a Windows computer worm first discovered in July 2010 that targets industrial software and equipment. It includes a highly specialized malware payload that is designed to target only systems that are configured to control and monitor specific industrial processes. Stuxnet has shown that there are organizations and/or individuals who have the resources and competence to make very advanced, targeted attacks against organizations. Consequently, the claim that executing a network attack is too difficult, or requires too much resources is no longer valid if you are trying to protect valuable or critical information.

Advanced Evasion Techniques (AETs) are a new species of evasion techniques that can be altered or combined in any order to avoid detection by security systems. AETs are dynamic and unconventional, practically unlimited in quantity, and traditional detection methods cannot recognize them. They can operate on all levels of the TCP/IP protocol stack as well as across many protocols or protocol combinations, carrying exploits to vulnerable servers like stealth planes - unseen and undetected by existing network security systems.

Advanced Evasion Techniques put the functionality of organizations' data capital and systems at risk. Our discovery indicates that the security field has focused too much on the speed and marketability of products while compromising the most important – real security. Unlike most traditional network security solutions, Stonesoft's software-based solutions offer comprehensive protection against these previously unknown and constantly evolving advanced evasion techniques. With the discovery of AETs, organizations are responsible for re-evaluating their security architecture to make sure their critical data capital and systems are protected.

Dynamic network security

We have always believed that network security is a dynamic problem, and during the year 2010, we continued our investments in that area. We believe that all security functionality should be updatable, and for this reason we have invested in an approach that does not rely on static, ASIC based architecture. Stonesoft's StoneGate product offering was significantly renewed during 2010. One of the most visible improvements was the introduction of modular network security appliances. The key benefits offered by the modular appliances are scalability, connectivity and ease of maintenance. Thanks to the modularity, the capacity of StoneGate Firewall/VPN 5.2 and IPS 5.2. appliances can be raised flexibly to meet network connectivity needs. Against common expectations, latest customer evaluations have shown that our solutions are also among the fastest ones on the market.

I would like to thank our employees, customers and partners for good cooperation last year as well as during the company's entire 20-year history. The year 2010 has shown that we live in an extremely vulnerable environment. We are needed. Our common efforts to develop the security of data communications and networks will continue.

Ilkka Hiidenheimo
CEO

Corporate Governance Statement

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

Corporate Governance Statement

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

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

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

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

General Meeting

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

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

Board of Directors

The Board's duties and responsibilities

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

board's responsibilities are described and outlined in the Boards Working Order as described below.

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

Election of the Board of Directors

The Annual General Meeting elects no fewer than three and no more than seven members to the Stonesoft Corporation's Board. The term of a Board member shall begin at the end of the General Meeting that elected the Board member and expire at the end of the next Annual General meeting. The Board elects a Chairman and Vice Chairman from among its members. The Board currently comprises five (5) members, one of whom is employed by the company. Having five Board members is considered to be suitable for a company of this size.

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

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

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

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

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

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

Additional information about the Members of the Board is available on pages 13-14.

Independence

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

Board Members' independence from the company

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

Board Members' independence from the significant shareholders

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

Board meetings and Board's working order

The Board meets regularly at least 8 times a year and additionally when necessary. The Board met 20 times in 2010. The average attendance of the Board members at the Board meetings was 98 percent.

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

The Board of Directors shall

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

- Decide on significant investments, acquisitions and divestitures as well financing arrangements
- Elect a Chief Executive Officer (CEO) for the company and approve election of members to the Executive Management and supervise that the CEO leads the company's activities in compliance with the instructions and guidelines given by the Board of Directors
- Decide on the remuneration and benefits for CEO and approve the remuneration level for Executive Management and other employees reporting to CEO
- Sign and present the financial statements for approval by the Annual General Meeting and present a proposal for profit disposal
- Grant and revoke the right to represent the company
- Approve the values of the company and main guidelines and policies for the company's business operations
- Establish and elect the members of Board committees, if needed
- Evaluate the independence of the Board members
- Annually assess the activities and the working manners of the Board

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

The chairman prepares the agenda together with the CEO. The meeting agenda is delivered to the Board Members approximately five days before the meeting along with the minutes of the previous meeting and all proposals concerning

issues to be brought up at the meeting. The secretary of the Board keeps minutes of the Board meetings. The minutes are signed and confirmed by the secretary and the chairman of the Board and a member elected to scrutinize the minutes.

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

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

A Board Member, CEO or a company employee shall be disqualified from the consideration of a issue pertaining to a contract or matter between the said person or his/her close relative and the company or a contract or other transaction between the company and a third party, if the person or someone close to him/her might derive an essential benefit in the matter and that benefit may be contrary to the interests of the company. A disqualified Board Member, CEO or employee may not take part in any preparation or decision making concerning the matter at the Board meeting. However, a disqualified person may be heard in order to clarify the matter.

The Board committees

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

The compensation paid for the Board Members

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

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

Chief Executive Officer and Executive Management

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

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

The CEO's compensation

Stonesoft's President and CEO Ilkka Hiidenheimo has decided not to receive any compensation for his duties until the company is profitable. There is no specific retirement age set forth for the CEO. The CEO's pension is the same as Finland's Employee Pension Act (TYEL) enacts and that is compulsory for all Stonesoft employees. Contract of employment for the CEO provides for notice of six (6) months prior to termination with compensation being six (6) months salary and a further optional six (6) months fixed salary in case the company terminates the contract without essential breach of contract by the CEO. Both the pension right and the right for compensation in case of termination of contract are only theoretical as long as the CEO is not receiving any compensation.

Executive Management

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

The responsibilities of the Executive Management include, among others:

Business operations management and financial performance review globally

- Annual strategic planning and implementation of the strategy
- Preparation and processing of adjustment plans that are crucial for the Group's business operations
- Preparation of global guidelines and standards of activity applicable in the Group as well as supervision of compliance with them

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

- Ilkka Hiidenheimo, Chief Executive Officer
- Kim Fagnäs, Vice President of Sales
- Mika Jalava, Chief Technology Officer
- Juha Kivikoski, Chief Operating Officer
- Mikael Nyberg, Chief Financial Officer
- Ari Vanttinen, Vice President of Marketing

Additional information about the members of the Executive Management is available on pages 11-12.

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

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

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

Risk management, internal control and internal audit

The Board of Directors of Stonesoft Corporation has primary responsibility for accounting and monitoring of financial administration of the company. The Board of Directors is also ultimately responsible for risk management and internal control of Stonesoft Corporation, and the CEO is in charge of arranging the risk management and internal control in practice as well as of monitoring their functioning. Co-ordination of risk management and internal control is the responsibility of the Chief Financial Officer (CFO). The Executive Management of the Group supports the risk management processes by considering the risks and management thereof in its meetings.

Risk management and internal control aim at ensuring that

(i) the operation of the company is effective and suited to its purpose,

(ii) financial information is reliable and

(iii) authority regulation and internal policies are complied with.

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

(i) evaluation and management of operational risks

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

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

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

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

Operational risks

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

Financial risks

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

The task of Stonesoft's Corporate Treasury is to manage financial risks in accordance with the Treasury Policy approved by Stonesoft's Board of Directors. The main principles of the policy are:

- (i) to ensure the short-term liquidity of the company
- (ii) to guarantee efficient circulation and short-term investments of the operational cash flows and
- (iii) to follow prudent and transparent investment policy for the cash reserves, aiming at guaranteeing competitive return on a selected risk level. The company's reserves are all invested on interest bearing low risk instruments.

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

Management and safeguard of critical business related information and assets

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

Internal audit

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

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

subsidiary companies and sales offices concern generally only local salaries and other minor costs.

Auditors

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

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

Furthermore Board's working order adds that;

- (i) the Board members shall discuss the auditor's report once a year in a meeting held during the first quarter and
- (ii) one of the Company's auditors should be present at the Board meeting, where the auditor's report is discussed. The Board shall review the auditors' performance annually. Prior to the Annual General Meeting, the Board shall discuss who is to be proposed as auditors for the next financial year.

The auditor of Stonesoft is an authorized public accountant, Ernst & Young Oy, with authorized public accountant Bengt Nyholm as responsible auditor. The Stonesoft Group auditor fees were EUR 114 732,40 in year 2010. Additionally, the auditor was paid EUR 7 350,00 for the services not related to auditing as well as EUR 2 000,00 for other statements and reports.

Insiders

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

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

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

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

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

Stock Exchange Releases in 2010

17.2.2010	Stonesoft Corporation's Year 2009 Releases
18.2.2010	Stonesoft Corporation's Financial Statement Release for January-December 2009
17.3.2010	Proposal for the Composition of the Board of Directors
17.3.2010	Stonesoft Corporation is Preparing a Directed Share Issue of a Maximum Number of 5.700.000 Shares for a Limited Number of Domestic Investors
17.3.2010	Stonesoft Corporation: Notification Pursuant to Chapter 2, Section 10 of the Finnish Securities Market Act
19.3.2010	Stonesoft Corporation Completes the Directed Share Issue Up to 5.700.000 Shares for Domestic Investors
19.3.2010	Stonesoft Corporation: Notification Pursuant to Chapter 2, Section 10 of the Finnish Securities Market Act
22.3.2010	Stonesoft Corporation: Notification Pursuant to Chapter 2, Section 10 of the Finnish Securities Market Act
22.3.2010	Notice to the Annual General Meeting of Stonesoft Corporation
23.3.2010	Stonesoft Corporation's Directed Share Issue Has Been Completed and Registered
27.3.2010	Stonesoft Expands Operations to Kingdom of Saudi Arabia
31.3.2010	Stonesoft's Annual Report 2009 is Published
6.4.2010	Stonesoft's Annual Report 2009 is Published
22.4.2010	Stonesoft Corporation's Interim Report for January-March 2010
22.4.2010	Decisions Made by the Annual General Meeting
28.5.2010	Stonesoft Share Subscriptions with Options and Increase in Share Capital
1.7.2010	Advance Information on the Net Sales and Operating Profit of Second Quarter
13.8.2010	Stonesoft Corporation Interim Report for January-June 2010
13.9.2010	Stonesoft Corporation Expects the Operating Result for the Full Year 2010 to Be Negative
4.10.2010	Stonesoft Corporation: New Network Security Threat Category Puts the Functionality of Organizations' Data Capital and Systems at Risk
18.10.2010	Stonesoft Corporation: Advanced Evasion Techniques Bypass Almost All Current Network Security Systems Without Leaving a Trace
22.10.2010	Stonesoft Corporation Interim Report for January-September 2010
29.10.2010	Stonesoft Share Subscriptions with Options and Increase in Share Capital
29.11.2010	Stonesoft Share Subscriptions with Stock Options and Increase in Share Capital
10.12.2010	Tekes Funding for Stonesoft's Research and Development Project
20.12.2010	Stonesoft's Financial Reports in 2011
27.12.2010	Expiry of Stonesoft's Year 2004 Option Plan

Executive Management

Ilkka Hiidenheimo

Founder, CEO

Born : 1960

Member of the Stonesoft Executive Management Group since 1990

Education: Studies at Helsinki University of Technology

Essential work experience:

- Stonesoft Oyj, CEO 2004-
- Stonesoft Oyj, 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, member of the Board
- Tietotalo Infocenter, member of the Board

