

annual report 2001

STONESOFT

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ceo's review



REVIEW BY THE CEO

During 2001, the company underwent the biggest change in its history. As a result, Stonesoft's operations were renewed both in terms of quality and the business environment. We were transformed from a vendor of third-party products and a manufacturer of value add-on products into a global supplier of independent security software. The change was a natural consequence of Stonesoft's determined strategy to achieve a leading position as a supplier of high availability and network security software.

Net sales by the Stonesoft Group during the period were EUR 57.7 million, down 3% on the previous year. The Group's operating loss before goodwill depreciation was EUR 10.4 million, or 18% of net sales. Net sales by the Networks business were EUR 45.8 million, showing a 3% year-on-year decline. Networks' operating loss before goodwill depreciation was EUR 13.4 million, or 29% of net sales.

In 2001, Stonesoft launched StoneGate, its own firewall and VPN solution, and Stonesoft's first independent network security software product. It is a prime example of the advanced expertise of Stonesoft's in-house product development and represents completely unique data security and high availability technology.

During the period, Stonesoft's growth was impeded by the general downswing in the information technology sector and the concentration of business activities necessitated by the company's strategy for change and the change in the competitive environment. During 2001, the company discontinued its network security distribution business in the Nordic countries as well as its network security consultancy business in the USA. In January 2002, Stonesoft Corporation signed a letter of intent regarding the sale of Stonesoft e-solutions Oy to [Novo plc](#).

During 2001, the IT slump reduced the demand for the StoneBeat product family, particularly in the USA. The European Commission is currently investigating, at Stonesoft's request, whether the Israeli based data security company [Check Point Software Technologies Ltd](#) is guilty of abusing a dominant market position in the software-based firewall and VPN market.

Development action taken

The downtrend in the world economy and IT sector has posed major challenges to Stonesoft's ability to change. At the beginning of 2001, the price of the company's share dropped sharply. These two issues led to a renewal of our internal procedures and financial administration processes and a reshuffling of executives. During 2001, Stonesoft took determined steps to improve the quality and efficiency of its in-house processes. As a result of the development action, Stonesoft's business and administrative processes are now better aligned with the requirements imposed by its current global strategy.

In its strategy, Stonesoft places great emphasis on co-operation with leading global hardware suppliers such as Compaq, Fujitsu-Siemens, HP, and IBM, as well as with appliance manufacturers operating at the regional level. At the same time, the sales strategy is being developed to forge a closer relationship between Stonesoft's expert sales force and the end-customers in order to better identify customer needs and to create demand. In the future, Stonesoft will underline industry expertise and sales skills in the in-house training and recruitment of world-class solution sellers to support our channel strategy.

During 2001, Stonesoft also developed its managerial training program to ensure that the new strategy is internalised at all levels of the organisation. Global training will help executives and managers communicate the strategy for change within the company and implement it in their respective business areas.



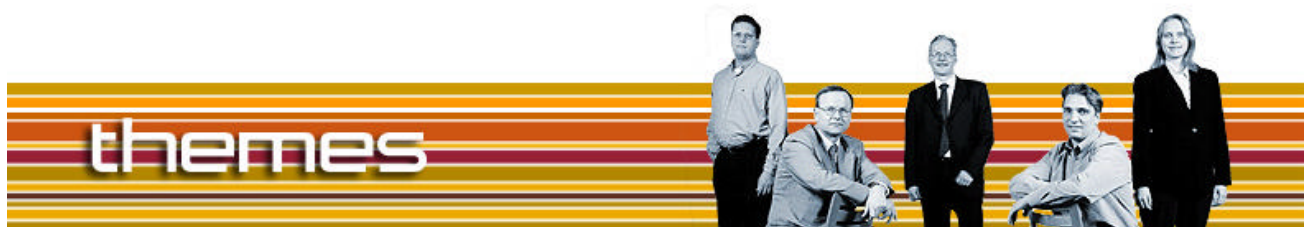
Prospects for the future

The enthusiastic reception of the new StoneGate software on the international market shows that our strategy of concentration to our core network security and high availability business has been successful and that Stonesoft has the potential to supply advanced, flexible and secure infrastructure software to satisfy the needs of major corporations.

The year 2002 will witness the final breakthrough of the StoneGate software. During the current year, Stonesoft will invest not only in StoneGate further development, in the development of new data security products, and in the enhancement of the existing high availability StoneBeat product family. I believe that Stonesoft's position as an independent global player will be further consolidated by new products, a strong partner network, and a more customer-responsive approach.

With a strong cash position and no debts, Stonesoft, supported by the high standards of expertise of its committed staff and genuine co-operation with channel partners, global hardware manufacturers, and system integrators, will be in a very strong position to continue to implement its strategy. At the same time, I wish to extend my thanks to all partners, customers and personnel for the trust they have put in the new strategy. Additionally, I wish to express my special appreciation to Stonesoft employees for their valuable and tangible support in the process of adapting to the requirements required of the new business environment.

Esa Korvenmaa
President and CEO



STRATEGY FOR CHANGE

Stonesoft will continue its efforts to achieve global market leadership in high availability and network security. The company has been transformed from a vendor of third-party products and a manufacturer of valued-added products into a global supplier of independent security software.

We at Stonesoft believe that success in the fast developing IT business calls for an on-going review of objectives and procedures. Stonesoft's activities are steered by its internal innovation process in which we are constantly looking for new solutions to customer needs, as well as by the changes in our external operating environment.

Products

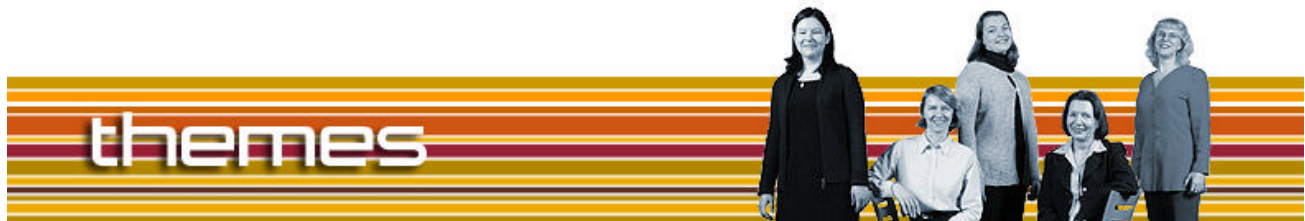
Stonesoft's vision is to be the leading supplier of high availability and network security software for wired and wireless networks. In accordance with the Secure Highly Available Enterprise concept, we develop software products that customers all the over the world can use to enhance the data security and availability of their Internet based services.

Recently, we withdrew from our data security distribution business in Scandinavia. We will respond to the challenge posed by the global market by offering world-class total solutions. They epitomise the company's core expertise: high system availability, excellent performance, advanced manageability and strong data security.

Processes

The change in products will be accompanied by a change in the approach to sales. To support the existing efficient network of value added resellers, we will develop in-house sales skills and cultivate direct contacts with the end-customers. This will help to combine the identification of customer needs and product-specific expertise with efficient distribution and implementation in the sales process.

The economic downswing has intensified efforts to improve the efficiency of Stonesoft's financial monitoring and other administrative processes. A number of fundamental processes that were left unfinished in the proceeding years of rapid growth have now been revamped to align them with the new global strategy. An essential part of operations is change management throughout Stonesoft. Therefore we provide continuous intensive training to help the staff internalise the change strategy and act accordingly.



FINANCIAL ADMINISTRATION PROCESSES

Stonesoft's financial administration processes have been standardised to respond to the requirements imposed by global business. Prediction methodology and monitoring will be improved for use in targeting marketing action.

Stonesoft's strategy for change aims at securing the company's position as a leading global player. Because of the international character of the company's business, the financial administration processes and operations must be highly standardised to ensure a fast response and reliable prediction of future trends.

People and processes

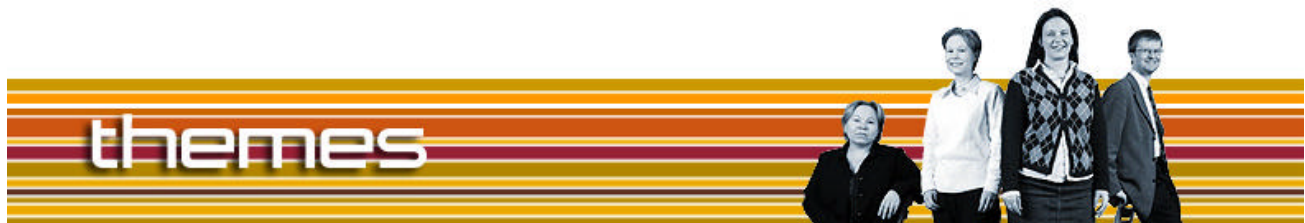
Recently, we have restructured our Financial Administration by redefining processes and re-assigning related responsibilities. Clearly defined responsibilities help the staff members make a greater commitment to their duties and their performance targets set by Stonesoft. The 11-strong Financial Administration team, just like all of the staff members at Stonesoft, are qualified professionals whose contribution to Stonesoft's success is essential.

The standardisation of Stonesoft's financial administration processes is designed to improve efficiency in accounting, financial reporting, accounts receivable and credit monitoring. This has enhanced the quality of operations, increased speed, and facilitated timetable management.

Predictability

Efforts to improve the predictability of business operations are made in close co-operation with the development of sales. The prediction methods we are currently working on facilitate the monitoring of current projected sales step by step, making it possible to collect analytical data on progress for use by Sales and Financial Administration.

At the same time, Stonesoft's Business Control functions have been upgraded to make them more analytical. Our controller network covers all of the main market areas. The controllers are responsible not only for follow-up, analysis and prediction, but also for translating numeric business targets into tangible objectives and motivating the staff to make a full commitment to them. Monthly follow-up meetings called by the controllers offer the opportunity for filing reports and revising the forecasts.



INTERNAL SYSTEMS

The efficient structure of the Stonesoft Corporation's in-house IT-system, its high standard of data security, streamlined internal processes and rational allocation of resources provide a sound basis for its business operations.

