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Annual Report 2009



STONESOFT

Secure Information Flow

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Year 2009 in brief

Main business events and key figures

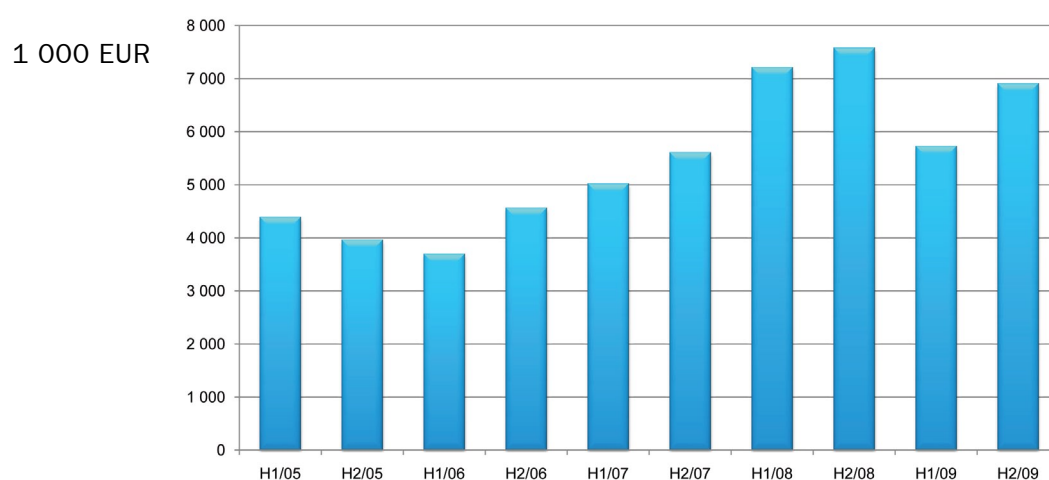
Main business events

- In April, Stonesoft's StoneGate Firewall/VPN solution was granted a Common Criteria Evaluation Assurance Level EAL 4+ information security classification, which is the highest available certificate for commercial products.
- In April, Stonesoft introduced the new StoneGate Management Center 5.0 and StoneGate Firewall 5.0, offering new revenue opportunities and cost savings for MSSPs (Managed Security Service Providers).
- In April, the leading industry analyst firm Gartner, Inc. positioned Stonesoft's Network Intrusion Prevention System (IPS) for the first time in its Network Intrusion Prevention System Appliances Magic Quadrant report, which compares network intrusion prevention systems.
- In May, Stonesoft announced it strives for improved profitability and specified the savings target for the rest of the year to be around 1.5 million Euros. To reach this target the company commenced, among other actions, co-operation negotiations based on which the company decided to terminate employment contract of six (6) employees and lay off the personnel in Finland with certain exceptions for six weeks in stages during the rest of the year.
- In May, Stonesoft announced that Tekes, the Finnish Funding Agency for Technology and Innovation, decided to fund Stonesoft Corporation's research and development project "The protection of fast networks of critical infrastructure" with more than a million Euros.
- In May, Stonesoft introduced the new StoneGate FW-1030 appliance with next generation firewall capabilities.
- In June, Stonesoft introduced the new StoneGate IPS-1030 appliance, which is capable of inspecting and stopping also attacks hidden in encrypted Web traffic. The new appliance provides efficient protection for both corporate network users and public Web services against attacks hidden inside the encrypted Web connection.
- In June, Stonesoft introduced the new StoneGate FW-1060 firewall and IPS-1060 intrusion prevention system appliances, which enable efficient proactive defense.
- In June, Stonesoft announced it has received orders from Algerian Telecom at the value of 1.2 million Euros. The orders were related to the strategic partnership with the leading national telecommunications company Algeria Telecom, which was entered in 2008 and was now renewed by a contract that is in force for one year at the time, for a maximum period of three years, unless terminated.
- In July, Stonesoft introduced the new StoneGate FW-5105 firewall/VPN and StoneGate IPS-6105 intrusion prevention system appliances designed for most demanding high capacity environments.
- In August, Stonesoft introduced the new StoneGate SSL-1030 appliance that has been designed to meet the needs of small and medium-sized organizations. The solution is also a valuable tool for MSSPs (Managed Security Service Providers), offering them a straightforward, simple way to fulfill the security and mobility requirements of their customers.
- In September, the US based Info Security Products Guide, industry's leading publication on security-related products and technologies named Stonesoft a winner of the 2009 Best Deployment Scenario Awards in the Firewall Solution category.
- In September, Stonesoft announced that its StoneGate VPN Client passed the "Compatible with Windows 7" testing requirements for compatibility.
- In November, Stonesoft announced Mr. Juha Kivikoski has been appointed Stonesoft Corporation's Chief Operating Officer (COO) as of 1 December 2009.
- In November, Stonesoft announced that it has joined the RSA Secured® Partner Program and received the SecurID® interoperability certification for its StoneGate 5.0 solutions.
- In December, Stonesoft announced it will accelerate its research and development and establish a new R&D unit in Cracow, Poland in January 2010.