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 stock option program 2004 and 0 units from stock option program 2008



- Stonesoft Corporation, Vice President, Europe and Channels 2006-2008, Vice President, Marketing 2004-2006
- Cisco Systems, Finland, various sales and marketing management positions, member of the executive management in Finland, Estonia, Latvia and Lithuania
- Techdata / Computer 2000, Director, Product Marketing

Essential positions of trust: -

Shares and share-based rights:

- Shares: 0 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 112 500 units from stock option program 2004 and 0 units from stock option program 2008

Mika Jalava

CTO

Born : 1968

Member of the Stonesoft Executive Management Group since 2008

Education: Master of Science, Engineering

Area of responsibility: Product Development, Product Management, IT- and Technical Services

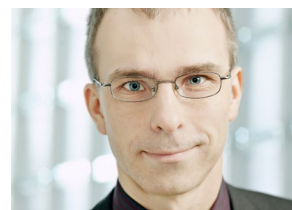
Essential work experience:

- Stonesoft Oyj, several positions since 1997-
- Laboratory of Water Resources Research in Helsinki University of Technology
- Information technology instructor, Porvoo Commercial College

Essential positions of trust: -

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 stock option program 2004 and 80 000 units from stock option program 2008



Juha Kivikoski

Chief Operating Officer

Born: 1970

Member of the Stonesoft Executive Management Group since 2009

Education: M.Sc., International Economics

Area of responsibility: Sales and Marketing

Essential work experience:

- Siemens Enterprise Communications Ltd, CEO, 2008-2009



Mikael Nyberg

CFO

Born : 1960

Member of the Stonesoft Executive Management Group since 2004

Education: Master of Science, Business Administration and Master of Science, Engineering

Area of responsibility: Finance and Order services

Essential work experience:

- Stonesoft Oyj, CFO 2004-
- Tech Data International Sveitsi, Managing Director 2001-2003
- Tech Data Finland, CFO and MD 1997-2001
- Esso Group, several tasks 1985-1997

Essential positions of trust: -

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 stock option program 2004 and 100 000 units from stock option program 2008



Areas of responsibility: Middle East, North Africa, Russia, APAC and Latin America

Essential work experience:

- Stonesoft Oyj, VP 2004-
- Teleste Broadband Cable Access, VP 1997-2004
- Teleste Access, Nordic Sales Director 1995-1997
- Teleste Oyj, several Sales Management tasks 1989-

Essential positions of trust: -

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 stock option program 2004 and 150 000 units from stock option program 2008

Ari Vanttinen

Vice President, Marketing

Born: 1969

Member of the Stonesoft Executive Management Group since 2010

Education: Master of Science, Marketing

Area of responsibility: Marketing

Essential work experience:

- Talent Partners, Senior executive consultant 2007-2010
- Nokia, Services Marketing manager 2004-2007
- IDO, Sanitec Group, Marketing manager 1997-2004

Essential positions of trust: -

Shares and share-based rights:

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



Kim Fagernäs

Vice President, Middle East, North Africa, Russia, APAC and Latin America

Born : 1954

Member of the Stonesoft Executive Management Group since 2006

Education: Dip. EMC



Board of Directors

Matti Viljo

Chairman of the Board, Stonesoft Corporation

Born: 1955

Stonesoft Board: Member of the Board of Stonesoft since 2006

Education: MSc. in Economics and Business Administration

Main duty: Unisys Corporation, General Manager, Continental Europe

Essential work experience:

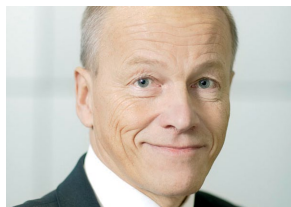
- TietoEnator, President, Banking & Insurance Business Area, 2006-2008
- Oracle Corporation, Vice President, Application Sales, Central and Northern Europe, 2004-2006
- Oracle Finland, Managing Director, 1998-2004
- IBM 1979-1997: several Sales, service and marketing executive positions in Finland, Europe and in the USA

Positions of trust:

- Master Golf Course, Chairman of the Board
- Mantacore AB, Member of the Board
- Member of The Finnish Association of Professional Board Members

Shares and share-based rights:

- Shares: 10 000 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 22 500 units from stock option program 2004 and 26 250 units from stock option program 2008



Ilkka Hiidenheimo

Member of the Board, Stonesoft Corporation

Born: 1960

Stonesoft Board:

- Founder of Stonesoft and Chairman of Board of Stonesoft 1990-1998



- Member of the Board of Stonesoft 1998-2005
- 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 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 stock option program 2004 and 0 units from stock option program 2008

Jukka Manner

Member of the Board, Stonesoft Corporation

Born: 1972

Stonesoft Board: Member of the Board of Stonesoft since 2010

Education: M.Sc. 1999, PhD 2004, University of Helsinki

Main duty: Professor, Department of Communications and Networking (Comnet), Aalto University

Essential work experience:

- Professor of networking technology (tenured), Aalto University, 2008-
- Professor (pro tem) of computer science, TKK, 2006-2007
- Adjunct professor, computer science, University of Helsinki, 2005-
- University lecturer, computer science, University of Helsinki, 2004-2007
- Researcher, University of Helsinki, 1998-2004

Positions of trust:

- Internet Engineering Task Force, working group chair, 2008-



- Tivit FutureInternet Research Programme, academic coordinator and Member of the Steering Group, 2008-
- Kullo Golf, Captain and Member of the Board, 2004

Shares and share-based rights:

- Shares: 200 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 0 units from stock option program 2004 and 15 000 units from stock option program 2008

Hannu Turunen

**Member of the Board,
Stonesoft Corporation**

Born: 1957

Stonesoft Board:

- 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, dSign Oy and Tecnotree
- Member of the Board of Men&Mice
- Member of The Finnish Association of Professional Board Members

Shares and share-based rights:

- Shares: 7 350 000 as a direct owning and 0 units through controlled corporations



- Stock option rights: 0 units from stock option program 2004 and 0 units from stock option program 2008

Timo Syrjälä

**Member of the Board,
Stonesoft Corporation**

Born: 1958

Stonesoft board: 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
- Orbis Oyj, Member of the Board
- As Martinson Trigon, Member of the Supervisory Board
- Shares and share-based rights:
- Shares: 800 185 units as a direct owning and 2 471 561 units through controlled corporations
- Stock option rights: 15 000 units from stock option program 2004 and 30 000 units from stock option program 2008
- Forward contract: 1 000 000 units

Board of Director's Report

Summary

The comparable figures from 2009 and 2008 are in parentheses and refer to the figures for continuing operations.

- Net sales EUR 24.3 (23.6 and 24.4) million, increase 3%
- Product sales EUR 12.7 (12.6 and 14.8) million, increase 0.4%
- Operating result EUR –2.7 (–1.0 and –2.3) million
- Operating result as percentage of net sales –11 (–4 and –9)%
- Earnings per share EUR –0.04 (–0.02 and –0.04)
- Cash flow EUR –2.8 (–0.8 and –1.9) million
- Liquid assets at the end of the period EUR 8.0 (6.2 and 7.0) 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 31. Definitions for key indications.

Net sales

The Group's net sales totalled EUR 24.3 (23.6 and 24.4) million. Increase compared to the corresponding period in the previous year was EUR 0.7 million or 3%. The operating result (EBIT) was EUR –2.7 (–1.0 and –2.3) million.

StoneGate product sales were EUR 12.7 (12.6 and 14.8) million. Increase compared to the previous year was 0.4%.

The net sales were distributed geographically as follows: Europe 60 (64 and 60) %, Emerging markets (Russia, North Africa and Middle East) 17 (13 and 17) %, Americas (North and South America) 19 (20 and 19) % and APAC (Asia-Pacific) 4 (3 and 4) %.

Result

Stonesoft's operating result (EBIT) was EUR –2.7 (–1.0 and –2.3) million, an decrease of EUR –1.6 million compared to the previous year. The operating result as percentage of net sales was –11 (–4 and –9) %. The operating result after taxes was EUR –2.7 (–1.0 and –2.0) million. The earnings per share were EUR –0.04 (–0.02 and –0.04). The equity per share was EUR 0.07 (0.05 and 0.06). The dividend per share was EUR 0 (0 and 0).

Finance and investments

At the end of the fiscal year, Stonesoft's total assets were EUR 19.9 (16.0 and 16.2) million. The equity ratio was 49 (40 and 46) % and gearing (the ratio of net debt to shareholders' equity) was EUR –1.75 (–2.31 and –1.99).

The comparable cash flow during the fiscal year was EUR –2.8 (–0.8 and –1.9) million. The Group has no interest-bearing debt. The consolidated liquid assets at the end of the fiscal year totalled EUR 8.0 (6.2 and 7.0) 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 20.5 million, of which EUR 20.1 million is accrued in Finland and EUR 0.4 million in the United States. The company activates part of its research and development expenses in the Finnish taxation (as of 1 January 2008), due to which the Finnish calculated tax receivables have decreased from the previous year. The company can deduct the activated research and development expenses in its taxation later.

In March 2010 Stonesoft Corporation conducted a directed share issue for a limited number of experienced and professional domestic investors. In the share issue, all 5 700 000 shares were subscribed for. The subscription price was EUR 0.80 per share. The company's own capital grew thereby by EUR 4.4 million. The share issue had a strong financial reason, as its purpose was to strengthen the company's capital structure and to ensure the positive development according to the company's strategy and growth plan.

Investments in tangible and intangible assets totalled EUR 0.6 (0.3 and 0.5) million.

Development of business operations and strategy

During the past years Stonesoft has carried out a considerably amount of operational changes as well as intensely extended its product offering. Despite the global financial insecurity the company has demonstrated strong commitment in strengthening its product offering, competitiveness and customer base.

Stonesoft's organization and sales processes are at the level required by the targets set for the year 2011. According to its selected growth strategy, Stonesoft aims to continue its decisive and persistent efforts according to its selected growth strategy to increase its net sales and result.

Main business events in 2010

In January, Stonesoft announced the StoneGate Firewall 5.1 and StoneGate Management Center 5.1 versions.

In January Stonesoft announced that its IPS (intrusion prevention system) appliances had performed well in the tests of the US-based a testing and certification company NSS Labs Inc.

In February, Stonesoft warned organizations about the use of heightened security risks associated with recent trends such as credit card payments, social media, cloud computing and mobility.

In March, Stonesoft introduced the new StoneGate SSL VPN Virtual Appliance, SSL VPN 1.4 and SSL-1060 for secure mobile and remote access.

In March, Stonesoft conducted a directed share issue to strengthen the company's capital structure and to ensure the positive development according to the company's strategy and growth plan. In the share issue, 5 700 000 new shares were subscribed and registered for experienced and professional domestic investors. The company's own capital grew thereby by EUR 4.4 million.

In March, Stonesoft announced it had signed partnership agreements with four leading Saudi-Arabian system integrators and is in the process to establish a representative office in Riyadh, Kingdom of Saudi Arabia during spring 2010.

In March, Stonesoft announced it has entered a value added reseller agreement with Teamsun Technology, a leading integrated IT service provider in China.

In April, Stonesoft shared five tactics organizations can use to protect themselves against security threats and attacks related to cloud services and to improve their IT strategy.

In May, Stonesoft introduced StoneGate IPS-1205 for advanced gigabit network protection.