Responsibility for the functionality of in-house processes and systems rests with Stonesoft's Administration. With a staff of 20, the unit ensures that the administrative processes and principles designed to support actual business operations are uniformly applied throughout the global organisation. Administration is responsible for order management, internal and external data security, office facilities, and supplies. Administration works in close co-operation with the Legal Department and financial controllers who are also in charge of internal systems at Stonesoft's overseas offices.

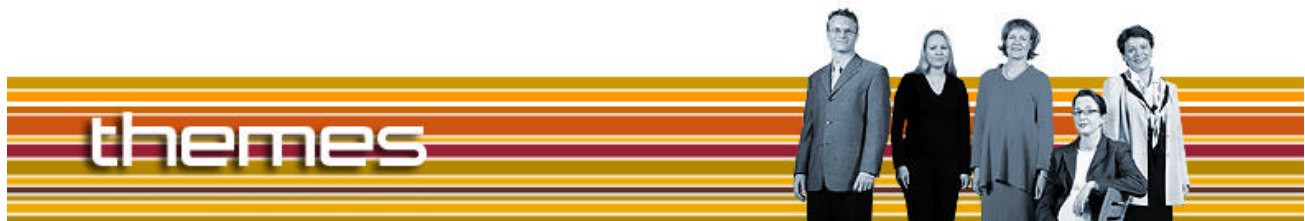
We have invested heavily in the development of internal systems, cost control and efficient allocation of resources. As a rule, we handle all of the business critical functions ourselves. Other administrative duties have been outsourced to allow us to focus on our core business. Administration's task is to serve as an internal organisation that co-ordinates administrative and related consultation services.

Stonesoft Information Management (SIM)

Stonesoft's own network environment is constantly being upgraded to ensure that it responds to the needs of the business. When developing the internal information management network system, we make use of Stonesoft's own products. High availability and network security are important features in customer relationship management, order management, electronic invoicing and collection management.

Stonesoft data security policy

Stonesoft's internal and external data security policy is based on the protection, integrity and availability of data. While safeguarding the data, we also want to ensure that the availability and reliability of the information, which is essential to all employees, is enhanced. Sufficient information is a prerequisite for efficient work performance. Each Stonesoft employee is required to undergo in-house data security training.



CORPORATE GOVERNANCE

Stonesoft has started a program to establish a set of process descriptions of and guidelines for its operative processes based on applicable laws and in-house procedures. The target is to complete this program by the end of the calendar year 2002. The inhouse lawyers' knowledge of Stonesoft's business activities and operations is essential when integrating the processes with the actual business operations.

The Stonesoft Corporation's administration is based on the provisions of the Finnish Companies Act and the company's Articles of Association. The highest decision-making powers in Stonesoft Corp. are vested to the shareholders who exercise their powers at the General Meetings of Shareholders in accordance with the Finnish Companies Act and the company's Articles of Association. In addition to applicable laws, Stonesoft complies with all rules, regulations and guidelines given by the Financial Supervision Authority and the Helsinki Stock Exchange. The Guidelines for Insiders given by the Helsinki Stock Exchange are adapted by Stonesoft and complemented by internal guidelines. Compliance of these guidelines is monitored by a designated insider trading officer.

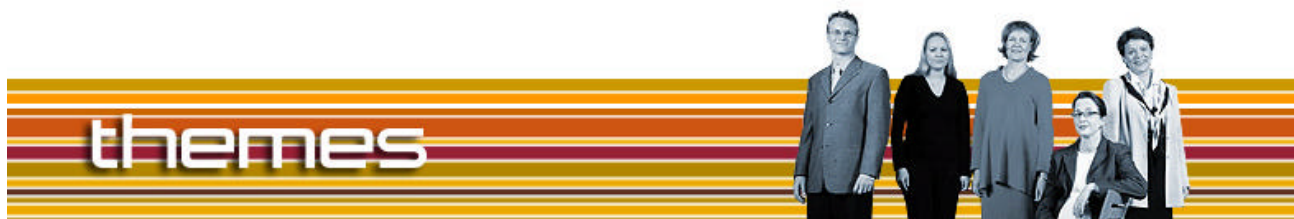
Process guidelines

Stonesoft's in-house guidelines, based on law and corporate procedures, are being compiled into a comprehensive Stonesoft Policies and Guidelines file. These guidelines will ensure that the Stonesoft processes and their implementation are uniformly understood throughout Stonesoft group. Additionally, a standardised process description helps the staff members recognise their own role within the organisation. Stonesoft's intranet serves as one of the most important channels for informing and communicating the guidelines to the staff.

Among other things, the process guidelines address General Meetings of Shareholders, operation of the board of the Stonesoft subsidiaries, data security, IPR policies, and Stonesoft partners. In countries where Stonesoft has subsidiaries, the expertise of local lawyers and accounting firms is drawn upon in the implementation of the processes.

Stonesoft's IPR policy is based on the strong protection of its own intellectual property rights and respect for those of others. Patent, copyright, trademark, company name and domain name issues are co-ordinated by IPR Group, the members of which are Chief Technical Officer, Director of Legal Affairs and Patent Engineer.

The Legal Department employs a total of four people.



Board of Directors

The Board of Directors elected at the annual general meeting of shareholders includes three to six members. In 2001, the Board of Directors convened 21 times. The members of the Board of Directors of the Stonesoft Corporation are as follows:

Hannu Turunen

Chairman of the Board since 2000
Member of the Board since 1992

Kai Karttunen

CEO, Stratos Ventures Ltd Oy
Chairman of the Board 1999-2000
Member of the Board since 1998

John C. Yates

Attorney-at-law, Morris, Manning & Martin LLP
Member of the Board since 1998

Iikka Hiidenheimo

Chief Technical Officer, Stonesoft Corporation
Chairman of the Board 1990-1998
Member of the Board since 1990

Alex Sozonoff

Global Customer Relationship Director, Hewlett-Packard
Member of the Board since 2001

The Chief Executive Officer of the company is Mr. Esa Korvenmaa.

The auditor elected at the annual general meeting of shareholders of the Stonesoft Corporation is Tilintarkastajien Oy Ernst & Young. The auditor in charge is Pekka Luoma, Authorised Public Accountant.

Information for shareholders

The Stonesoft Corporation is listed on the Helsinki Exchanges and its shares are traded on the main list. The trading code is SFTIV. Stonesoft's head office is located in Helsinki, Finland.

The Stonesoft Corporation will publish the following economic disclosures in 2002:

Financial statement release for 2001 on 4 February 2002
Interim report for January - March on 29 April 2002
Interim report for January - June on 29 July 2002
Interim report for January - September on 28 October 2002

The Annual General Meeting of shareholders will be held on 13 March 2002.

YEAR IN BRIEF

Year of change

- Stonesoft was transformed from a third-party product vendor and a manufacturer of add-on products into a global supplier of independent security infrastructure software.
- the network security distribution business in Nordic countries and the network security consultancy business in the USA (Athena Security Group Inc.) were discontinued
- network security value added reselling, data security consultancy and the distribution of own security products in Finland were spun off to a new company named [Stonesoft Finland Oy](#).
- the [eSolutions](#) business was spun off to form a separate subsidiary
- the product rights related to the Optiwise business were sold off
- the business and administrative processes were overhauled to align them with the global strategy

New products

- Stonesoft launched its first independent security software - [StoneGate](#) firewall and VPN solution
- the high availability StoneBeat product range was extended by the addition of the [StoneBeat](#) Clustering Platform and [ServerCluster 2.5](#)
- a new StoneBeat FullCluster solution for Microsoft's ISA server was introduced.

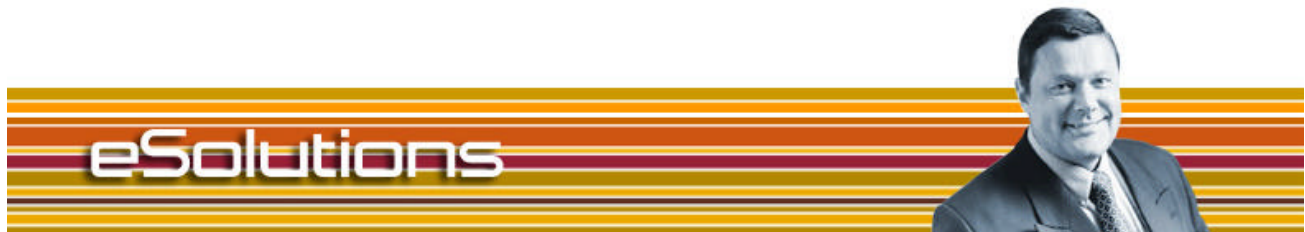
New partnerships

- Software Appliance. An agreement on software appliance co-operation, aimed at integrating high availability, performance and data security features into firmware, was reached with the global Intel-based hardware suppliers Compaq, Fujitsu-Siemens, HP, and IBM and several manufacturers operating at a regional level.
- [Secure Application Partnership Program](#) mission is to "enable the Secure, Highly Available Enterprise" by co-operating with leading security vendors assuring wide range product interoperability
- [Service Availability Forum](#) will create open specifications to ensure dependability of services and software applications within the global communications network.