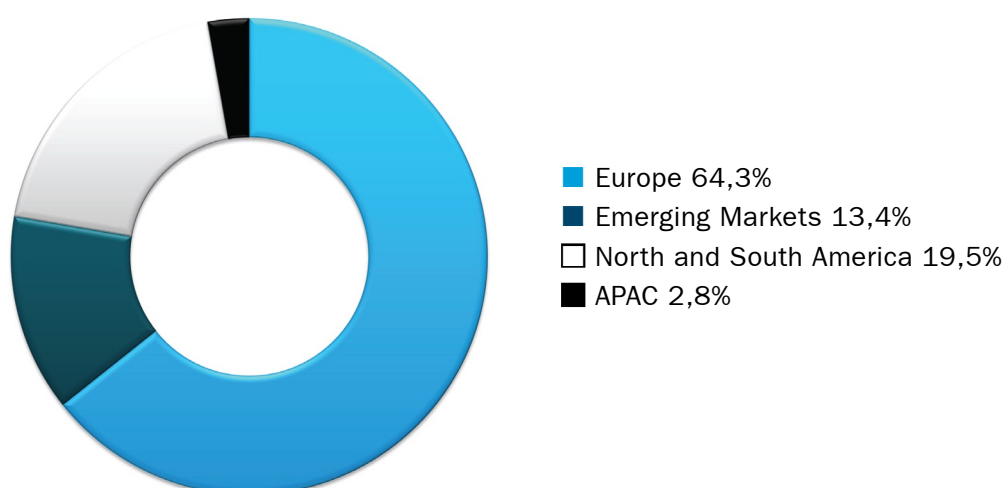
Key Figures

(1 000) Euros	2009	2008
Net sales	23 597	24 427
Operating profit/loss	-1 048	-2 286
% of net sales	-4	-9
Operating result before taxes	-731	-2 010
% of net sales	-3	-8
Return on equity (ROE) %	-31	-49
Return on investment (ROI) %	-19	-40
Equity ratio %	40	46
Net Gearing	-2,31	-1,99
Capital investments	328	488
% of net sales	1	2
R&D costs	4 918	5 230
% of net sales	21	21
Number of employees (weighted average)	178	183
Number of employees at the end of the year	174	185
Earnings per share	-0,02	-0,04
Equity per share	0,05	0,06
Dividend	0,00	0,00
Dividend per share	0,00	0,00
Dividend/profit, %	0	0
Average number of shares adjusted for share issue	57 723 942	57 307 748
Number of shares adjusted for share issue at year end	57 727 732	57 309 875

StoneGate Sales Development 2005-2009



Geographical Distribution of Net Sales



CEO's Review



During the last quarter of the year 2009 Stonesoft succeeded in achieving a positive result despite the globally challenging financial situation. We further strengthened our competitiveness and our position as a provider of integrated network security and business continuity and built a solid foundation for success in 2010. This year we are also celebrating Stonesoft's 20-year history. Since 1990 the company has been a pioneer of Finnish research and product development competence and made persistent and uncompromised efforts for better network security around the world.