In June, Stonesoft announced its StoneGate IPS (Intrusion Prevention System) provides efficient protection against the latest critical vulnerability that exists in Adobe Flash Player, Adobe Reader and Acrobat as well as the Microsoft vulnerability.

In July, Stonesoft announced it expects the net sales for the second quarter of 2010 to decline by about 15% compared to the corresponding period in the previous year and expects the operating result to be negative.

In August, Stonesoft announced the extended availability of the StoneGate MobileID authentication software token for five additional platforms: Apple Mac OS, iPod, iPhone, iPad and Google Android.

In August, Stonesoft announced a selection of new modular network security appliances. The key benefits offered by the modular appliances are scalability, connectivity and ease of maintenance. Thanks to the modularity, the capacity of StoneGate 5.2 firewall and intrusion prevention system appliances can be raised flexibly to meet network connectivity needs.

In September, Stonesoft announced it estimates its net sales to grow from the previous year's level but the operating result for the full year 2010 to be negative.

In September, Stonesoft announced it has extended its strategic partnership with the US-based IT service provider Accuvant.

In September, Stonesoft announced its StoneGate Firewall/VPN and IPS network security solutions have received FSTEK certifications in Russia. FSTEK is one of the main government authorities regulating information security in the Russian Federation. As a result, Stonesoft's StoneGate solutions are now approved to secure highly

critical information systems in state and commercial organizations as well as government authorities.

In October, Stonesoft announced its research and development unit has discovered a new and significant security threat category, Advanced Evasion Techniques (AETs), which enable intruding into organizations' data systems without leaving a trace. AETs can also transport already known malware or phishing programs, worms and viruses, which otherwise would be detectable and stoppable by network security systems.

In November, Stonesoft announced Hansel Ltd, the central procurement unit of the Finnish Government, has selected Atea as one of the suppliers of firewalls as well as equipment and services related to them in a new four-year framework agreement. Atea was selected as the distributor of Stonesoft's StoneGate products and services.

In November, Stonesoft published a new technical paper on advanced evasion techniques, "New Methods and Combinatorics for Bypassing Intrusion Prevention Technologies".

In December, the entire StoneGate Intrusion Prevention System (IPS) suite of appliances successfully attained the ICSA Labs Network Intrusion Prevention System (IPS) Certification.

In December, Stonesoft announced Tekes, the Finnish Funding Agency for Technology and Innovation had decided to fund its research and development project "Dynamic network security" with more than one million Euros. The funding is distributed mainly during the years 2011 and 2012.

In December, Gartner, Inc. Positioned Stonesoft in the Niche Players quadrant in the Network Intrusion Prevention System (IPS) Magic Quadrant based on evaluation of its StoneGate IPS.

In December, Stonesoft published detailed technical descriptions of the first set of Advanced Evasion Techniques (AETs). The first samples comprising of 23 evasion methods and their descriptions were delivered to CERT-FI in May, September and October 2010. Within the CERT-FI vulnerability coordination process, security vendors have had up to six months time to find a way to update their systems against these newly found threats.

In December, Stonesoft announced its year 2004 Option Plan subscription period of shares will expire December 31, 2010 for all the stock options.

Main business events after the fiscal period

In January, Stonesoft published a list of security risks organizations should prepare for in 2011.

In January, Stonesoft announced its StoneGate™ IPS-1205 and IPS-3205 intrusion prevention system (IPS) appliances were rated excellent in value purchase according to the latest Network Intrusion Prevention System Comparative Test Report from NSS Labs, Inc. Both appliances ranked in the top three in their respective performance categories for best price per Mbps protected and total cost of ownership (TCO) per real world throughput.

In February, Stonesoft announced it had discovered 124 new advanced evasion techniques (AETs). Samples of these AETs have been delivered to the Computer Emergency Response Team (CERT-FI), who will continue to coordinate a global vulnerability coordination effort.

Resales channel

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

Review of major research and development activities

Stonesoft's R&D operations are located in Finland, France and Poland. At the end of 2010, R&D employed altogether 75 (63 and 66) persons. The company's R&D investments during the fiscal period for continuing operations totaled EUR 5.6 (4.9 and 5.2) million. R&D costs represented 23 (22 and 21) % of all expenses for continuing operations.

The research operations of Stonesoft's R&D unit expanded during the year 2010. The most visible results were the discovery of Advanced Evasion Techniques (AET), reporting about them to other security vendors via the global vulnerability coordination process of CERT-FI, and developing efficient protection methods against AETs. Stonesoft participated in the Future Internet research program in Finland, developing the analysis and visualization of events related to network traffic as well as blocking unwanted traffic.

In December, Tekes, the Finnish Funding Agency for Technology and Innovation, announced it will fund Stonesoft's research and development project "Dynamic network security" with more than a million Euros. The project will start in 2011, but it is partly a continuation of a previous project "The protection of fast networks of critical infrastructure" that was finalized at the end of 2010 and has reached its goals.

Stonesoft's newest R&D Unit in Cracow, Poland started its operations successfully. At the end of the year the Cracow office employed 12 persons. The unit already plays a significant role especially in the development of the key features of the StoneGate firewall solution.

Stonesoft's StoneGate product offering was significantly renewed during the year 2010. With respect to the appliances, the most visible improvement was the introduction of the modular network security appliances. Also the performance of the appliances was significantly improved.

The visible improvements of the StoneGate firewall software included, among others, IPv6 support, improvements in the Multicast routing and support for 64-bit architecture, which facilitates the use of resources. The last-mentioned improvement applies also to the intrusion prevention system (IPS), which now includes also the possibility of category-based web filtering.

Stonesoft's SSL VPN product was developed, in addition to remote use, a versatile authentication environment for shared user authentication services. Its authentication applications were complemented by support for several new mobile devices and operating systems.

During the year 2010, Stonesoft's network security solutions performed well in international tests and received several significant certifications. The most important of these included ICSA Labs Network Intrusion Prevention System (IPS) certification, the FSTEK certification in Russia and good results in the NSS Labs Network IPS Group Test.

Stonesoft was granted two patents during the year. The patents were related to safe remote updates of a network device and filtering tunneled data packets.

We estimate the above-mentioned operations and achievements to secure the company's competitiveness in the future.

We foresee the above-mentioned incidents and achievements will improve the competitiveness of the company in the future.

Development of share prices and turnover

Stonesoft's share value at the beginning of the fiscal year on January 3, 2010 was EUR 0.70 (0.32 and 0.29). At the end of the fiscal year on December 31, 2010, the share price was EUR 0.58 (0.70 and 0.32). The highest share price was EUR 1.19 (0.78 and 0.50), and the lowest EUR 0.54 (0.31 and 0.24). During the year, the total turnover of Stonesoft shares amounted to EUR 23.9 (5.8 and 5.2) million and 29.1 (11.1 and 14.9) million shares, which is 46.0 (19.4 and 26.0) % of the total amount of the shares. Based on the share price on December 31, 2010, Stonesoft's market capitalization was EUR 36.7 (40.1 and 18.3) million.

Share capital development and stock option programs

At the end of the fiscal year on December 31, 2010, Stonesoft's share capital recorded in the Trade Register totaled EUR 1 150 574.64 (1 146 054.64 and 1 146 054.64). The number of shares at the end of the fiscal year corrected by share issue was 64 283 238 (57 727 732 and 57 309 875). The weighted average value of the numbers of shares corrected by share issue was 61 855 279 (57 723 942 and 57 307 748). The share capital changed due the subscription of options. 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, 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 SFT1V in the NASDAQ OMX Helsinki Ltd.

The company had two valid stock option programs in 2010, Stock Option program 2004–2010 and Stock Option program 2008–2014. 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 were graded and ended for all stock options on December 31, 2010. At the end of the year 2010 in total 1 076 250 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 of 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 2010 in total 1 208 750 stock options had been granted under this program. At the end of the fiscal year in total 1 352 750 shares could be subscribed based on these programs, which represents 2.13% of the present number of shares and votes in the company. During the fiscal year, 309 750 subscriptions were made on the basis of the stock option programs targeted for key persons in the company.

Shareholders

At the end of 2010, the company had 6 646 (5 862 and 5 877) shareholders. Nominee registered holdings represented 6.1% of the share capital in 2010. The company gave three notices of change of ownership during the fiscal year.

Division of shareholders by classes

The amount of shares 31.12.2010	Shareholders	Shares and voting rights	
	Number	Number	%
1 - 100	1 301	100 703	0,159
101 - 500	2 006	637 731	1,007
501 - 1 000	966	834 288	1,318
1 001 - 5 000	1 594	4 107 465	6,488
5 001 - 10 000	382	3 023 569	4,776
10 001 - 50 000	298	6 363 881	10,052
50 001 - 100 000	51	3 873 267	6,118
100 001 - 500 000	31	7 769 014	12,271
500 001 - 99 999 999	17	36 602 564	57,813
In total	6 646	63 312 482	100,000
Nominee registrations	10	3 835 133	6,057

Division of shareholders by sector

Division of shareholders by sector 31.12.2010	Shareholders	Shares and voting rights	
	Number	Number	%
Corporations	285	10 384 326	16,40
Financial institutions	14	8 178 517	12,92
Governmental institutions	3	2 446 900	3,86
Households	6 294	38 802 088	61,29
Non-profit institutions	6	1 547 855	2,45
Foreign registered	44	1 952 796	3,08
In total	6 646	63 312 482	100,00
Nominee registrations	10	3 835 133	6,06

Largest shareholders

Largest shareholders 31.12.2010	Number	%
Hiidenheimo Ilkka	10 417 400	16,5
Turunen Hannu	7 350 000	11,6
Ulkomarkkinat Oy	2 816 900	4,5
Nordea Pankki Suomi Oyj (incl. Nominee registrations)	2 416 827	3,8
OP-Suomi Pieniyhtiöt	2 080 084	3,3
Maijos Oy	1 873 961	3,0
Keskinäinen työeläkevakuutusyhtiö Varma	1 715 000	2,7
FIM Fenno Sijoitusrahasto	1 230 329	1,9
Lapuan Osuuspankki	1 200 000	1,9
Nordea Pankki Suomi Oy	999 900	1,6
Others (Incl. Nominee registrations)	31 212 081	49,2
In total	63 312 482	100,0

Shareholdings of the Board of Directors and the CEO

On December 31, 2010, the members of the Board of Directors, the CEO and the entities under their control held a total of 21 149 346 shares of the company, which represented 33.4% of the shares and the voting rights. The stock option rights held by the members of the Board of Directors on December 31, 2010 entitled them to a subscription of 108 750 shares.

Proposal by the Board of Directors for distribution of profit

The operating result of the parent company was EUR -2.6 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 22, 2010, decided to grant the Board of Directors a new authorization.

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, which is 18.1% of the shares and voting rights registered to the Trade Register by 31.12.2010.

Based on the authorization, the Board of Directors may decide to issue new shares for subscription according to the shareholders' pre-emptive subscription rights or in deviation from the shareholders' pre-emptive subscription right, or in a directed issue of option rights or other special rights 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 to the company's personnel.

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 2011.