2001 overview

Key figures

| <i>k euro</i> | 2001 | 2000 |
|--|-------------|-------------|
| Net Sales | 57 703 | 59 568 |
| Net Sales Change-% | -3% | 115% |
| Operating Profit Before Goodwill Depreciations (EBITA) | -10 417 | -1 511 |
| % of Net Sales | -18% | -3% |
| Operating Profit After Goodwill Depreciations (EBIT) | -12 866 | -3 623 |
| % of Net Sales | -22% | -6% |
| ROE - % | -13% | -4% |
| ROI - % | -15% | -4% |
| Equity Ratio-% | 88% | 87% |
| Net Gearing | -0,7 | -0,7 |
| Total Asset | 82 039 | 93 388 |
| R&D Costs | 9 086 | 6 270 |
| % of Net Sales | 16% | 11% |
| Number of Employees at the End of the Year | 571 | 574 |
| Earnings per Share (eur) | -0,15 | -0,01 |
| Equity per Share (eur) | 1,16 | 1,34 |



eSOLUTIONS

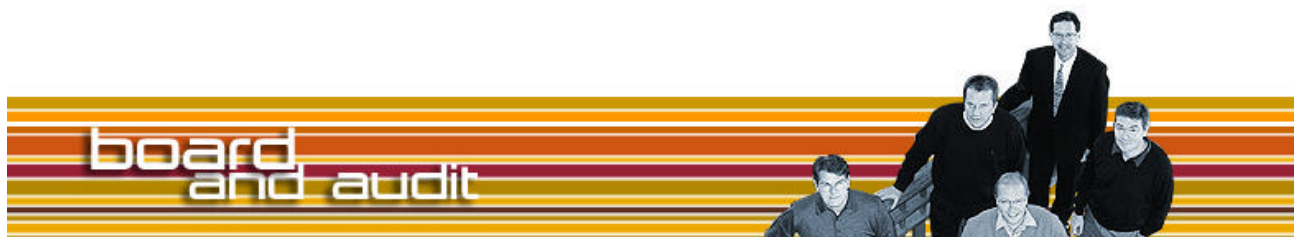
During 2001, the business operations of eSolutions were segregated from the Stonesoft Corporation and set up as an independent subsidiary. Steps were taken to improve the profitability of operations, with the intention of finding a new partner to take over the business, while the Stonesoft Corporation concentrated on the high availability and network security software products offered to the global market.

eSolutions' business includes consultation, provision of solutions, and maintenance related to product data management and transaction processing management in electronic commerce. Stonesoft eSolutions is the leading company in its field of activity in Finland. Net sales by eSolutions in 2001 were EUR 11.9 million, down 5% on the previous year. Its profit before goodwill depreciation was EUR 1.6 million, or 13% of net sales. At the end of the year, the number of personnel at eSolutions was 154.

In January, the Stonesoft Corporation signed a letter of intent regarding the sale of Stonesoft eSolutions Oy to SysOpen plc. However, the parties failed to reach a mutually acceptable agreement in subsequent negotiations. During 2001, Stonesoft continued to develop eSolutions' activities in order to find a new partner to carry on the business. Because eSolutions is involved in a business that differs from the other activities of the Stonesoft Corporation, its operations were segregated from the central corporate administration and set up as an independent subsidiary with its own administration and marketing organisation.

During 2001, the profitability of Stonesoft e-solutions Oy was improved by overhauling the company's system integration strategy, intensifying key account activities, and expanding partnerships, particularly with technology suppliers. At the same time, the business organisation was restructured and the management team reinforced to meet the challenges presented by the renewed strategy. Most of the profit targets for the business area were achieved in 2001.

During the year under review, Stonesoft e-solutions Oy concluded new co-operation agreements with Hansel, Sonera, Metso, ABB, etc. In addition, the eStone electronic business system designed for partners was supplied to the Stonesoft Corporation.



Report by the Board of Directors

Financial year 1 January 2001 - 31 December 2001

1. Development of operations at Stonesoft Corporation during the financial year 2001

Year 2001 was a year of transition at the Stonesoft Corporation. The company was transformed from a vendor of third-party products and manufacturer of add-on products into a global supplier of own security platform software. In the line with its vision of a Secure Highly Available Enterprise, Stonesoft focused increasingly on developing high availability and network security products for wired and wireless networks. As part of the strategy, the company carried out a number of measures to improve the efficiency of business and administrative processes.

During the financial year 2001, the Group's net sales were EUR 57.7 million. Compared with the previous year, net sales fell by 3%. Growth was slowed down by discontinuation of third-party software distribution business and the general downswing in the information technology market during 2001, which was reflected in the demand for StoneBeat products. However, demand for the StoneGate firewall and VPN solution and eSolutions' system integration business fulfilled expectations during the year under review.

The Group's operating loss before goodwill depreciation was EUR 10.4 million, or 18% of net sales. The corresponding figure for the preceding financial year was a loss of EUR 1.5 million. Goodwill depreciation during the period amounted to EUR 2.4 million. Extraordinary items during the financial year were EUR 1.2 million, consisting mainly of the divestment of Athena Group Inc., and the expenditure incurred as a result of the discontinuation of the Optiwise business. The loss of the Group for the financial year was EUR 10.3 million. The corresponding figure for the preceding financial year was a loss of EUR 4.8 million.

Compared with the year-end 2000, the number of personnel remained unchanged. In the Networks business, new staff members were recruited only for positions that were critical to business operations. At the end of the period, the total number of personnel stood at 571, having been 574 at the end of the previous financial year.

2. Major changes in business operations

During the year under review, the Stonesoft Corporation operated in two business areas: Networks and eSolutions. The product rights in the Optiwise business were sold during the period to RTS Inc., California. During 2001, the company discontinued its network security distribution business in the Nordic countries and network security consulting business in the USA (Athena Security Group Inc) in accordance with the chosen strategy.

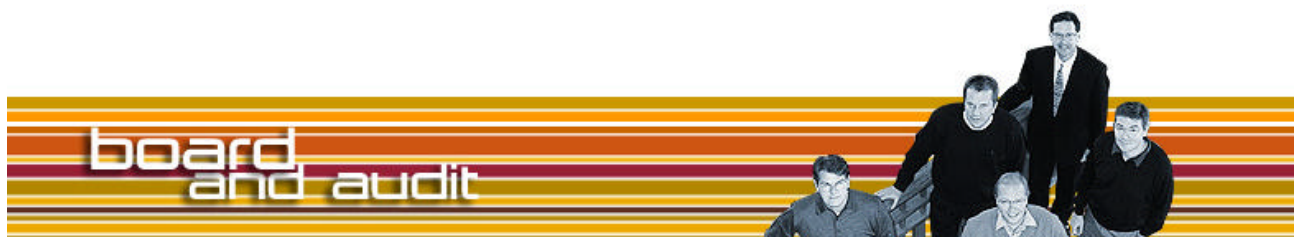
Networks business group

Networks' business is based on high availability and network security software products for wired and wireless networks. Stonesoft's principal products are its new firewall and VPN solution StoneGate and the StoneBeat - high availability product family.

Net sales by Networks during the period were EUR 45.8 million, down 3% on the previous year. Its operating loss before goodwill depreciation was EUR 13.4 million, or 29% of net sales. At the end of the year, the number of personnel at Networks business was 417.

Research and development played an important part in Networks' operations during the period. In March, Networks launched the StoneGate Firewall and VPN Solution based on unique firewall and VPN technology aimed for large corporations, service providers and carriers.

At the same time, the high availability solutions in the StoneBeat product family were further developed. The ServerCluster 2.0, rolled out in March, is a scalable high availability software solution for data warehouse and database applications. The StoneBeat Clustering Platform introduced in May is aimed for companies needing to incorporate high availability technology in their own solutions.



In August, the company launched the StoneBeat FullCluster product for Microsoft's ISA server. With the new product, it is possible to cluster the Microsoft ISA firewall into a scalable high availability security solution. In October, Stonesoft and IBM agreed that IBM will act as a distributor for Stonesoft's products and provide implementation and support services for them in the Nordic countries. The StoneGate software is a factory pre-installed on IBM's eServer xSeries server.

During the period, Stonesoft discontinued its network security distribution business in the Nordic countries. In Finland, network security reselling business and network security consulting business were spun off to a newly established company named Stonesoft Finland Oy. In the future, the parent company will focus on the development and sale of high availability and network security software products for the global market.

To support Networks' global strategy, the company established during the period new subsidiaries in Switzerland, Australia, Singapore and Hong Kong. In the USA, Stonesoft discontinued Athena Group Inc.'s network security consulting business.

Stonesoft filed a complaint with the European Commission to investigate whether the Israeli data security company Check Point Software Technologies Ltd has abused dominant position in the software-based firewall and VPN market. The European Commission is investigating the matter.

eSolutions business group

eSolutions focuses on system integration and consulting services. Its most important customers are major Finnish telecommunications companies, service and industrial enterprises. Stonesoft e-solutions Oy is the leading Finnish expert of product data management and transaction management it-services.

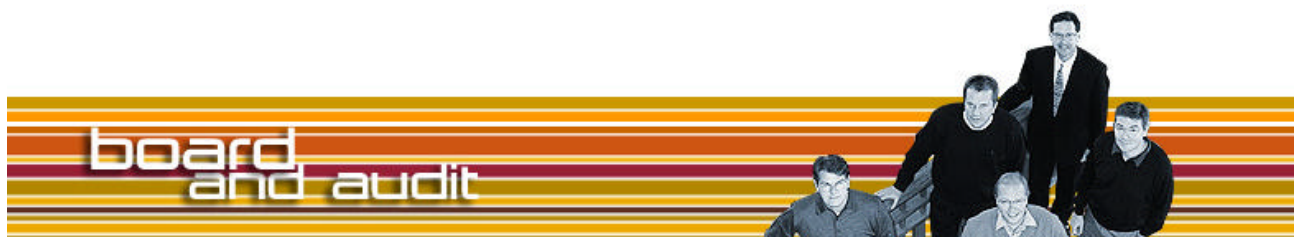
Net sales by eSolutions during the period were EUR 11.9 million, down 5% on the previous year. Its profit before goodwill depreciation was EUR 1.6 million, or 13% of net sales. At the end of the year, the number of personnel at eSolutions was 154.

In accordance with its chosen strategy, the Stonesoft Corporation was looking for a Finnish or international partner that would carry on the eSolutions' business. In January 2001, the Stonesoft Corporation signed a preliminary agreement on the sale of Stonesoft eSolutions Oy to SysOpen plc. However, the sale of eSolutions to SysOpen plc did not materialise because mutually acceptable terms couldn't be reached. As a result, a decision was made during the year under review to continue the eSolutions business and improve its efficiency and profitability.

The eSolutions business strategy is based on partnership and efficient utilisation of core expertise and highly motivated staff. During the period, the organisation of Stonesoft e-solutions Oy was revamped and strengthened to respond to the challenges presented by the chosen strategy. The main emphasis in business operations was placed on improving profitability and process efficiency as a company independent of the parent company.

3. Significant events after the end of the period

On 21 January 2002, the Stonesoft Corporation signed an agreement on the sale of the entire share of Stonesoft eSolutions Oy to Novo plc, which will close on 28 February 2002. The transaction will be implemented through a share exchange by issuing a minimum 4,111,111 and a maximum of 4,316,667 new shares in Novo Group plc to the Stonesoft Corporation. By divesting the eSolutions business, Stonesoft will be able to focus more closely on the international network security business.



4. Outlook for the future

Stonesoft will continue to focus on the development and sale of own security and high availability software products on the global scale. The improved cash position of the company as a result of the sale of the eSolutions business makes it possible to implement the chosen strategy in spite of the short-term uncertainty on the market.

The company believes that network security needs will grow in the long term, particularly with regard to secure VPN solutions, outsourcing of data security services, new markets and the convergence of mobile and IP technology associated with third-generation mobile communications networks.

The company expects that during 2002, its net sales, calculated excluding the figures of the discontinued and divested businesses, will grow and its operating profit before goodwill depreciation (EBITA) will improve.

5. Review of major research and development activities

Stonesoft invests heavily in innovative product development and the protection of related immaterial rights. During the period under review, R&D efforts focused on the further development of high availability and data security solutions. One particular point of focus was the development of solutions that combine high availability and firewall technology. In early 2001, Stonesoft introduced the StoneGate software, which is the first firewall solution in the world to provide high availability and data security between multiple ISP connections. Networks' R&D costs were EUR 9.1 million during the period, equivalent to 20% of its net sales.

6. Proposal by the Board of Directors for distribution of profit

The loss incurred by the parent company for the financial year was EUR 11,149,170. At the end of the period, neither the Group nor the parent company had any distributable equity in its shareholders' equity. The Board of Directors proposes that the parent company pays no dividend for 2001 and that the loss be debited to the retained earnings account.

7. Trends in share prices and turnover

On 2 January 2001, Stonesoft's shares were valued at EUR 14.30 each. At the end of the year, it was EUR 2.07. The highest share price during 2001 was EUR 15.40 and the lowest EUR 1.21. During the period, Stonesoft shares were traded for a total of EUR 286.0 million. The price of Stonesoft's share fell by 86% during 2001. Over the same period, the Helsinki Stock Exchange HEX index decreased by 32%. According to the share price on 31 December 2001, Stonesoft's market capitalisation was EUR 118.6 million.

8. Trend in shareholders' equity and option plan

On 30 March 2001, the Annual General Meeting of shareholders of the Stonesoft Corporation passed a resolution, in accordance with the proposal of the Board of Directors, to authorise the Board of Directors to increase the share capital of the company under § 1, Chapter 4, of the Companies Act by a rights issue and / or issuing options with warrants and / or floating a convertible bond. The authorisation will be in force for one year from the date of the resolution of the Annual General Meeting of shareholders.

The maximum amount of increase authorised under the resolution is EUR 229,070.12 that can be used to subscribe for a maximum of 11,453,506 shares with a par value of EUR 0.02.

In 2001 Stonesoft's share capital increased by EUR 672 as a result of the issue of 33,600 new shares upon stock options issued to key personnel in 1999.

Issued and used but not registered stock options were 1,600 in end of 2001.



On 28 August 2001, the extraordinary general meeting of the shareholders of the Stonesoft Corporation approved the proposal of the Board of Directors for a new option plan. Under the plan, the members of the boards of directors of the Stonesoft Group companies, other management and staff are offered a total 1,500,000 stock options. Each option entitles its holder to subscribe for one share in Stonesoft with a par value of EUR 0.02. The subscription of shares may commence no earlier than 1 May 2002 and will be terminated latest on 30 October 2006. The share subscription price is EUR 2.43.

On 31 December 2001, Stonesoft's share capital was EUR 1,146,022.64. The total number of shares was 57,301,132 and their par value EUR 0.02.

9. Corporate organisation, management and auditors

The Chief Executive Officer of the company is Mr Esa Korvenmaa.

The Chairman of the Board of Directors is Mr Hannu Turunen. Other members of the Board were John C. Yates (partner in the law firm Morris, Manning & Martin LLP), Kai Karttunen (managing director of Stratos Ventures Ltd), Iikka Hiidenheimo (Stonesoft Corporation's Chief Technology Officer) and Alex Sozonoff (Global Customer Relationship Director at Hewlett-Packard), a new member appointed by the Annual General Meeting of shareholders on 30 March 2001. Mr Arto Karila, Dr.Tech., stated on 30 March 2001 that he would resign from the Board.

Oy Ernst & Young has been serving as auditors, the auditor with in charge being CPA Pekka Luoma.

Stonesoft Corporation
Board of Directors

BOARD'S PROPOSALS

The Board of Directors of Stonesoft Corp. proposes to the Annual General Meeting of shareholders to be held on 13 March 2002 that the loss for the financial year be posted to the retained earnings account and no dividend be paid. In addition, the Board is applying for a new authorisation to increase the share capital on the terms and conditions set out below. At the same time the Board proposes that its current authorisation to decide upon an increase of the share capital until 30 March 2002 is to be cancelled.

1. Result of the financial period

The Board proposes to the Annual General Meeting of shareholders that the loss for the financial year be posted to the retained earnings account and no dividend be paid.

2. Authorisation for the Board of Directors to increase the share capital and cancelling of the current authorisation

The Board of Directors proposes to the Annual General Meeting of Stonesoft Corp. to be held on 13 March 2002 that the Annual General Meeting would decide to cancel the current authorisation of the Company's Board of Directors to resolve on the increase of Company's share capital and at the same time decide to give a new authorisation to the Board of Directors to resolve on the increase of the share capital subject to the provisions mentioned in paragraphs 1 - 6 below pursuant to Section 1, Chapter 4 of the Companies Act:

- a) by a new issue; and/or
- b) by granting option rights; and/or
- c) by taking a convertible loan.

The terms and conditions of the authorisation are:

1. The Company's share capital may be increased in one or more lots in a manner whereby the shares to be issued in the new issue and/or on the basis of option rights and/or in connection with a convertible loan may altogether increase the Company's share capital with the maximum of 229,204.52 euros, so that the aggregate maximum number of shares eligible for subscription on the basis of the aforementioned alternatives is 11,460,226 shares, each with an accounting equivalent value of 0.02 euros. Option rights may solely be given to increase the share capital in connection with mergers and acquisitions. The share capital of the Company may be increased by giving option rights with the total maximum of 30,000 euros.
2. The Company's Board of Directors is entitled to decide on who shall have the right to subscribe for new shares in a new share issue, subscribe for option rights or for convertible loan. The new shares and/or option rights and/or convertible loan may, in accordance with Chapter 4 Section 6 of the Companies Act (734/1978, as amended) be subscribed against contribution in kind or otherwise under specific conditions.
3. The new shares to be issued in a new issue and/or the option rights and/or the convertible loan may be offered for subscription in deviation from the shareholders' pre-emptive subscription right pursuant to Chapter 4, Section 2 of the Companies Act (734/1978, as amended) if the deviation is justified because of a weighty financial reason of the Company, such as the financing of an acquisition, the enabling of joint venture transactions and the providing of additional financial alternatives, and/or a part of the incentive program directed to the Company's management and/or other personnel.



board and audit

4. The Company's Board of Directors is entitled, in a share subscription by way of a new issue and/or on the basis of option rights and/or in connection with a convertible loan, to decide on the grounds on which the subscription price shall be determined and on the subscription price which may not, however, be less than the accounting equivalent value of the shares.
5. The Company's Board of Directors is entitled within the limits as set out in the Companies Act (734/1978) to decide on all other matters and provisions related to a new issue and/or the granting of option rights and/or convertible loans, such as an eventual interest payable on the convertible loan.
6. The authorisation shall be in force one year from the decision of the Annual General Meeting.

Helsinki, 14 February 2002
THE BOARD OF DIRECTORS

CORPORATE OPTION PLANS

Option plan 1

In order to provide a staff incentive, the special general meeting of shareholders of the Stonesoft Corporation held on March 15, 1999, passed a resolution to offer options with warrants to key employees. The options with warrants were offered for subscription subject to the following terms:

A total of 625,000 options with warrants were issued. Some of the options with warrants are granted to Stonesoft's wholly owned subsidiary to be issued for the company's current or future employees. The subscription periods for the shares begin in stages as follows: September 1, 2000, September 1, 2001, September 1, 2002, September 1, 2003, and September 1, 2004. Subscription under all the warrants shall end on April 30, 2005. The subscription price of each share under the warrants is EUR 6.50. The company's share capital may be increased under the options with warrants by a maximum of EUR 50,000.

Upon termination of his or her employment or contract, the subscriber shall, unless otherwise indicated, immediately return warrants free of charge to the Company if the subscription period for the warrants involved has not yet begun.

Options subscribed for by the employees were entered in the Trade Register on September 30, 1999.

After the share split (1 to 4) carried out by the Company on December 28, 1999, one option entitles the holder to subscribe for four shares at the price of EUR 1.625 per share.

Option plan 2

In order to provide a staff incentive, the extraordinary general meeting of shareholders of the Stonesoft Corporation held on March 3, 2000, passed a resolution to offer options with warrants to key employees. The options with warrants were offered for subscription subject to the following terms:

A total of 2,500,000 options with warrants were issued. Some of the options with warrants are granted to Stonesoft's wholly owned subsidiary to be issued for the company's current or future employees. The subscription periods for the shares begin in stages as follows: September 1, 2000, September 1, 2001, September 1, 2002, September 1, 2003, and September 1, 2004. Subscription under all the warrants shall end on April 30, 2005. The subscription price of each share under the options with warrants is EUR 6.50. The company's share capital may be increased under the options with warrants with a maximum of EUR 50,000.

Upon termination of his or her employment or contact, the subscriber shall, unless otherwise indicated, immediately return warrants free of charge to the Company if the subscription period for the warrants involved has not yet begun.

Options subscribed for by the employees were entered in the Trade Register on August 16, 2000. A total of 2,492,500 options with warrants have been registered, allowing an increase of EUR 49,850 in share capital.