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 22, 2010 elected five members to the Board of Directors. Ilkka Hiidenheimo, Jukka Manner, Matti Viljo, Hannu Turunen and Timo Syrjälä were elected to the Board. In its statutory meeting held on April 22, 2010, the Board elected Matti Viljo as Chairman of the

Board and Hannu Turunen 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 groups 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 2010, 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, Juha Kivikoski, Kim Fagnäs, Mikael Nyberg, Mika Jalava and Ari Vanttinen. Saara Laine and Klaus Majewski left the Executive Management Group during the financial year 2010.

In 2010, authorized public accountants Ernst & Young Oy acted as Stonesoft's auditor and authorized public accountant Bengt Nyholm as the auditor in charge.

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 for all the company's employees, as defined in Finland's Employee Pension Act (TYEL). 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.

Acquisitions and changes in the structure of the Group

No acquisitions were made during the fiscal year. The Brazilian subsidiary was closed in March 2010 and subsidiary was created to Poland, mainly focusing to R&D. There were no changes in the Group structure.

Foreign representative offices

The Group has a representative office in China.

Personnel

At the end of the fiscal year, the Group's personnel totaled 201 (174 and 185) people, of which 174 (154 and 167) were employees and 27 (20 and 18) had contractual relationships as full-time sales representatives or consultants.

The geographical distribution of Stonesoft personnel was Europe 158 (135 and 144), Emerging markets (Russia, North Africa and Middle East) 17 (12 and 9), Americas (North and South America) 21 (22 and 28) and APAC (Asia and Pacific) 5 (5 and 4).

The salaries and other remuneration paid to the employees, including social security payments, were in total EUR 14.7 (14.0 and 14.8) million.

The average number of personnel during the fiscal period was 191 (178 and 183).

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 Statement

Stonesoft Corporation's Corporate Governance Statement will be issued separately from The Board of Director's report and published in the Annual Report. Stonesoft's Board of Directors has reviewed and approved the Corporate Governance Statement on 2.3.2011.

Stonesoft Corporation applies the Corporate Governance Code recommendations for listed companies prepared by the NASDAQ OMX Helsinki Ltd, the Central Chamber of Commerce and the Confederation of Finnish Industries EK and published in June 2010, with the exemption of recommendations concerning the establishment of Board committees and on Board composition. The Board of Directors has decided not to establish any Board committees due to the size of the Board and the size of the company. A more detailed description of the Corporate Governance principles of Stonesoft Corporation is available at the corporate website (www.stonesoft.com).

The Corporate Governance Statement contains the main features of internal control and risk management in relation to the financial reporting systems as well as information about the composition and duties of the Board of Directors and information about the Chief Executive Officer.

Short-term risks and business uncertainties

During the fiscal year 2011, 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 recent political restlessness in North Africa and Middle East may have a negative impact on the company's business operations in these markets. The company has no risks related to the order book, because it can process all incoming orders within a couple of work days.

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 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 normally 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 expenses.

Future outlook

According to the research company Infonetics, the enterprise network equipment and software market is estimated to grow by 4% during 2011.

Stonesoft's products protect large and critical network environments that require advanced network security. The company has launched security solutions that meet the capacity needs of 10 Gbps networks. Large enterprises are currently making a transition to 10 Gbps networks, which will fulfill their needs today and in the near future. Large network environments are under constant change pressures, because companies strive for increasingly efficient operations and at the same time need to adapt to rapidly changing competitive situations. This sets special demands to the flexibility and manageability of security solutions. Many traditional security companies and products are too static to adapt to these changes fast enough. Stonesoft has always stood out as a company and with its product through its flexibility and ability to quickly meet dynamic security challenges and its customers' changing needs.

The strong growth of MSSP (Managed Security Service Provider)-, virtualization, SAAS (Software as a Service) and cloud services as well as the spreading of social media services have continued to create a need for ensuring network security and business continuity also in new environments. In addition, illicit acquisition of confidential data to obtain financial benefits has to a large extent surpassed non-professional operations. The management features of StoneGate, the scalability of the appliance based product family and the excellent suitability of the product for virtual environments offer an optimal system for these environments.

As security threats in the public sector increase, a growing number of government organizations have started improving their protection against network attacks and cyber espionage. The amount of confidential material that is handled in the net such as patient data and juridical documents is constantly growing. In addition, various interest groups, political extremist groups and governmental intelligence agencies are searching for information more and more from the net. StoneGate products offer a comprehensive, centrally managed protection and are ideally suited for the needs of the public sector. Currently Stonesoft's network

security solutions are used by more than 50 government departments at five continents around the world.

The relative importance of the operability and availability of data networks to business is continuously increasing. This has led to the growth of the demands to network security design and to the need to achieve a comprehensive overview of the state of the network and data communications. This strengthens Stonesoft's competitive position. We are specialized in delivering comprehensive network security solutions, which meet also the exceptionally high demands of critical network environments and enable increased efficiency and flexibility.

Advanced evasion techniques

In the stock exchange release published on 4 October 2010 Stonesoft Corporation announced it has discovered a new network security threat category. More detailed information was given in the stock exchange release and press release published on 18 October, which announced the threat is about the so-called advanced evasion techniques (AET), which are capable of bypassing current network security systems without leaving a trace. Advanced Evasion Techniques can also transport to the IT systems already known malware or phishing programs, worms and viruses, which otherwise would be detectable and stoppable by network security systems.

Stonesoft has reported the threat posed by these advanced evasion techniques to the national computer security incident team of Finland, CERT-FI for vulnerability coordination, and ICSA Labs, a US-based security product testing and certification laboratory has confirmed the severity of the discovery. The subject has received a lot of coverage in global media.

In addition to testing their own network security solutions, Stonesoft has extended their research to cover also solutions by other leading vendors in the field. The test results show that most of current network security solutions do not detect attacks that utilize advanced evasion techniques.

The most efficient protection against the threat posed by advanced evasions techniques is provided by flexible software-based systems, which can detect advanced evasion techniques and are remotely updated and centrally managed. Stonesoft's network security solutions fulfill these criteria.

More information about advanced evasion techniques and how to protect against them is available at www.antievasion.com.

Based on Stonesoft's view, the above mentioned issues will open new business opportunities for the company, have a positive effect on its net sales and profitability and strengthen its competitiveness and market position as general understanding and knowledge about advanced evasion techniques grow. In 2011, Stonesoft aims for faster-than-market growth of net sales and improved profitability.

With regard to the development of the turnover and the operating result, 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.

Stonesoft Group

Income Statement (IFRS)

(1 000 Euros)	Notes	1.1.-31.12.2010	1.1.-31.12.2009
Net sales	1. 2.	24 341	23 597
Other operating income	3.	847	969
Material and services		-3 640	-3 539
Personnel expenses	6.	-14 744	-14 004
Depreciation	5.	-437	-454
Other operating expenses	4.	-9 052	-7 616
Operating result		-2 685	-1 048
Financial income and expenses	7. 8.	217	316
Result before taxes		-2 468	-731
Taxes	9.	-221	-240
Result for the accounting period		-2 689	-971
Other comprehensive income			
Exchange differences on translating foreign operations		-15	15
Total other comprehensive income		-15	15
Total comprehensive income		-2 704	-956
Earnings per share			
Basic earnings per share (EUR)	10.	-0,04	-0,02
Diluted earnings per share (EUR)	10.	-0,04	-0,02

Stonesoft Group

Balance Sheet (IFRS)

(1 000 Euros)	Notes	31.12.2010	31.12.2009	1.1.2009
ASSETS				
Non-current assets				
Tangible assets	11.	649	494	692
Intangible assets	12.	112	176	104
Other financial assets	13.	10	10	10
Total		771	680	806
Current assets				
Inventories	15.	953	673	911
Trade and other receivables	16.	10 106	8 383	7 371
Prepayments		69	67	19
Marketable securities	17.	0	5 240	6 310
Cash in hand and in bank	17.	8 016	970	738
Total		19 144	15 333	15 348
Total assets		19 915	16 013	16 154
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	18.			
Share capital		1 151	1 146	1 146
Share premium account		76 603	76 821	76 821
Conversion differences		-951	-936	-951
Reserve for invested unrestricted equity fund		4 751	0	0
Retained earnings		-76 986	-74 346	-73 473
Total		4 567	2 685	3 543
Long-term liabilities				
Provisions	20.	0	0	26
Prepayments*)	21.	2 976	2 606	2 336
Total		2 976	2 606	2 363
Short-term liabilities				
Trade and other payables	21.	4 571	3 943	3 956
Prepayments*)	21.	7 687	6 660	6 035
Tax liabilities		76	81	41
Provisions	20.	37	37	214
Short-term interest bearing liabilities		0	0	2
Total		12 372	10 722	10 248
Total liabilities		15 348	13 328	12 611
Total equity and liabilities		19 915	16 013	16 154
*) Other liabilities consist mainly of customers advance payments of support and maintenance contracts		10 663	9 267	8 372

Stonesoft Group

Cash flow statement (IFRS)

(1 000 Euros)	Notes	1.1.-31.12.2010	1.1.-31.12.2009
Cash flow from operating activities			
Result for the period		-2 685	-1 048
Adjustments	25.		
Operations without money transfer		58	644
Financial expenses		-96	-129
Financial income		464	336
Change in net working capital		481	-226
Taxes paid		-221	-210
Total cash flow from operating activities		-1 999	-632
Cash flow from investing activities			
Investments in tangible assets		-537	-202
Investments in intangible assets		-30	-126
Total cash flow investing activities		-566	-328
Cash flow from financing activities			
Proceeds from issue of share capital		4 391	0
Stock options exercised		146	0
Payments of financial leasing liabilities		0	-2
Total cash flow from financing activities		4 537	-2
Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period		6 210	7 048
Conversion differences		-17	15
Changes in the market value of investments		-148	109
Total cash and cash equivalents at end of period*)	17.	8 016	6 210
*) Total cash and cash equivalents at end of the period contains pledged securities		477	452

Stonesoft Group

Statement of changes in equity (IFRS)

Equity attributable to equity holders of the parent, (1 000 Euros)	Share capital	Share premium	Conversion differences	Reserve for invested unrestricted equity fund	Retained earnings	Total
Shareholders' equity at 1.1.2009	1 146	76 821	-951	0	-73 473	3 543
Comprehensive income	0	0	15	0	-971	-956
Share premium termination	0	0	0	0	0	0
Directed share issue	0	0	0	0	0	0
Transaction costs from equity	0	0	0	0	0	0
Stock options exercised	0	0	0	0	0	0
Stock option expenses	0	0	0	0	98	98
Shareholders' equity at 31.12.2009	1 146	76 821	-936	0	-74 346	2 685

Equity attributable to equity holders of the parent, (1 000 Euros)	Share capital	Share premium	Conversion differences	Reserve for invested unrestricted equity fund	Retained earnings	Total
Shareholders' equity at 1.1.2010	1 146	76 821	-936	0	-74 346	2 685
Comprehensive income	0	0	-15	0	-2 689	-2 704
Share premium termination	0	-338	0	338	0	0
Directed share issue	0	0	0	4 560	0	4 560
Transaction costs from equity	0	-3	0	-172	0	-175
Stock options exercised	5	122	0	25	0	152
Stock option expenses	0	0	0	0	49	49
Shareholders' equity at 31.12.2010	1 151	76 603	-951	4 751	-76 986	4 567

Stonesoft Group

Notes to the consolidated financial statements

Corporate information

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 mother company is Stonesoft Oyj. The mother company is domiciled in Helsinki with a registered address of Itälahdenkatu 22 A, 00210 Helsinki. Stonesoft Corporation's shares are quoted on the main list of NASDAQ OMX (SFT1V) Helsinki Stock Exchange. A copy of the consolidated Financial Statements is available at the internet address www.stonesoft.com or at the Group headquarters at Itälahdenkatu 22 A, 00210 Helsinki.