Option plan 3

At its meeting on October 10, 2000, the Board of Directors decided to issue options with warrants under the authorisation given by the Annual General Meeting of shareholders on March 3, 2000, to the owners of Architek S.r.l. The options with warrants were offered for subscription subject to the following terms:

A total of three options with warrants were issued, authorising the holders to subscribe for a maximum of 607,182 shares. The right to subscribe for shares depends on the sales of a specific software suite during the period from January 1, 2001 - December 31, 2003. The earliest date for subscription is July 14, 2004. The subscription right shall lapse in 60 days from the date when the subscription right has been conclusively confirmed in accordance with the terms of the option. The subscription price of each share under this option plan is EUR 0.02. Based on the options with warrants, the Company's share capital may be increased by a maximum of EUR 12,143.64.

Options subscribed for by the employees were entered in the Trade Register on October 13, 2000.

Option plan 4

The special general meeting of shareholders of the Stonesoft Corporation held on August 28, 2001, approved a new option plan proposed by the Board of Directors.

Under this plan, a total of 1,500,000 options with warrants were offered for subscription to the members of the Boards of Directors of the companies in the Stonesoft Group, other management or staff. Each option with warrants entitles the holder to subscribe for one share in Stonesoft with a par value of EUR 0.02. The subscription periods for the shares begin in stages as follows: May 1, 2002, November 1, 2003, and November 1, 2004. The subscription period for all the shares shall end on October 31, 2006. The subscription price of each share shall be EUR 2.43.

AUDIT REPORT

To the shareholders of Stonesoft Oyj

We have audited the accounting, the financial statements, the consolidated financial statements and the administration of Stonesoft Oyj for the accounting period 1.1. - 31.12.2001. The financial statements, which include the report of the Board of Directors, the income statements and the balance sheets and notes to the financial statements of the consolidated closing and of the closing of the parent company, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on the administration.

We have conducted our audit in accordance with Finnish Standards on Auditing. Those standards require, that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine that the members of the Board of Directors and the Managing Director have legally complied with the rules of the Companies Act.

In our opinion, the financial statements for the financial period showing a loss for the parent company of EUR 11,149,170.12 have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of the consolidated and parent company's results of operations and financial position. The financial statements can be adopted and the members of the Board of Directors and the Managing Director can be discharged from liability for the period examined by us. The proposal by the Board of Directors regarding the handling of the result is in compliance with the Companies Act.

Helsinki, February 28, 2002

Tilintarkastajien Oy - Ernst & Young
Authorized Public Accountant Firm

Pekka Luoma
Authorized Public Accountant

GROUP INCOME STATEMENT

Thousand euros

| | 1.1. - 31.12.2001 | 1.1. - 31.12.2000 |
|--|-------------------|-------------------|
| Net Sales | 57 703 | 59 568 |
| Other operating income | 2 054 | 83 |
| Materials and services | -5 826 | -7 673 |
| Personnel costs | -36 537 | -28 839 |
| Depreciations and reduction in value | -5 013 | -3 886 |
| Other operating expenses | -25 247 | -22 876 |
| Operating Profit (EBIT) | -12 866 | -3 623 |
| Share of associated companies result | -41 | -161 |
| Financial income and expenses | 1 049 | 962 |
| Profit/loss before extraordinary items | -11 858 | -2 822 |
| Extraordinary items +/- | -1 236 | -3 282 |
| Profit before taxes and minority Interest | -13 094 | -6 104 |
| Direct taxes | 2 579 | 1 040 |
| Minority Interest | 253 | 226 |
| Result for financial year | -10 263 | -4 838 |

GROUP BALANCE SHEET

| Thousand euros | 31.12.2001 | 31.12.2000 |
|--------------------------------------|---------------|---------------|
| ASSETS | | |
| Non-Current Assets | | |
| Intangible assets | 1 821 | 1 604 |
| Consolidated goodwill | 6 985 | 9 896 |
| Change in net working capital | 3 379 | 5 434 |
| Investments | 342 | 383 |
| Non-Current Assets Total | 12 528 | 17 317 |
| Current assets | | |
| Inventories | 277 | 252 |
| Short-term receivables | 188 | 212 |
| Deferred tax receivable | 23 386 | 23 614 |
| Investments | 37 222 | 48 200 |
| Cash on hand and on deposit | 8 437 | 3 793 |
| Current Assets Total | 69 511 | 76 071 |
| TOTAL | 82 039 | 93 388 |
| LIABILITIES | | |
| Shareholders' Equity | | |
| Share capital | 1 146 | 1 145 |
| Other restricted share capital | 76 952 | 76 779 |
| Result from previous financial years | -1 200 | 3 818 |
| Result for the financial year | -10 263 | -4 838 |
| Shareholders' equity total | 66 636 | 76 905 |
| Minority Interest | 0 | 240 |
| Other Provisions | 0 | 395 |
| Liabilities | | |
| Long-term liabilities | 26 | 57 |
| Short-term liabilities | 15 377 | 15 790 |
| Total Liabilities | 15 403 | 15 848 |
| TOTAL | 82 039 | 93 388 |

GROUP CASHFLOW STATEMENT

| Thousand euros | 2001 | 2000 |
|--|---------------|----------------|
| Business operations | | |
| Operating Profit | -10 417 | -3 623 |
| Adjustments to operating profit | 2 169 | 4 034 |
| Financial income and expenses | 1 049 | 962 |
| Other Operating Income | 1 096 | -4 909 |
| Extraordinary items | -1 236 | -3 282 |
| Taxes paid | 1 296 | -273 |
| Total | -6 043 | -7 090 |
| Investment activities | | |
| Investments to intangible and tangible assets | -727 | -6 545 |
| Investments to shares in subsidiaries | 474 | -5 379 |
| Investments to shares in associated companies | 0 | -664 |
| Investments to other shares | 0 | -37 |
| Total | -253 | -12 624 |
| Financing activities | | |
| Change in long-term receivables | -31 | 47 |
| Issue of Shares paid | 55 | 61 863 |
| Other | -61 | 92 |
| Total | -38 | 62 002 |
| Change in liquid assets | -6 333 | 42 288 |
| Liquid assets at the beginning of the financial year | 51 993 | 9 705 |
| Liquid assets at the end of the financial year | 45 659 | 51 993 |

PARENT COMPANY INCOME STATEMENT

Thousand euros

| | 1.1. - 31.12.2001 | 1.1. - 31.12.2000 |
|--|-------------------|-------------------|
| Net Sales | 34 812 | 40 052 |
| Other operating income | 2 178 | 19 |
| Materials and services | -2 452 | -4 493 |
| Personnel costs | -9 117 | -8 124 |
| Depreciations | -1 382 | -5 414 |
| Other operating expenses | -40 127 | -20 124 |
| Operating Profit (EBIT) | -16 088 | 1 916 |
| Financial income and expenses | 1 615 | 903 |
| Profit/loss before extraordinary items | -14 474 | 2 819 |
| Extraordinary items +/- | 3 393 | -6 060 |
| Profit before taxes and minority Interest | -11 081 | -3 241 |
| Appropriations | 140 | 2 |
| Direct taxes | -209 | -75 |
| Result for financial year | -11 149 | -3 315 |

PARENT COMPANY BALANCE SHEET

| Thousand euros | 31.12.2001 | 31.12.2000 |
|---------------------------------------|---------------|---------------|
| ASSETS | | |
| Non-Current Assets | | |
| Intangible assets | 1 496 | 1 507 |
| Tangible assets | 942 | 2 931 |
| Investments | 16 979 | 14 604 |
| Non-Current Assets Total | 19 417 | 19 041 |
| Current assets | | |
| Inventories | 115 | 71 |
| Short-term receivables | 17 867 | 16 912 |
| Investments | 37 208 | 48 200 |
| Cash on hand and on deposit | 3 377 | 1 186 |
| Current Assets Total | 58 566 | 66 369 |
| TOTAL | 77 983 | 85 410 |
| LIABILITIES | | |
| Shareholders' Equity | | |
| Share capital | 1 146 | 1 145 |
| Other restricted share capital | 76 821 | 76 767 |
| Result from previous financial years | -521 | 2 794 |
| Result for the financial year | -11 149 | -3 315 |
| Shareholders' equity total | 66 297 | 77 392 |
| Accumulation of appropriations | 0 | 133 |
| Liabilities | | |
| Short-term liabilities | 11 686 | 7 885 |
| Total Liabilities | 11 686 | 7 885 |
| TOTAL | 77 983 | 85 410 |

PARENT COMPANY CASHFLOW STATEMENT

| Thousand euros | 2001 | 2000 |
|--|---------------|----------------|
| Business operations | | |
| Operating Profit | -16 088 | 1 916 |
| Adjustments to operating profit | 1 879 | 2 468 |
| Financial income and expenses | 952 | 903 |
| Change in working capital | 6 630 | -12 234 |
| Other Operating Income | -1 236 | -3 282 |
| Extraordinary items | -268 | -1 956 |
| Taxes paid | -209 | -75 |
| Total | -7 105 | -8 980 |
| Investment activities | | |
| Investments to intangible and tangible assets | -827 | -4 110 |
| Sales of intangible and tangible assets | 1 451 | 92 |
| Investments to shares in subsidiaries | -2 375 | -6 470 |
| Investments to shares in associated companies | 0 | -503 |
| Total | -1 751 | -10 991 |
| Financing activities | | |
| Change in long-term receivables | 0 | -11 |
| Issue of Shares paid | 55 | 61 863 |
| Total | 55 | 61 853 |
| Change in liquid assets | -8 801 | 41 882 |
| Liquid assets at the beginning of the financial year | 49 386 | 7 503 |
| Liquid assets at the end of the financial year | 40 585 | 49 386 |

STONESOFT GROUP KEY RATIOS

| Thousand euros | 2001 | 2000 | 1999 | 1998 | 1997 |
|--|------------|------------|------------|------------|------------|
| Net Sales | 57 703 | 59 568 | 27 683 | 10 423 | 6 763 |
| Net Sales Change-% | -3% | 115% | 166% | 54% | 103% |
| Operating Profit Before Goodwill Depreciations (EBITA) | -10 417 | -1 511 | 3 073 | 1 617 | 799 |
| % of Net Sales | -18% | -3% | 11% | 16% | 12% |
| Operating Profit After Goodwill Depreciations (EBIT) | -12 866 | -3 623 | 2 698 | 1 615 | 799 |
| % of Net Sales | -22% | -6% | 10% | 15% | 12% |
| Profit before Extraordinary Items | -11 858 | -2 822 | 3 080 | 1 636 | 815 |
| % of Net Sales | -21% | -5% | 11% | 16% | 12% |
| Profit before taxes and minority Interest | -13 094 | -6 104 | 2 239 | 1 636 | 883 |
| % of Net Sales | -23% | -10% | 8% | 16% | 13% |
| ROE - % | -13% | -4% | 20% | 48% | 54% |
| ROI - % | -15% | -4% | 29% | 64% | 70% |
| Equity Ratio-% | 88% | 87% | 73% | 55% | 44% |
| Net Gearing | -0,68 | -0,67 | -0,50 | -0,60 | -0,60 |
| Total Asset | 82 039 | 93 388 | 27 600 | 6 906 | 3 051 |
| Capital Investments | 727 | 5 944 | 2 071 | 335 | 61 |
| % of Net Sales | 1% | 10% | 7% | 3% | 1% |
| R&D Costs | 9 086 | 6 270 | 2 261 | 1 011 | 555 |
| % of Net Sales | 16% | 11% | 8% | 10% | 8% |
| Number of Employees (Weighted Average) | 581 | 450 | 168 | 74 | 61 |
| Number of Employees at the End of the Year | 571 | 574 | 340 | 122 | 67 |
| Share Specific Ratios | | | | | |
| Earnings per Share (eur) | -0,15 | -0,01 | 0,06 | 0,04 | 0,02 |
| Equity per Share (eur) | 1,16 | 1,34 | 0,37 | 0,11 | 0,05 |
| Divident per Share (eur) | 0 | 0 | 0 | 0 | 0 |
| Dividend / Profit-% | 0% | 0% | 0% | 10% | 11% |
| Weighted Amount of Shares (Option dillution effect included) | 57 643 083 | 55 499 114 | 42 926 752 | 32 188 240 | 28 800 000 |
| Amount of Shares at the End of period | 57 301 132 | 57 267 532 | 52 536 140 | 42 352 960 | 28 800 000 |

CALCULATION OF BUSINESS RATIOS

| | | |
|--|---|---|
| RETURN ON EQUITY, (ROE) % | = | $\frac{\text{Result before extraordinary items - taxes} \times 100}{\text{Shareholders' equity} + \text{minority interest}}$ |
| RETURN ON INVESTMENT, (ROI) % | = | $\frac{\text{Result before extraordinary items} + \text{interest and other financial expenses} \times 100}{\text{Balance sheet total} - \text{interest-free debts}}$ |
| EQUITY RATIO % | = | $\frac{\text{Shareholders' equity} + \text{minority interest} \times 100}{\text{Balance sheet total} - \text{advances received}}$ |
| NET GEARING | = | $\frac{\text{Liabilities at interest} - \text{cash on hand and on deposit}}{\text{Shareholders' equity} + \text{minority interest} + \text{voluntary provisions and depreciation differences less deferred tax liability}}$ |
| EARNINGS PER SHARE (EPS), eur | = | $\frac{\text{Result before extraordinary items} - \text{taxes} -/+ \text{minority interest}}{\text{Share issue} - \text{adjusted shares on date of financial statement}}$ |
| EQUITY PER SHARE, eur | = | $\frac{\text{Shareholders' equity}}{\text{Year-end number of shares adjusted for stock issue}}$ |
| DIVIDEND PER SHARE, eur | = | $\frac{\text{Total dividend}}{\text{Year-end number of shares adjusted for stock issue}}$ |
| DIVIDEND / PROFIT % | = | $\frac{\text{Dividend per share} \times 100}{\text{Earnings per share}}$ |

ACCOUNTING PRINCIPLES

Scope of the consolidated financial statements

The figures from following companies have been consolidated to Stonesoft Group financial statement:

Stonesoft Oyj - parent company
Stonesoft Finland Oy (former Stonegate Oy)
Stonesoft e-solutions Oy
Embe Systems Oy
 Embe Systems Inc (USA)
Avantcomp Oy
Fence Technologies Oy
Optiwise Inc
 Optiwise Oy
Stonesoft France S.A.S
Stonesoft Ab (Sweden)
Stonesoft Networks Ltd (UK)
Stonesoft Germany GmbH
Stonesoft Japan K.K
Unirel Sistemi S.r.l (Italy)
Stonesoft Italy Srl
Stonegate AG (Switzerland)
Stonesoft Netherlands B.V.
Stonesoft Espana S.A. (Spain)
Stonesoft Australia Pty Ltd
Stonesoft Singapore
Stonesoft Hong Kong
Stonesoft Inc (USA)
 Athena Security Group Inc (USA), 60.8%, period 1.1.-30.9.2001.

Stonesoft Group Financial Statement includes also 42% of the financial result of associated company Apc Attoparsek Oy.

Principles of consolidation

The consolidated financial statements were prepared using the acquisition cost method. The difference between the acquisition cost of subsidiaries and the amount of shareholders' equity proportionate to the acquired shareholding has been entered as goodwill. The consolidated goodwill is depreciated in five years.

Transactions within the Group as well as internal receivables and payables and internal ownerships of the shares have been eliminated.

Group net sales

When calculating the net sales, indirect taxes of sales and adjustment items are deducted from total sales revenues. Revenues and costs for maintenance of software products are divided into the respective contract periods.

Items in foreign currency

The financial statements have been prepared in Euros. Receivables and payables in foreign currency have been converted to euros using average rates of the day of closing the books. Exchange rate differences in accounts receivable have been entered as sales adjustment items and purchases are translated into purchases exchange differences. Other exchange rate differences have been booked to exchange rate differences in financial income and expenses.

The profit and loss accounts of foreign subsidiaries have been converted using the average exchange rate for the period and the balance sheets have been converted using the exchange rate of the day issuing the financial accounts.

Pension expenses

The 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 rents for the outstanding rental contract terms have been taken into account as rental liabilities.

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 straight line method on the basis of economical lifespan of the capital asset items.

| Depreciation period for capital assets | Stonesoft Group | | Stonesoft Corp | |
|--|-----------------|------|----------------|------|
| | 2001 | 2000 | 2001 | 2000 |
| Machinery | 3 | 3 | 3 | 3 |
| Equipment | 5 | 5 | 5 | 5 |
| Other tangible assets | 5 | 5 | 5 | 5 |
| Other long-term expense items | 5 | 5 | 5 | 5 |
| Consolidated goodwill | 5 | 5 | - | - |

Securities included in financial assets

The securities included in financial assets have been valued at the acquisition price or the market price, whichever is lower.

NOTES TO THE INCOME STATEMENT

Thousand euros

| Net sales by market areas | Stonesoft Group | | Stonesoft Corp | |
|---------------------------|-----------------|---------------|----------------|---------------|
| | 2001 | 2000 | 2001 | 2000 |
| Emea | 38 781 | 39 207 | 16 656 | 20 550 |
| Americas | 13 503 | 15 747 | 12 738 | 14 889 |
| Asia Pacific | 5 419 | 4 613 | 5 419 | 4 613 |
| Total | 57 703 | 59 568 | 34 812 | 40 052 |

| Net sales by business functions | Stonesoft Group | | Stonesoft Corp | |
|---------------------------------|-----------------|---------------|----------------|---------------|
| | 2001 | 2000 | 2001 | 2000 |
| Licence revenue | | | | |
| Own licences | 22 158 | 27 554 | 21 366 | 27 171 |
| Other licences | 3 604 | 5 603 | 1 335 | 2 817 |
| Licence revenue total | 25 762 | 33 157 | 22 701 | 29 988 |
| Service revenue | | | | |
| Consultation and training | 18 227 | 17 121 | 825 | 1 516 |
| Support, own | 8 717 | 4 649 | 8 359 | 4 349 |
| Support, other | 2 810 | 1 872 | 1 113 | 1 277 |
| Service revenue total | 29 754 | 23 642 | 10 297 | 7 142 |
| Other revenue | | | | |
| Hardware | 1 279 | 2 340 | 656 | 2 179 |
| Other sales | 908 | 429 | 1 158 | 744 |
| Total | 57 703 | 59 568 | 34 812 | 40 052 |

| Other income from business operations | Stonesoft Group | | Stonesoft Corp | |
|---------------------------------------|-----------------|-----------|----------------|-----------|
| | 2001 | 2000 | 2001 | 2000 |
| Business subsidy for R&D activities | 318 | 0 | 190 | 0 |
| Sales of fixed assets | 0 | 15 | 0 | 5 |
| Rental income | 56 | 38 | 0 | 0 |
| Sales of Optiwise technology | 1 430 | 0 | 0 | 0 |
| Income from personnel canteen | 123 | 0 | 83 | 0 |
| Group internal administration fee | 0 | 0 | 1 905 | 0 |
| Others | 128 | 30 | 0 | 14 |
| Total | 2 054 | 83 | 2 178 | 19 |

| Materials and services | Stonesoft Group | | Stonesoft Corp | |
|---------------------------------------|-----------------|--------------|----------------|--------------|
| | 2001 | 2000 | 2001 | 2000 |
| Materials and goods | | | | |
| Purchases during the financial period | 5 421 | 7 381 | 2 192 | 4 400 |
| Changes in stock levels | -25 | -92 | -43 | 82 |
| | 5 396 | 7 289 | 2 149 | 4 482 |
| External services | 430 | 384 | 303 | 11 |
| Total | 5 826 | 7 673 | 2 452 | 4 493 |

| Wages, salaries and indirect employee expenses | Stonesoft Group | | Stonesoft Corp | |
|--|-----------------|---------------|----------------|--------------|
| | 2001 | 2000 | 2001 | 2000 |
| Wages and salaries | 29 737 | 23 276 | 7 266 | 6 282 |
| Pension expenses | 5 055 | 2 550 | 1 245 | 949 |
| Other indirect employee expenses | 1 745 | 3 012 | 606 | 893 |
| Total | 36 537 | 28 839 | 9 117 | 8 124 |
| Salaries and fees paid to the Board of Directors and CEO | 379 | 364 | 207 | 148 |
| Number of personel | | | | |
| Average | 581 | 450 | 167 | 139 |