Stonesoft Corporation is an innovative provider of integrated network security solutions to secure the information flow of distributed organizations. Stonesoft customers' business require advanced network security and reliable availability of applications. The StoneGate™ security solution unifies firewall, VPN, IPS (intrusion detection and prevention) and SSL VPN allowing secure remote access. The solution combines network security, continuous availability and award winning load balancing into one unified, centrally managed solution. 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.

StoneGate Management Center provides unified management for StoneGate Firewall with VPN, IPS and SSL VPN. StoneGate Firewall and IPS work seamlessly together to provide layered defense throughout the enterprise network while StoneGate SSL VPN provides efficient protection for mobile and remote use.

Stonesoft has discovered a significant network security threat category posed by Advanced Evasion Techniques (AETs). AETs are capable of delivering any known payload to target hosts without being detected by current security devices. In order to protect their critical digital assets, organizations need to implement a dynamic, software based security system. As the threat of AETs is ever-evolving, network protection needs to be based on centralized management capabilities, such as the StoneGate network security solution.

The Board of Stonesoft Corporation has approved these Financial Statements for publishing in its meeting on March 2nd, 2011. 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 to change 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 31.12.2010 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.

The Group has on the 1.1.2010 separated prepayments related to its customers' support and maintenance contracts from other items in the balance sheet. Previously the support and maintenance payments were included in other liabilities. Previous data has been corrected to correspond to this new booking procedure. The impact of the change on long term prepayments in the balance sheet 31.12.2009 is 2 606 thousand euros and on short term prepayments 6 660 thousand euros. With this change the Group's balance sheet gives a more accurate picture of the long and short term liabilities as well as the prepayments.

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, are presented in "Principles requiring management judgment and main uncertainties related to the estimates".

The Group has since 1.1.2010 applied the following new and renewed standards and interpretations which impact the Financial Statements:

- Amended IAS 27 Consolidated and separate financial statements (in force for reporting periods starting 1.7.2009 or later)
- Change to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (in force for reporting periods starting 1.7.2009 or later)
- Improvements to IFRSs, April 2009) (in force for reporting periods starting 1.1.2010 (mainly) or later)

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 29. 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 until the date when control ceases.

During the financial period 2010, Stonesoft Brazil was closed and Stonesoft Poland Sp.z o.o opened.

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 shareholders' 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

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 in 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.

Stonesoft Oyj had in the reporting period 2010 financing decisions regarding two research and development projects. For the project "The protection of fast networks of critical infrastructure" the duration was 1.3.2009 - 28.2.2011 and for "ICT SHOK Future Internet Programme" the duration was 1.6.2009 - 31.12.2010. Tekes has granted financing decisions for these projects also for the years 2011 - 2013.

The Group has booked 775 thousand Euros in 2010 (707 thousand Euros in 2009) Tekes support into other income.

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 to 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 average cost method. Net realizable value is in the ordinary course of business less the estimated selling price less estimated selling expenses.

Leases

The Group has no leases categorized as financial leases in its financial statements for 2010 and 2009.

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 27. 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 from whether there are signs of impairment: 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 from 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.

Employee benefits

Pensions

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

Pension plans are classified as defined contribution plans and are recognized in the period in which the charge applies.

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 practise 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 20. 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. The Group has no loss-making contracts in the 2010 and 2009 balance sheets.

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 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. The Group will consider booking a potential deferred tax asset in the next financial years.

The Group has no deferred tax assets or liabilities in its financial statements for the years 2010 and 2009.

Revenue recognition – sold products and services rendered

Income from the licensing and sale of goods is recognized when risk and rewards of the ownership are 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. Income 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 the financial years 2010 and 2009.

Assets held for sale and discontinued operations

The Group has no assets categorized as assets held for sale in its financial statements for 2010 and 2009.

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 day.

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 date. 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.

The principles for defining the fair value of all financial assets and liabilities are presented in the notes, item 24. Fair value of financial assets and liabilities.

The Group estimates on each closing date 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 2010 or 2009.

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 Group's 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.

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.

The following reforms are estimated to impact the consolidated financial statements:

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (in force for reporting periods starting 1.2.2010 or later)
- Revised IAS 24 Related party disclosures (in force for reporting periods starting 1.1.2011 or later)
- IFRS 9, Financial Assets (in force for reporting periods starting 1.1.2013 or later)
- Improvements to IFRS - May 2010) (in force for reporting periods starting 1.7.2010 (mainly) or later)

1. Operating segments

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

Applying IFRS 8 has not changed the reporting segments of the Group, since the segment information presented earlier already was based on internal management reporting. In this reporting valuation of the assets and liabilities, has been and continues to be in line with the IFRS standards.

The reporting 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

The revenue, expenses, assets and liabilities of the segments are presented based on where the customers are geographically located.

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 allocation 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.

Operating segments 1.1. - 31.12.2010

(1 000 Euros)	Europe	Emerging Markets	Americas	APAC	Total
External net sales total	14 599	4 255	4 525	961	24 341
Depreciation	-377	-23	-35	-2	-437
Segment result before taxes	6 483	1 917	737	95	9 232
Costs allocated to the segment	-6 964	-2 092	-2 172	-472	-11 700
Segment result before taxes total	-482	-175	-1 434	-377	-2 468
Assets					
Segment assets	8 694	1 902	1 914	336	12 846
Investments	514	33	19	0	566
Liabilities					
Segment liabilities	10 681	1 946	2 402	319	15 348

Operating segments 1.1. - 31.12.2009

(1 000 Euros)	Europe	Emerging Markets	Americas	APAC	Total
External net sales total	15 182	3 162	4 605	648	23 597
Depreciation	-403	-12	-37	-2	-454
Segment result before taxes	7 240	1 043	816	193	9 292
Costs allocated to the segment	-6 365	-1 372	-2 006	-281	-10 023
Segment result before taxes total	875	-328	-1 191	-87	-731
Assets					
Segment assets	7 897	1 738	982	156	10 773
Investments	300	11	15	2	328
Liabilities					
Segment liabilities	9 731	1 201	2 177	219	13 328

Reconciliations

Net sales (1 000 Euros)	2010	2009	
Segment external net sales	24 341	23 597	
The Group's total net sales	24 341	23 597	
Result before taxes (1 000 Euros)	2010	2009	
Segment result before taxes	9 232	9 292	
Costs allocated to the segment	-11 700	-10 023	
The Group's total result before taxes	-2 468	-731	
Assets (1 000 Euros)	2010	2009	
Segment assets	12 846	10 773	
Unallocated assets	7 069	5 240	
The Group's total assets	19 915	16 013	
Liabilities (1 000 Euros)	2010	2009	
Segment liabilities	15 348	13 328	
The Group's total liabilities	15 348	13 328	
2010 (1 000 Euros)	Segment total	Corrections	Group total
Investments	566	0	566
Depreciation	-437	0	-437
2009 (1 000 Euros)	Segment total	Corrections	Group total
Investments	328	0	328
Depreciation	-454	0	-454

2. Net Sales

(1 000 Euros)	2010	2009
Income from sales of software	1 523	1 563
Income from sales of services	11 605	10 907
Income from sales of appliances	11 169	11 015
Other sales	46	113
Total	24 341	23 597

The Group has no unfinished long-term assets in its Financial Statements in 2010 and 2009.

3. Other operating income

(1 000 Euros)	2010	2009
Leasing income	2	125
Public grants TEKES	775	707
Others	70	137
Total	847	969

The Group has during the reporting period 2009 renewed some of its rental agreements related to office space. Since 1.3.2009 the Group no longer rents out any office space.

4. Other operating expenses

(1 000 Euros)	2010	2009
Optional personnel expenses	365	240
Leasing and other building expenses	1 367	1 548
Office expenses	570	327
EDP-expenses	692	608
Travel expenses	993	738
Car expenses	153	124
Entertainment expenses	218	177
Marketing expenses	1 701	1 234
Telephone expenses	399	366
External services	2 311	1 684
Other expenses	282	569
Total	9 052	7 616

Auditors' fees (1 000 Euros)	2010	2009
Auditors	115	123
Certificates and statements	2	0
Tax advice	0	2
Other services	7	0
Total	124	125

5. Depreciation, amortization and impairment

(1 000 Euros)	2010	2009
Depreciation and amortization by asset type		
Intangible assets		
Other Intangible assets	55	54
Tangible assets		
Machinery and equipment	375	383
Other tangible assets	7	16
Total	437	454

6. Personnel expenses

(1 000 Euros)	2010	2009
Wages and salaries	12 055	11 474
Pensions – defined contribution plans	1 207	1 173
Granted share based and paid options	49	98
Other personnel costs	1 433	1 259
Total	14 744	14 004

Average number of personnel in Group	2010	2009
Europe	144	139
Emerging Markets	19	10
Americas	23	24
APAC	5	5
Total	191	178

Information on benefits offered to the management is presented in the notes, item 29. Related party transactions
Information on granted options are presented in the notes, item 19. Share based payment plans.

7. Financial income

(1 000 Euros)	2010	2009
Interest income	26	4
Exchange gains	134	108
Fair value gains and losses on financial instruments	0	111
Sales profit of securities held for trading	150	216
Other financial income	6	5
Total	316	445

Exchange gains included in operating result total 307 thousand Euros in 2010 (382 thousand Euros in 2009).

8. Financial expenses

(1 000 Euros)	2010	2009
Interest expenses	0	0
Exchange expenses	95	75
Other financial expenses	4	54
Total	99	129

Exchange losses included in operating result total 195 thousand Euros in 2010 (195 thousand Euros in 2009). Other financial expenses do not include interest booked during the period related to financial leases in 2010 and 2009.

9. Income taxes

(1 000 Euros)	2010	2009
Current income tax for the year	223	211
Current income tax of previous years	-1	29
Total	221	240

Other taxes related to comprehensive income

2010 (1 000 Euros)	Before taxes	Tax effect	After taxes
Conversion differences	-15	0	-15
Total	-15	0	-15
2009 (1 000 Euros)	Before taxes	Tax effect	After taxes
Conversion differences	15	0	15
Total	15	0	15

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

(1 000 Euros)	2010	2009
Profit before tax	-2 468	-731
Tax calculated at Finnish statutory tax rate	-642	-190
Unrecognized tax receivables of losses	33	1
Effect of different tax rates in foreign subsidiaries	-8	37
Income not subject to tax	-31	-6
Expenses not deductible for tax purposes	10	77
Temporary differences	1 330	830
Previously unbooked usage of tax losses	-507	-595
Current income tax of previous years	-1	27
Other	37	59
Tax charge	221	240

When calculating the taxable income the Group has activated 4 915 thousand Euros of product development costs in 2010 (2 898 thousand Euros in 2009).

Earning 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.