| Depreciation | Stonesoft Group | | Stonesoft Corp | |
|---|-----------------|--------------|----------------|--------------|
| | 2001 | 2000 | 2001 | 2000 |
| Goodwill | 2 449 | 2 112 | 0 | 0 |
| Tangible assets | 2 116 | 1 560 | 1 006 | 891 |
| Intangible assets | 448 | 215 | 377 | 179 |
| Extraordinary depreciation of investments and asset | 0 | 0 | 0 | 4 344 |
| Total | 5 013 | 3 886 | 1 382 | 5 414 |

| Financial income and expenses | Stonesoft Group | | Stonesoft Corp | |
|--|-----------------|------------|----------------|------------|
| | 2001 | 2000 | 2001 | 2000 |
| Dividend income | | | | |
| From Group companies | 0 | 0 | 652 | 0 |
| From others | 25 | 0 | 35 | 0 |
| Interest and other financial income | 2 174 | 1 903 | 2 037 | 1 861 |
| Financial income, total | 2 199 | 1 903 | 2 724 | 1 861 |
| Interest and other financial expenses | 1 150 | 941 | 1 109 | 958 |
| Financial income and expenses, total | 1049 | 962 | 1615 | 903 |
| The item financial income and expenses includes exchange rate gains / losses (net) | -1 | 43 | -14 | 14 |
| Gains / losses from capital market | -824 | -791 | -824 | -791 |

| Extraordinary items | Stonesoft Group | | Stonesoft Corp | |
|---|-----------------|---------------|----------------|---------------|
| | 2001 | 2000 | 2001 | 2000 |
| Extraordinary income | | | | |
| Group contribution | 0 | 0 | 3 662 | 0 |
| Extraordinary expenses | | | | |
| Group contribution | 0 | 0 | 0 | 4 104 |
| Liquidation of obligatory reserve | 0 | -247 | 0 | -247 |
| Public listing expenses | 0 | 2 203 | 0 | 2 203 |
| Closing down the Optiwise business | 304 | 1 302 | 0 | 0 |
| Closing down the business of Athena Security Group Inc | 848 | 0 | 184 | 0 |
| Others | 84 | 24 | 84 | 0 |
| Extraordinary expenses, total | 1 236 | 3 282 | 268 | 6 060 |
| Extraordinary items, total | -1 236 | -3 282 | 3 393 | -6 060 |

| Appropriations | Stonesoft Group | | Stonesoft Corp | |
|----------------------|-----------------|------|----------------|------|
| | 2001 | 2000 | 2001 | 2000 |
| Depreciation reserve | 0 | 0 | 140 | 2 |

| Direct taxes | Stonesoft Group | | Stonesoft Corp | |
|---------------------------------------|-----------------|--------------|----------------|------------|
| | 2001 | 2000 | 2001 | 2000 |
| Income taxes on extraordinary items | 358 | 952 | 0 | 1 757 |
| Income taxes on actual business | -494 | -1 224 | 0 | -1 833 |
| Change in deferred tax liability | 2 715 | 1 313 | 0 | 0 |
| Taxes from previous financial periods | 0 | 0 | -209 | 0 |
| Direct taxes, total | 2 579 | 1 040 | -209 | -75 |

NOTES TO THE BALANCE SHEET

Thousand euros

| Fixed assets | Stonesoft Group | | Stonesoft Corp | |
|---|-----------------|--------------|----------------|--------------|
| | 2001 | 2000 | 2001 | 2000 |
| Intangible assets | | | | |
| Intangible rights | | | | |
| Acquisition cost 1.1. | 857 | 480 | 704 | 342 |
| Increases | 513 | 421 | 277 | 362 |
| Reductions | -48 | -45 | -48 | 0 |
| Acquisition cost 31.12. | 1 321 | 857 | 933 | 704 |
| Accumulated depreciation 1.1. | -322 | -186 | -252 | -146 |
| Depreciation for financial period | -219 | -161 | -147 | -106 |
| Accumulated depreciation on reductions | 27 | 25 | 27 | 0 |
| Accumulated depreciation 31.12. | -513 | -322 | -372 | -252 |
| Balance sheet value 31.12. | 808 | 535 | 561 | 452 |
| Consolidated goodwill | | | | |
| Acquisition cost 1.1. | 12 384 | 5 712 | 0 | 0 |
| Increases | 0 | 6 672 | 0 | 0 |
| Reductions | -462 | 0 | 0 | 0 |
| Acquisition cost 31.12. | 11 922 | 12 384 | 0 | 0 |
| Accumulated depreciation 1.1. | -2 488 | -376 | 0 | 0 |
| Depreciation for financial period | -2 449 | -2 112 | 0 | 0 |
| Accumulated depreciation 31.12. | -4 938 | -2 488 | 0 | 0 |
| Balance sheet value 31.12. | 6 985 | 9 896 | 0 | 0 |
| Other long-term expense items | | | | |
| Acquisition cost 1.1. | 1 142 | 0 | 1 127 | 0 |
| Increases | 80 | 1 142 | 17 | 1 127 |
| Acquisition cost 31.12. | 1 221 | 1 142 | 1 145 | 1 127 |
| Accumulated depreciation 1.1. | -74 | 0 | -73 | 0 |
| Depreciation for financial period | -229 | -74 | -229 | -73 |
| Accumulated depreciation 31.12. | -302 | -74 | -302 | -73 |
| Balance sheet value 31.12. | 919 | 1 068 | 842 | 1 054 |
| Advance payments for intangible rights | | | | |
| Balance sheet value 31.12. | 93 | 1 | 93 | 1 |

| Fixed assets | Stonesoft Group | | Stonesoft Corp | |
|--|-----------------|--------------|----------------|---------------|
| | 2001 | 2000 | 2001 | 2000 |
| Tangible assets | | | | |
| Machinery and equipment | | | | |
| Acquisition cost 1.1. | 7 908 | 2 937 | 4 487 | 1 960 |
| Increases | 1 482 | 5 137 | 445 | 2 543 |
| Reductions | -2 767 | -166 | -2 776 | -16 |
| Acquisition cost 31.12. | 6 623 | 7 908 | 2 156 | 4 487 |
| Accumulated depreciation 1.1. | -2 701 | -998 | -1 561 | -670 |
| Accumulated depreciation on reductions | 1 305 | 49 | 1 346 | 0 |
| Depreciation for financial period | -2 069 | -1 752 | -1 006 | -891 |
| Accumulated depreciation 31.12. | -3 465 | -2 701 | -1 221 | -1 561 |
| Balance sheet value 31.12. | 3 158 | 5 207 | 935 | 2 926 |
| Other tangible assets | | | | |
| Acquisition cost 1.1. | 256 | 36 | 5 | 5 |
| Increases | 41 | 220 | 2 | 0 |
| Acquisition cost 31.12. | 297 | 256 | 7 | 5 |
| Accumulated depreciation 1.1. | -76 | -1 | 0 | 0 |
| Depreciation for financial period | -47 | -27 | 0 | 0 |
| Accumulated depreciation 31.12. | -76 | -28 | 0 | 0 |
| Balance sheet value 31.12. | 221 | 227 | 7 | 5 |
| Investments | | | | |
| | Stonesoft Group | | Stonesoft Corp | |
| | 2001 | 2000 | 2001 | 2000 |
| Stocks and shares | | | | |
| Acquisition cost 1.1. | 383 | 106 | 14 604 | 7 991 |
| Increases | 0 | 277 | 2 375 | 7 750 |
| Reductions | -41 | 0 | 0 | -212 |
| Loss of value | 0 | 0 | 0 | -925 |
| Acquisition cost 31.12. | 342 | 383 | 16 979 | 14 604 |

| Group companies | Group | Parent | Book value |
|--|------------------------|------------------------|-----------------------|
| Stocks and shares held by the Group | shareholding, % | company | held by the |
| | | shareholding, % | parent company |
| | | | <i>k euro</i> |
| Stonesoft Finland Oy | 100 | 100 | 472 |
| (former Stonegate Oy), Helsinki | | | |
| Stonesoft e-solutions, Helsinki | 100 | 100 | 6 062 |
| Avantcomp Oy, Espoo | 100 | 100 | 743 |
| Embe Systems Oy, Oulu | 100 | 100 | 6 614 |
| Embe Systems Inc, USA, Dallas | 100 | 0 | 0 |
| Fence Technologies Oy, Espoo | 100 | 100 | 27 |
| Stonesoft Inc., USA, Atlanta | 100 | 100 | 43 |
| Stonesoft AB, Ruotsi, Stockholm | 100 | 100 | 11 |
| Stonesoft Networks (UK) Ltd, Reading | 100 | 100 | 2 |
| Stonesoft France S.A.S., Sophia Antipolis | 100 | 100 | 40 |
| Stonesoft Germany GmbH, Ismaning | 100 | 100 | 25 |
| Stonesoft Espana S.A. Madrid | 100 | 100 | 60 |
| Stonesoft Japan K.K., Tokyo | 100 | 100 | 94 |
| Stonesoft Netherlands B.V., Amsterdam | 100 | 100 | 20 |
| Optiwise Inc, Atlanta | 100 | 100 | 17 |
| Optiwise Oy, Helsinki | 100 | 0 | 0 |
| Stonesoft Italy S.r.l, Milano | 100 | 99,99 | 18 |
| Unirel Sistemi S.r.l, Firenze | 100 | 99,99 | 213 |
| Stonegate AG, Sveitsi, Zurich | 100 | 100 | 66 |
| Stonesoft Australia Pty Ltd, Sidney | 100 | 100 | 0 |
| Stonesoft Singapore PTE Ltd | 100 | 100 | 0 |
| Stonesoft Hong Kong | 100 | 100 | 0 |
| Total | | | 14 526 |

| Stocks and shares held by the Group | Group | Parent | Group | Parent |
|--|-------------------|-------------------|-------------------|-------------------|
| in associated companies 31.12.2001 | share- | company | book value | company |
| | holding, % | share- | | book value |
| | | holding, % | | |
| Apc Attoparsek Oy, Helsinki | 42 | 42 | 304 | 605 |