(1 000 Euros)	2010	2009
Profit attributable to equity holders of the parent company	-2 689	-971
Weighted average number of shares outstanding (1000 pcs)	61 855	57 303
Effect of issued share options (1000 pcs)	858	421
Diluted weighted average number of shares outstanding (1000 pcs)	62 833	57 724
Diluted earnings per share (1 EUR)	-0,04	-0,02

11. Tangible assets

(1 000 Euros)	Machinery and equipment	Other tangible assets	Total
Acquisition cost at 1.1.2010	2 841	1 215	4 056
Correction for the acquisition cost	8	0	8
Additions	661	142	803
Disposals	-495	-111	-606
Acquisition cost at 31.12.2010	3 015	1 246	4 261
Accumulated depreciation at 1.1.2010	2 359	1 202	3 561
Correction to the accumulated depreciation	0	0	0
Depreciation during the financial year	373	9	382
Disposals	-332	0	-332
Accumulated depreciation at 31.12.2010	2 400	1 211	3 612
Book value at 1.1.2010	482	13	494
Book value at 31.12.2010	614	35	649
(1 000 Euros)	Machinery and equipment	Other tangible assets	Total
Acquisition cost at 1.1.2009	3 301	1 215	4 516
Correction for the acquisition cost	-1	0	-1
Additions	205	14	219
Disposals	-664	-14	-678
Acquisition cost at 31.12.2009	2 841	1 215	4 056
Accumulated depreciation at 1.1.2009	2 639	1 186	3 825
Correction to the accumulated depreciation	0	0	0
Depreciation during the financial year	383	16	400
Disposals	-663	0	-663
Accumulated depreciation at 31.12.2009	2 359	1 202	3 561
Book value at 1.1.2009	663	29	692
Book value at 31.12.2009	482	13	494

The tangible assets do not include assets rented through financial leasing contracts in 2010 and 2009. The acquisition value remaining after depreciation of machinery and equipment in tangible assets is 614 thousand Euros in 2010 (482 thousand Euros in 2009).

Financial leasing

Tangible assets include assets rented through financial leases as follows:

1.1. - 31.12.2010 (1 000 Euros)	Machinery and equipment
Acquisition cost at 1.1.2010	0
Additions	0
Disposals	0
Acquisition cost at 31.12.2010	0
Accumulated depreciation at 1.1.2010	0
Depreciation on disposals	0
Depreciation during the financial year	0
Accumulated depreciation at 31.12.2010	0
Book value at 1.1.2010	0
Book value at 31.12.2010	0
1.1. - 31.12.2009 (1 000 Euros)	Machinery and equipment
Acquisition cost at 1.1.2009	14
Additions	0
Disposals	-14
Acquisition cost at 31.12.2009	0
Accumulated depreciation at 1.1.2009	12
Depreciation on disposals	-14
Depreciation during the financial year	2
Accumulated depreciation at 31.12.2009	0
Book value at 1.1.2009	2
Book value at 31.12.2009	0

Additions to acquisition costs of tangible assets do not include new assets acquired through financial leases in 2010 and 2009.

12. Intangible assets

(1 000 Euros)	Other intangible assets
Acquisition cost at 1.1.2010	1 711
Additions	-50
Disposals	30
Change in exchange rates	-8
Acquisition cost at 31.12.2010	1 683
Accumulated depreciation at 1.1.2010	1 535
Depreciation during the financial year	-12
Disposals	55
Change in exchange rates	-8
Accumulated depreciation at 31.12.2010	1 571
Book value at 1.1.2010	176
Book value at 31.12.2010	112

(1 000 Euros)	Other intangible assets
Acquisition cost at 1.1.2009	1 592
Additions	0
Disposals	126
Change in exchange rates	-7
Acquisition cost at 31.12.2009	1 711
Accumulated depreciation at 1.1.2009	1 488
Depreciation during the financial year	0
Disposals	54
Change in exchange rates	-7
Accumulated depreciation at 31.12.2009	1 535
Book value at 1.1.2009	104
Book value at 31.12.2009	176

13. Other investments and marketable securities

(1 000 Euros)	2010	2009
Available for sale financial assets		
Unquoted equity investments	10	10
Securities held for trading	0	5 240
Total	10	5 250

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 2010 and 2009, 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 24. Fair value of financial assets and liabilities.

Profits from securities held for trading are presented in the notes, item 7. Financial income, and losses in the notes, item 8. Financial expenses.

During the financial years 2010 and 2009 the Group did not sell any unquoted shares.

14. Deferred tax receivables and liabilities

The Group has cumulated, taxable losses for a total of 78 844 thousand Euros at the closing on the 31.12.2010 (82 141 thousand Euros in 2009). Out of this amount 7 549 thousand Euros expires in 2011, and the rest in 2012-2017.

The 2009 tax loss carryforwards are a total 78 999 thousand Euros (84 340 thousand Euros in 2008). The Group is not certain that the parent company will generate corresponding amounts of taxable income within the time frame during which the losses could be utilized.

No deferred tax income has been booked related to the cumulated loss.

When calculating the taxable income the Group has activated 4 915 thousand Euros of product development costs in 2010 (2 898 thousand Euros in 2009).

15. Inventories

(1 000 Euros)	2010	2009
Finished goods	953	673
Goods in transit	0	0
Total	953	673

Impairment costs have been booked related to inventories for a total income of 341 thousand Euros in 2010 (341 thousand Euros in 2009).

16. Trade and other receivables

(1 000 Euros)	2010	2009
Trade receivables	8 685	7 255
Prepayments	69	67
Accrued income	1 219	977
Other receivables	203	151
Total	10 175	8 451

Writedowns on unsure receivables have been reduced in 2010 for a total value of 236 thousand Euros (163 thousand Euros in 2009).

The Group has entered 11 thousand Euros as income from credit losses recorded in accounts receivable (cost of 46 thousand Euros in 2009). 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 income are related to fixing of costs to the correct reporting period.

The ageing analysis of trade receivables is as follows:

(1 000 Euros)	2010	Impairment losses	Netto 2010
Non-overdue	7 676	0	7 676
Past due			
Less than 30 days	616	0	616
30-60 days	356	0	356
61-90 days	49	10	38
Over 90 days	12	14	-2
Total	8 709	24	8 685

(1 000 Euros)	2009	Impairment losses	Netto 2009
Non-overdue	4 822	0	4 822
Past due			
Less than 30 days	849	0	849
30-60 days	352	0	352
61-90 days	38	3	34
Over 90 days	1 455	257	1 199
Total	7 515	260	7 255

17. Cash on hand and on deposit

(1 000 Euros)	2010	2009
Cash and bank	8 016	970
Total	8 016	970

According to cash flow statement:

(1 000 Euros)	2010	2009
Cash and bank	8 016	970
Securities held for trading	0	5 240
Total	8 016	6 210

Total cash and cash equivalents include client- and rent contract-based pledged securities for a total of 477 thousand Euros in 2010 (452 thousand Euros in 2009).

18. Share capital of the parent company

(1 000 Euros)	Number of shares	Share capital	Share premium	Reserve for invested unrestricted equity fund	Total
31.12.2008	57 302 732	1 146	76 821	0	77 967
Stock options exercised	0	0	0	0	0
31.12.2009	57 302 732	1 146	76 821	0	77 967
Share premium termination	0	0	-338	338	0
Directed share issue	5 700 000	0	0	4 560	4 560
Transaction costs from equity	0	0	-3	-172	-175
Stock options exercised	309 750	5	122	25	152
31.12.2010	63 312 482	1 151	76 603	4 751	82 504

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

A description of the equity reserves is presented below:

Share premium

In those cases where stock option decisions have been taken under the old corporate law (29.9.1978/734) the payments received from subscriptions based on options have been booked into share capital and share premium as per the option program, transaction costs deducted.

Invested non-restricted equity fund

The invested non-restricted equity fund contains other own capital investments and the part of share subscriptions for which there is no specific decision to book it into share capital.

For share subscriptions done based on option programs decided upon after the new corporate law (21.7.2006/624) came into effect (1.9.2006) received payments are in entirety booked into the invested non restricted equity fund.

The Board of Stonesoft Corporation decided on the 19.3.2010 based on the authorization given to it by the Annual Meeting on the 26.3.2009 to arrange a directed share issue for a limited number of experienced and professional domestic investors.

In the share issue, a maximum number of 5.700.000 new shares were offered for subscription, which corresponds to a maximum of 9.95 percent of all the shares in the company and the voices attached to said shares prior to implementing the share issue.

The directed share issue was oversubscribed and the issued new shares registered in the trade register on 23.3.2010.

The issued new shares started trading on the NASDAQ OMX Helsinki exchange on the 24.3.2010 together with the company's old shares.

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 2010 and 2009 no dividends have been paid.

19. 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 2010 and 2009 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 49 thousand Euros has been booked as provisions against equity for benefits of employment based on stock options during the reporting period 2010 (98 thousand Euros in 2009). A cost of 29 thousand Euros in 2011 is estimated to arise from the stock options.

The Group has the following stock option plans:

Option plan 2004

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

The share subscription period for all the warrants ended 31 December 2010. The subscription price was EUR 0.56.

Stock Option Plan 2008

The Board of Stonessoft Corporation approved the new option plan 6 May, 2008 and 17 June, 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 Stonessoft Group companies' members of the Board of Directors, other management and personnel. Each option right entitles to subscribing one Stonessoft share. The subscription periods start as follows: March 1. 2010, March 1. 20 11, March 1. 2012 and March 1.2013. The subscription period ends for all option rights on December 31. 2014. The exercised price is 0,30 Euro.

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	237 750
Option plan 2004 B	0,56	1.1.2007 - 31.12.2010	225 000
Option plan 2004 C	0,56	1.1.2008 - 31.12.2010	212 500
Option plan 2004 D	0,56	1.1.2009 - 31.12.2010	175 000
Option plan 2008 A	0,30	1.3.2010 - 31.12.2014	502 500
Option plan 2008 B	0,30	1.3.2011 - 31.12.2014	482 500
Option plan 2008 C	0,30	1.3.2012 - 31.12.2014	70 000
Option plan 2008 D	0,30	1.3.2013 - 31.12.2014	70 000

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	2010 weighted average exercise price Euros/ share	Number of options	2009 weighted average exercise price Euros/ share	Number of options
At the beginning of the financial year	0,42	2 251 250	0,55	1 111 250
Allocated new options	0,30	125 000	0,30	1 250 000
Forfeited options	0,30	-91 250	0,30	-110 000
Exercised stock options	0,49	-309 750	0,00	0
At the end of the financial year	0,41	1 975 250	0,42	2 251 250
Vested options outstanding at end of the financial year	0,46	1 352 750	0,56	1 076 250
Vested options during the financial year	0,49	309 750	0,00	0
Outstanding options and cancellation dates at end of the financial year:				
Ending of exercised	Subscription price (Euros)	2010 Number of shares	2009 Number of shares	
2010	0,56	850 250	1 076 250	
2014	0,30	1 125 000	1 175 000	
Total		1 975 250	2 251 250	

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 6. Personnel expenses.

20. Provisions

(1 000 Euros)	Guarantee provision	Other provisions	Total
31.12.2009	7	30	37
Additional provisions	21	0	21
Used provisions	-7	-13	-21
Utilized during year	0	0	0
31.12.2010	21	17	37

(1 000 Euros)	2010	2009
Short term	37	37
Long term	0	0
Total	37	37

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 2010 guarantee provisions were 21 thousand Euros (7 thousand Euros in 2009). 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.