Short-term receivables

| | Stonesoft Group | | Stonesoft Corp | |
|--------------------------------------|-----------------|---------------|----------------|---------------|
| | 2001 | 2000 | 2001 | 2000 |
| Accounts receivable | 14 016 | 17 518 | 8 544 | 11 750 |
| Receivables from the Group companies | | | | |
| Accounts receivable | 0 | 0 | 346 | 350 |
| Other receivables | 0 | 0 | 7 906 | 3 714 |
| Prepayments and accrued income | | | | |
| VAT credits | 0 | 0 | 350 | 173 |
| Tax credits | 0 | 0 | 332 | 629 |
| Trade fairs and marketing fees | 0 | 0 | 0 | 119 |
| Rental deposits | 0 | 0 | 70 | 54 |
| Other prepayments and accrued income | 3 454 | 3 602 | 319 | 124 |
| Other receivables (consolidated) | 1 447 | 952 | 0 | 0 |
| Deferred tax credits | 4 469 | 1 754 | 0 | 0 |
| Receivables, total | 23 386 | 23 826 | 17 867 | 16 912 |

Securities included in financial assets

| | Stonesoft Group | | Stonesoft Corp | |
|------------------|-----------------|--------|----------------|--------|
| | 2001 | 2000 | 2001 | 2000 |
| Investments | | | | |
| Replacement cost | 37 345 | 48 779 | 37 331 | 48 779 |
| Book value | 37 222 | 48 200 | 37 208 | 48 200 |
| Difference | 123 | 579 | 123 | 579 |

Shareholders' equity

| | Stonesoft Group | | Stonesoft Corp | |
|--------------------------------------|-----------------|--------------|----------------|--------------|
| | 2001 | 2000 | 2001 | 2000 |
| Share capital | | | | |
| Share capital 1.1. | 1 145 | 1 051 | 1 145 | 1 051 |
| Emission 2, 31.3.2000 | 0 | 56 | 0 | 56 |
| Increase in share capital 4.5.2000 | 0 | 8 | 0 | 8 |
| Increase in share capital 13.10.2000 | 0 | 24 | 0 | 24 |
| Option subscription 6.11.2000 | 0 | 1 | 0 | 1 |
| Increase in share capital 13.12.2000 | 0 | 2 | 0 | 2 |
| Option subscription 27.12.2000 | 0 | 3 | 0 | 3 |
| Increase in share capital 16.8.2001 | 1 | 0 | 1 | 0 |
| Share capital 31.12. | 1 146 | 1 145 | 1 146 | 1 145 |

Other restricted shareholders' equity

| | | | | |
|-------------------------------------|---------------|---------------|---------------|---------------|
| Share premium account 1.1. | 76 764 | 14 434 | 76 764 | 14 434 |
| Issue premium, 31.3.2000 | 0 | 61 438 | 0 | 61 438 |
| Issue premium, 4.5.2000 | 0 | 318 | 0 | 318 |
| Issue premium, 13.10.2000 | 0 | 207 | 0 | 207 |
| Issue premium, 6.11.2000 | 0 | 84 | 0 | 84 |
| Issue premium, 13.12.2000 | 0 | 6 | 0 | 6 |
| Issue premium, 27.12.2000 | 0 | 278 | 0 | 278 |
| Issue premium, 16.8.2001 | 54 | 0 | 54 | 0 |
| Share premium account 31.12. | 76 818 | 76 764 | 76 818 | 76 764 |

Emission

| | | | | |
|--|-----|----|---|---|
| Non-registered portion of option subscriptions | 3 | 3 | 3 | 3 |
| Translation difference, restricted | 131 | 12 | 0 | 0 |

| | | | | |
|--|---------------|---------------|---------------|---------------|
| Other restricted shareholders' equity total | 76 952 | 76 779 | 76 821 | 76 767 |
|--|---------------|---------------|---------------|---------------|

Profit / loss from previous years

| | | | | |
|--|---------------|---------------|---------------|---------------|
| Profit / loss from previous financial periods 1.1. | -1 020 | 3 738 | -521 | 2 794 |
| Translation difference, free | -180 | 80 | 0 | 0 |
| Profit / loss from previous financial periods 31.12. | -1 200 | 3 818 | -521 | 2 794 |
| Profit / loss for financial period | -10 263 | -4 838 | -11 149 | -3 315 |
| Shareholders's equity, total | 66 636 | 76 905 | 66 297 | 77 392 |

Calculation on distributable funds

| | Stonesoft Group | | Stonesoft Corp | |
|--|-----------------|---------------|----------------|-------------|
| | 2001 | 2000 | 2001 | 2000 |
| Profit / loss from previous financial periods | -1 200 | 3 818 | -521 | 2 794 |
| Profit / loss for financial period | -10 263 | -4 838 | -11 149 | -3 315 |
| Other reserves | | | | |
| Activated foundation expenditure | 0 | -3 | 0 | 0 |
| Portion of accumulated depreciation difference entered in shareholders' equity | 0 | -96 | 0 | 0 |
| Other items | -180 | -80 | 0 | 0 |
| Total | -11 643 | -1 199 | -11 670 | -521 |

| Liabilities | Stonesoft Group | | Stonesoft Corp | |
|--|-----------------|---------------|----------------|--------------|
| | 2001 | 2000 | 2001 | 2000 |
| Long-term liabilities | | | | |
| Hire purchase liability | 26 | 57 | 0 | 0 |
| Short-term liabilities | | | | |
| Loans from financial institutions | 0 | 56 | 0 | 0 |
| Advances received | 1 551 | 7 | 0 | 2 |
| Accounts payable | 1 696 | 3 069 | 550 | 1 138 |
| Debts to the Group companies | | | | |
| Other debts | 0 | 0 | 4 882 | 573 |
| Substantial items included in deferred liabilities | | | | |
| Deferred payroll provisions | 0 | 0 | 1 023 | 1 426 |
| Matched maintenance cost | 5 136 | 4 222 | 4 554 | 4 222 |
| Other deferred liabilities | 4 765 | 5 993 | 494 | 287 |
| Deferred tax liability | 0 | 39 | 0 | 0 |
| Other debts | 2 229 | 2 404 | 183 | 238 |
| Short-term liabilities total | 15 377 | 15 790 | 11 686 | 7 885 |

| Pledges | Stonesoft Group | | Stonesoft Corp | |
|--|-----------------|---------------|----------------|---------------|
| | 2001 | 2000 | 2001 | 2000 |
| Leasing liabilities | | | | |
| Payable in year 2002 | 2 151 | 309 | 1 366 | 230 |
| Payable later | 3 064 | 336 | 1 161 | 286 |
| Rental liabilities and pledges | | | | |
| Rental liabilities | 11 397 | 10 308 | 10 492 | 10 308 |
| Rental pledges | 268 | 172 | 86 | 54 |
| Pledges issued for companies in the same Group | | | | |
| Other pledges | 0 | 0 | 140 | 0 |
| Pledges issued for others | 37 | 41 | 37 | 14 |
| Other pledges | | | | |
| Corporate mortgage | 0 | 84 | 0 | 84 |
| Other pledges | 268 | 0 | 0 | 0 |
| Pledges total | 17 185 | 11 251 | 13 282 | 10 977 |

INFORMATION ON SHAREHOLDERS

Number of shareholders 12.2.2002

| | Shareholders | | Shares and voting rights |
|---------------------|---------------|----------------|--------------------------|
| | Number | % | Number |
| 1 - 1.000 | 8 142 | 80,7 % | 2 807 737 |
| 1.001 - 5.000 | 1 522 | 15,1 % | 3 433 656 |
| 5.001 - 25.000 | 287 | 2,8 % | 2 978 264 |
| 25.001 - 100.000 | 84 | 0,8 % | 3 877 695 |
| 100.001 - 500.000 | 44 | 0,4 % | 10 027 164 |
| 500.001 - 1.000.000 | 7 | 0,1 % | 5 578 660 |
| 1.000.001 - | 6 | 0,1 % | 28 597 956 |
| | 10 092 | 100,0 % | 57 301 132 |

Distribution of ownership by sector 12.02.2002

by sector 12.02.2002

| | Holdings | | Shares and voting rights |
|---------------------------------------|---------------|----------------|--------------------------|
| | Number | % | Number |
| Companies | 646 | 6,4 % | 2 223 859 |
| Financial and insurance institutions | 50 | 0,5 % | 5 092 943 |
| Public-sector organisations | 47 | 0,5 % | 5 146 785 |
| Non-profit organisations | 71 | 0,7 % | 1 582 066 |
| Households | 9 199 | 91,2 % | 33 394 563 |
| Foreign and nominee-registered owners | 79 | 0,7 % | 9 860 916 |
| | 10 092 | 100,0 % | 57 301 132 |

Major shareholders 4.1.2002

| | Number | % |
|---|-------------------|----------------|
| Hiidenheimo Ilkka | 8 917 100 | 15,6 % |
| Turunen Hannu | 7 550 000 | 13,2 % |
| Keskinäinen Eläkevauutusyhtiö Varma-Sampo | 2 370 653 | 4,1 % |
| Suoniemi Antti | 1 480 000 | 2,6 % |
| Silventola Anssi | 960 000 | 1,7 % |
| Mäki-Kullas Jukka | 910 000 | 1,6 % |
| Keskinäinen Eläkevauutusyhtiö Ilmarinen | 891 500 | 1,6 % |
| Westersträhle Karl | 878 700 | 1,5 % |
| Kosonen Jukka | 770 000 | 1,3 % |
| Koljonen Paavo | 592 360 | 1,0 % |
| Others | 31 980 819 | 55,8 % |
| | 57 301 132 | 100,0 % |

Nominee-registered, total

8 900 435 15,5 %

**Shares and share options held by the Members of
the Board of Directors 4.1.2002**

| | Shares | Options |
|-------------------|-------------------|----------------|
| Karttunen Kai | 0 | 74 000 |
| Sozonoff Alexis | 0 | 44 100 |
| Yates John | 0 | 74 000 |
| Hiidenheimo Ilkka | 8 917 100 | 0 |
| Turunen Hannu | 7 550 000 | 0 |
| | 16 467 100 | 192 100 |