Other provisions

Other provisions are related to possible litigation costs in conjunction with personnel arrangements.

21. Trade and other payables

(1 000 Euros)	Notes	2010	2009
Short term payables valued at amortized cost			
Trade payables	24.	1 625	1 293
Accrued expenses		2 330	2 110
Prepayments		7 687	6 660
Other	24.	616	541
Total		12 258	10 604
Long term payables valued at amortized cost			
Prepayments		2 976	2 606
Short term and long term total		15 234	13 210

The Group has on the 1 January 2010 separated prepayments related to its customers' support and maintenance contracts from other items in the balance sheet. Previously the support and maintenance payments were included in other liabilities. Previous data has been corrected to correspond to this new booking procedure. The impact of the change on long term prepayments in the balance sheet 31 December 2009 is 2 606 thousand Euros and on short term prepayments 6 660 thousand Euros.

With this change the Group's balance sheet gives a more accurate picture of the long and short term liabilities as well as the prepayments.

The material items in prepayments consist of periodizations of sold maintenance contracts, prepaid by customers. Fair value of trade and other payables are presented in the notes, item 24. Fair value of financial assets and liabilities.

22. Management of financial risks

The Group is exposed to financial risks in its regular 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 2010 and 2009 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 2010 and 2009 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)	2010 USD	2010 GBP	2009 USD	2009 GBP
Current assets				
Trade and other receivables	2 035	35	1 030	35
Short-term liabilities				
Non-interest bearing liabilities	363	63	493	99
Open position	1 672	-28	537	-64

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)	2010 USD	2009 USD
Increase / decrease	-0,7 %	-3,3 %
Effect on profit after tax	10	41

The Group has no 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 Euro-based instruments linked to short term interest rates with a remaining duration of maximum one year. The general development of the interest markets in the Euro area impacts the value of these investments. The Group has no securities held for trading in its balance sheet 2010 (5 240 thousand Euros in 2009).

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)	2010	2009
3 month Euribor	0	365

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 are 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 does not use any credit insurance. The Group does not have any significant pools of receivables and credit risk related thereto. During the financial year 2010 11 thousand Euros booked as credit losses in the previous fiscal year have been booked as income during the reporting period (recorded as an expense of EUR 46 thousand Euros in 2009). 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 16. 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 below table shows a maturity analysis based on contracts. The figures are not discounted and include both interest and capital payments.

2010 (1 000 Euros)	Balance Sheet value	Cash flow	Less than 1 year
Trade and other payables	1 625	1 625	1 625
2009 (1 000 Euros)	Balance Sheet value	Cash flow	Less than 1 year
Trade and other payables	1 293	1 293	1 293

Commodity risk

As sales has become primarily 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 its appliance purchasing to multiple suppliers thereby reducing its 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 has no interest bearing liabilities end of year 2010 and 2009. The gearing was -1.75 % in 2010 (-2.31 % in the reporting period 2009). 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)	2010	2009
Cash and cash equivalents	-8 016	-6 210
Net liabilities	-8 016	-6 210
Shareholders' equity total	4 567	2 685
Net gearing	-1,75%	-2,31%

23. 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 2010 (1 000 Euros)	Notes	Loans and receivables Amortised cost	Financial assets at fair-value through profit and loss fair- value recognised	Total financial assets
Financial instruments in non-current assets				
Trade receivables	16.	8 685	0	8 685
Marketable securities	17.	0	0	0
Cash and cash equivalents	17.	8 016	0	8 016
Total		16 701	0	16 701
Financial assets by categories 2009 (1 000 Euros)	Notes	Loans and receivables Amortised cost	Financial assets at fair-value through profit and loss fair- value recognised	Total financial assets
Financial instruments in current assets				
Trade receivables	16.	7 255	0	7 255
Marketable securities	17.	0	5 240	5 240
Cash and cash equivalents	17.	970	0	970
Total		8 225	5 240	13 465

Financial liabilities by categories 2010 (1 000 Euros)	Notes	Other financial liabilities Amortised cost	Total financial liabilities
Financial instruments in current liabilities			
Trade payables	21.	1 625	1 625
Total		1 625	1 625
Financial liabilities by categories 2009 (1 000 Euros)	Notes	Other financial liabilities Amortised cost	Total financial liabilities
Financial instruments in current liabilities			
Trade payables	21.	1 293	1 293
Total		1 293	1 293

24. 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 31.12.2010 there are no non-quoted shares in the continuous operations assets for a total of 10 thousand Euros (10 thousand Euros in 2009). 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 its balance sheet on the 31.12.2010 and 31.12.2009.

Financial lease liabilities

The Group has no finance lease liabilities of the financial statements for 2010 and 2009.

Accounts receivable and other receivables

The original book value of receivables equal their fair value since discounting would have no material impact due to the maturity of receivables.

Accounts payable and other liabilities

The original book value of accounts payable and other liabilities equal their fair value since discounting would have no material impact due to the maturity of liabilities.

25. Adjustments for cash flow from operating activities

(1 000 Euros)	2010	2009
Non-cash transacting		
Depreciations	437	454
Decrease in fair values	-237	306
Employment benefits	49	98
Deferred transactions	-229	-214
Other transactions	39	0
Financial expenses	-96	-129
Financial income	316	445
Fair value gains/loss of financial instruments held for trading	148	-109
Total	426	851

26. Subsidiaries

The information is presented in the notes, item 29. Related party transactions.

27. Operating lease commitments

Group as leaseholder

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

(1 000 Euros)	2010	2009
In less than one year	882	897
Between one and five years	1 445	1 644
Total	2 327	2 541

The Group rents the offices it utilizes. The remaining duration of the rental contracts is 0–5 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 2010 contains rents paid based on rental agreements for a total of 1 157 thousand Euros (1 251 thousand Euros in 2009).

The Group does not have continue to be leased to the financial statements for 2010 and 2009.

28. Contingent liabilities

(1 000 Euros)	2010	2009
Other contingent liabilities		
Other contingent liabilities	94	117

Disputes and litigations

Stonesoft Corporation has during 2010 started an arbitration process against a former appliance supplier. The appliance supplier has in conjunction with the process presented a smallish counterclaim. A reservation has been made in the books related to the arbitration.

Furthermore there are two open employment disputes against Stonesoft corporation and its subsidiaries related to which reservations have been made in the books. A reservation has also been made for possible responsibilities related to dissolving a subsidiary.

As per the view of the management none of these processes are likely to have any substantial impact on Group result or its financial situation.

29. Related party transactions

Related parties include Group companies, Board members, Chief Executive Officers and members of the Management Group. Transactions related to products and services done with related parties are based on market prices.

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 Canada Inc	Canada, Ontario	100,00	100,00
Stonesoft Poland Sp.z.o.o	Puola, Kracow	100,00	100,00
Stonesoft Italy S.r.l	Italy, Milan	99,99	99,99
Stonesoft Tunis SARL	Tunis, Ariana	99,99	99,99
BVBA Stonesoft Belgium	Belgium, Diegem	99,00	99,00

Employee benefits of Directors and Executive Officers (1 000 Euros)	2010	2009
Salaries and other short term employee benefits	740	643
Other long term payments	9	11
Share based payments	27	40
Total	775	695

Remuneration for Board of Directors and Managing Directors (1 000 Euros)	2010	2009
Managing Directors	0	0
Board of Directors		
Viljo Matti, chairman of the Board	68	45
Hiidenheimo Ilkka	0	0
Piela Topi	13	23
Manner Jukka	19	0
Turunen Hannu	0	0
Syrjälä Timo	28	25

The impacts of the stock options are presented in the notes, item 19. Share based payment plans.

The company management and Board were awarded 45 000 stock options in 2010 (500 000 in year 2009). 51 250 options were sought back during the year 2010 (0 in 2009). The stock options of management and the Board have same terms and conditions. The management and the Board had on the 31.12.2010 a total of 915 000 granted stock options out of which 652 500 were vestable (1 072 500 in 2009 out of which 537 500 vestable).

30. Events after the Balance Sheet Date

In January Stonesoft published a list of security threats which companies should prepare themselves for in 2011.

In January, Stonesoft announced its StoneGate™ IPS-1205 and IPS-3205 intrusion prevention system (IPS) appliances were rated excellent in value purchase according to the latest Network Intrusion Prevention System Comparative Test Report from NSS Labs, Inc. Both appliances ranked in the top three in their respective performance categories for best price per Mbps protected and total cost of ownership (TCO) per real world throughput.

In February, Stonesoft announced it had discovered 124 new advanced evasion techniques (AETs). Samples of these AETs have been delivered to the Computer Emergency Response Team (CERT-FI), who will continue to coordinate a global vulnerability coordination effort.

31. Key Ratios

(1 000 Euros)	IFRS 2010	IFRS 2009	IFRS 2008	IFRS 2007	IFRS 2006
Net sales	24 341	23 597	24 427	19 020	21 879
Net sales change-%	3%	-3%	28%	-13%	-2%
Net sales, continuing operations	24 341	23 597	24 427	19 020	16 479
Net sales change-%	3%	-3%	28%	15%	0%
Net sales, discontinued operations	0	0	0	0	5 400
Net sales change-%	-	-	-	-	-7%
Operating result	-2 685	-1 048	-2 286	-6 514	-6 536
% of Net sales	-11%	-4%	-9%	-34%	-30%
Operating result, continuing operations	-2 685	-1 048	-2 286	-6 514	-6 608
Operating result, discontinued operations	0	0	0	0	72
Result before taxes	-2 468	-731	-2 010	-6 312	-6 170
% of Net sales	-10%	-3%	-8%	-33%	-28%
Result for the accounting period	-2 689	-971	-2 043	-4 212	-6 448
% of Net sales	-11%	-4%	-8%	-22%	-29%
Return on equity (ROE) %	-74%	-31%	-49%	-85%	-50%
Return on investment (ROI) %	-65%	-19%	-40%	-78%	-46%
Equity ration %	49%	40%	46%	52%	66%
Net gearing	-1,75	-2,31	-1,99	-1,46	-1,50
Capital investments	566	328	488	495	381

(1 000 Euros)	IFRS 2010	IFRS 2009	IFRS 2008	IFRS 2007	IFRS 2006
% of Net sales	2%	1%	2%	3%	2%
R&D costs	5 639	4 918	5 230	5 285	4 804
% of Net sales	23%	21%	21%	28%	22%
Number of employees (weighted average)	191	178	183	181	251
Number of employees at the end of the year	201	174	185	181	254
Earnings per share	-0,04	-0,02	-0,04	-0,07	-0,11
Earnings per share, continuing operations	-0,04	-0,02	-0,04	-0,11	-0,11
Earnings per share, discontinued operations	0,00	0,00	0,00	0,04	0,00
Equity per share	0,07	0,05	0,06	0,10	0,17
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	61 855 279	57 723 942	57 307 748	57 302 732	57 302 732
Number of shares adjusted for share issue at year end	64 283 238	57 727 732	57 309 875	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 % =
$$\frac{\text{Total dividend} \times 100}{\text{Earning per share}}$$

Stonesoft Oyj

Parent company Income statement (FAS)

(1 000 Euros)	Notes	1.1.-31.12.2010	1.1.-31.12.2009
Net sales	1.	24 341	23 597
Other operating income	2.	847	1 041
Materials and services	3.	-3 640	-3 539
Personnel costs	4.	-7 214	-6 542
Depreciations and reduction in value	5.	-335	-230
Other operating expenses	6.	-17 275	-15 949
Operating result		-3 276	-1 622
Financial income and expenses	8.	689	1 037
Result before appropriations and taxes		-2 587	-585
Direct taxes	9.	0	0
Result for financial year		-2 587	-585

Stonesoft Oyj

Parent company Balance sheet (FAS)

(1 000 Euros)	Notes	31.12.2010	31.12.2009
ASSETS			
Non-current assets			
Intangible assets	10.	117	179
Tangible assets	11.	471	210
Investments	12.	957	984
Non-current assets total		1 544	1 373
Current assets			
Inventories		953	673
Short-term receivables	13.	9 812	8 195
Marketable securities	14.	0	5 240
Cash in hand and at banks		7 764	731
Current assets total		18 529	14 838
Total		20 074	16 211
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	15.	1 151	1 146
Share premium account	15.	76 943	76 821
Reserve for invested unrestricted equity fund	15.	4 585	0
Retained earnings/loss	15.	-75 596	-75 012
Profit/loss for the financial year	15.	-2 587	-585
Shareholders' equity total		4 496	2 371
Provisions	16.	21	7
Liabilities			
Short term liabilities	17.	15 557	13 833
Liabilities total		15 557	13 833
Total		20 074	16 211

Stonesoft Oyj

Parent company Cash flow statement (FAS)

(1 000 Euros)	1.1.-31.12.2010	1.1.-31.12.2009
Cash flow from operating activities		
Operating result	-3 276	-1 622
Adjustments to operating result	-288	31
Financial income and expenses	233	548
Change in net working capital	492	-95
Taxes paid	0	0
Total	-2 839	-1 137
Cash flow from investing activities		
Investments to intangible and tangible assets	-534	-245
Investments to (-) / sales of (+) shares in subsidiaries	-1	0
Dividends received	457	489
Total	-79	244
Cash flow from financing activities total	4 712	48
Change in cash and cash equivalents	1 794	-846
Cash and cash equivalents at the beginning of the period	5 971	6 816
Cash and cash equivalents at the end of the period	7 764	5 971

Stonesoft Oyj

Notes to the Financial Statements

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	2010	2009
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 valued at the acquisition price or the market price, whichever is lower.

Notes to the income statement

1a. Net sales by market area

(1 000 Euros)	2010	2009
Europe	14 599	15 182
Emerging Markets	4 255	3 162
Americas	4 525	4 605
APAC	961	648
Total	24 341	23 597

1b. Net sales by business functions

(1 000 Euros)	2010	2009
Software and appliance revenue		
Software	1 523	1 563
Appliance	11 168	11 015
Service revenue		
Services	11 605	10 907
Other revenue		
Other revenue	45	113
Total	24 341	23 597

2. Other income from business operations

(1 000 Euros)	2010	2009
Sales of fixed assets	0	18
Rental income	2	125
Lunch sold to employees	70	107
Tekes allowance	775	707
Other operating income	0	84
Total	847	1 041

3. Materials and services

(1 000 Euros)	2010	2009
Materials and goods		
Purchases during the financial period	3 195	3 188
Change in stocks	280	239
Total	3 475	3 427
External services	166	112
Total	3 641	3 539

4. Wages, salaries and indirect employee expenses

(1 000 Euros)	2010	2009
Wages and salaries	6 135	5 518
Pension expenses	846	808
Other indirect employee expenses	233	216
Total	7 214	6 542
Salaries and fees paid to the Board of Directors and CEO	96	88
Number of personnel, average	87	108

5. Depreciation

(1 000 Euros)	2010	2009
Goodwill	0	0
Tangible assets	281	141
Intangible assets	54	62
Investment and financial asset write-downs	0	27
Total	335	230

6. Other operating expenses

(1 000 Euros)	2010	2009
Optional personnel expenses	269	180
Leasing and other building expenses	781	1 013
Equipment expenses	1 133	994
Travel expenses	492	350
Marketing expenses	519	396
Entertainment expenses	135	108
Intra-group transfers of expenses	11 752	11 017
External services	1 184	1 095
Other expenses	1 010	796
Total	17 275	15 949

7. Auditors' fees

(1 000 Euros)	2010	2009
Auditors	54	57
Tax advice	0	2
Certificates and statements	2	0
Other services	7	0
Total	63	59

8. Financial income and expenses

(1 000 Euros)	2010	2009
Dividend income from Group companies	457	489
Interest and other financial income	501	672
Financial income, total	958	1 161
Interest and other financial expenses	269	124
Financial income and expenses, total	689	1 037
Financial income and expenses include		
exchange rate gains/losses (net)	39	33
gains/losses from securities market	300	216
exchange rate gains/losses (net) from securities market	-150	150

9. Income taxes

(1 000 Euros)	2010	2009
Taxes from previous financial periods	0	0
Direct taxes, total	0	0

Notes to the Balance sheet

10. Intangible assets

(1 000 Euros)	2010	2009
Intangible rights		
Acquisition cost 1.1.	1 657	1 535
Additions	21	122
Disposals	-50	0
Acquisition cost 31.12.	1 628	1 657
Accumulated depreciation 1.1.	-1 483	-1 434
Depreciation for financial period	-48	-49
	11	0
Accumulated depreciation 31.12.	-1 520	-1 483
Balance sheet value 31.12.	108	174
Goodwill		
Acquisition cost 1.1.	100	100
Additions	0	0
Acquisition cost 31.12.	100	100
Accumulated depreciation 1.1.	-100	-100
Depreciation for financial period	0	0
Accumulated depreciation 31.12.	-100	-100
Balance sheet value 31.12.	0	0
Other long term expense items		
Acquisition cost 1.1.	1 201	1 201
Additions	10	0
Acquisition cost 31.12.	1 211	1 201
Accumulated depreciation 1.1.	-1 196	-1 182
Depreciation for financial period	-6	-14
Accumulated depreciation 31.12.	-1 202	-1 196
Balance sheet value 31.12.	9	5

11. Tangible assets

(1 000 Euros)	2010	2009
Machinery and equipment		
Acquisition cost 1.1.	1 705	1 589
Additions	526	116
Disposals	-3	0
Acquisition cost 31.12.	2 228	1 705
Accumulated depreciation 1.1.	-1 501	-1 360
Depreciation for financial period	-279	-141
Disposals	-1	0
Accumulated depreciation 31.12.	-1 781	-1 501
Balance sheet value 31.12.	447	204
Other tangible assets		
Acquisition cost 1.1.	6	6
Additions	128	14
Reductions	-111	-14
Acquisition cost 31.12.	23	6
Accumulated depreciation 1.1.	0	0
Depreciation for financial period	0	0
Accumulated depreciation 31.12.	0	0
Balance sheet value 31.12.	23	6

12. Investments

(1 000 Euros)	2010	2009
Stocks and shares		
Acquisition cost 1.1.	961	994
Additions	1	0
Reductions	-29	-33
Acquisition cost 31.12.	933	961

A specification of the daughter companies including ownership information can be found in item 29. Related party transactions in the financial statements of the Group.

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

13. Short term receivables

(1 000 Euros)	2010	2009
Accounts receivable	8 685	7 255
Receivables from Group companies		
Other receivables	148	140
Prepayments and accrued income		
Rental deposits	18	14
Tekes	443	214
Other prepayments and accrued income	518	572
Short term receivables, total	9 812	8 195

Stonesoft Oyj has cumulated, taxable losses for a total of 77 170 thousand Euros at the closing on the 31.12.2010 (80 417 thousand Euros on the 31.12.2009). Losses confirmed in the 2009 taxation total 78 998 thousand Euros (82 360 thousand Euros in year 2008), 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.

Stonesoft Oyj has capitalized postponed depreciation from development costs a total 4 317 thousand Euros on taxation 2009 and a total 4 915 thousand Euros on taxation 2010.

14. Securities included in financial assets

(1 000 Euros)	2010	2009
Marketable securities		
Replacement value	0	5 240
Book value	0	5 092
Difference	0	148

15. Shareholders' equity

(1 000 Euros)	2010	2009
Share capital		
Share capital 1.1.	1 146	1 146
Option payments	5	0
Share capital 31.12.	1 151	1 146
Other restricted shareholders' equity		
Share premium account 1.1.	76 821	76 821
Option payments	122	0
Share premium account 31.12.	76 943	76 821
Other restricted shareholders' equity total	78 094	77 967
Other funds		
Reserve for invested unrestricted equity fund 1.1.	0	0
Issue of shares	4 560	0
Option payments	25	0
Reserve for invested unrestricted equity fund 31.12.	4 585	0
Retained earnings/loss		
Retained earnings/loss 1.1.	-75 596	-75 012
Retained earnings/loss 31.12.	-75 596	-75 012
Result for the financial period	-2 587	-585
Total unrestricted equity	-73 598	-75 597
Shareholders' equity, total	4 496	2 371

Calculation on distributable funds (1 000 Euros)	2010	2009
Retained earnings/loss	-75 596	-75 012
Result for the financial period	-2 587	-585
Total	-78 183	-75 596

16. Provisions

(1 000 Euros)	2010	2009
Other provisions		
Guarantee reserve	21	7
Total	21	7

17. Liabilities

(1 000 Euros)	2010	2009
Short term liabilities		
Accounts payable	1 417	1 182
Debts to the Group companies		
Other debts	1 718	1 928
Substantial items included in deferred liabilities		
Matched maintenance cost	10 663	9 267
Other deferred liabilities	1 509	1 244
Other debts	250	213
Short term liabilities total	15 557	13 833
Liabilities total	15 557	13 833

18. Contingent liabilities

(1 000 Euros)	2010	2009
Leasing liabilities		
Payable in year 2011	41	21
Payable later	43	9
Leasing liabilities to the Group companies		
Payable in year 2011	0	208
Payable later	0	0
Rental liabilities and pledges		
Rental liabilities	1 481	1 941
Performance bond	94	117
Contingent liabilities total	1 659	2 296

For performance bond collateral pledged to Marketable securities 0 thousand Euros financial year 2010 (21 thousand Euros in 2009).

Auditor's report

To the Annual General Meeting of Stonesoft Oyj (Translation)

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 31 December, 2010. The financial statements comprise the consolidated statement of financial position, income statement, statement of changes in equity and statement of cash flows, 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.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view 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 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 express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about 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 of the parent company and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or violated the Limited Liability Companies Act or the articles of association of the company.

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, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. 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.

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 and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position 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.

Other opinions

We support that the Board of Directors of the parent company and the Chief Executive Officer be discharged from liability for the financial period audited by us.

Helsinki, 2 March 2011

Ernst & Young Oy
Authorized Public Accountant Firm

Bengt Nyholm
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.

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

Helsinki, 2 March 2011

Matti Viljo
Chairman of the Board

Hannu Turunen
Member of the Board

Jukka Manner
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, 2 March 2011

Ernst & Young Oy
Authorized Public Accountant Firm

Bengt Nyholm
Authorized Public Accountant

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