International recognition for StoneGate products

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 onal network security companies and products are not able to adapt to these changes fast enough. Stonesoft has always stood out from its competition through its flexibility and ability to meet its customers' rapidly changing needs.

Stonesoft's products received international recognition during the year 2009. StoneGate Firewall/VPN –solution received the Common Criteria Evaluation Assurance EAL 4+ information security classification, which is the highest available certificate for commercial products. The company's StoneGate IPS was for the first time positioned in Gartner's Network Intrusion Prevention System Appliances Magic Quadrant report. In the test report published by the US-based NSS Labs Inc. testing and certification company in December, StoneGate IPS products outperformed the competitors' products with their usability and cost-efficiency. In addition, Tekes decided to finance our research and product development project "The protection of fast networks of critical infrastructure".

Thanks to our persistent and systematic product development, we have an extremely competitive product offering we are continuously investing in. In January 2010 we established a new product development unit in Cracow, Poland, the purpose of which is to help us further extend our lead in this area.

StoneGate 5.0 added more performance to network security

Stonesoft's products protect large and critical network environments that require advanced network security. During the year 2009 we introduced network 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.

The new StoneGate Management Center 5.0 and StoneGate Firewall/VPN 5.0 solve many fundamental problems related to outsourcing network security, encrypting network traffic and understanding the situation awareness of the whole network.

The capacity of the StoneGate FW-5105 and IPS-6105 launched in July exceeds the needs of most large enterprises and meets the high capacity demands of telecom operators.

Net environments set new security demands

The strong growth of MSSP (Managed Security Service Provider)-, virtualization, SAAS (Software as a Service) and cloud services has created a need for ensuring network security and business continuity also in new environments. 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 for example cyber espionage. 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.

Comprehensive security

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.

Stonesoft is specialized in providing network security solutions to distributed organizations, but also for critical and military-grade network environments. These environments require a different approach from traditional enterprise solutions and set exceptionally high demands to both network architecture and security. Our competitiveness in this area is strong and I believe that the cost-efficiency of our products and the benefits they bring to business of our customers become even more important.

During the year 2009 we have managed to strengthen our product offering, competitiveness and customer base. The company's result turned positive during the second half of the year and I believe we have all the prerequisites to make a positive result for the full year 2010.

I would like to thank our employees, customers and partners for good cooperation last year as well as during the company's whole 20-year history. I hope our efforts to develop network security will continue to be productive.

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 rules of procedure of the company's Board of Directors. Stonesoft also applies the Corporate Governance recommendations for listed companies prepared by the NASDAQ OMX Helsinki Ltd, the Central Chamber of Commerce and the Confederation of Finnish Industries EK, as well as the insider guidelines of the 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 51 of the new 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. The company may be regarded as small on international level, and therefore 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 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 at the company website www.stonesoft.com 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 Corporations 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 2009 Annual General Meeting the following five members were elected to the board:

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

Additional information about the members of the Board is available on pages 14-15.

Independence

The Board has evaluated the independence of its members on March 26, 2009 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 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, Topi Piela and Timo Syrjälä have been granted stock option rights as part of their compensation as Board members.

Board members' independence from the significant shareholders

Pursuant to the recommendation 14 it has been noted that Ilkka Hiidenheimo (holding approximately 18 percent of the shares and the votes in the company) and Hannu Turunen (holding approximately 13 percent of the shares and the votes in the company) are significant shareholders themselves, and that all other Board members are independent from significant shareholders of the company.

Board meetings and working order

The Board meets regularly at least eight (8) times a year and additionally when necessary. The Board met 17 times in 2009. The average attendance of the 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 the annual business plan
- Decide on significant investments, acquisitions and financing arrangements
- Elect and dismiss 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 given by the Board of Directors
- Decide on the remuneration and bonuses for CEO and new recruitments and salary adjustments for Executive Management and Vice Presidents 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 meeting schedule for the year in question shall be affirmed by the end of the year for the following 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 jointly with the CEO. The agenda for a meeting is delivered to the Board members approximately five (5) 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. 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 is disqualified from taking part in the consideration of such a matter, where the member or his/her close relative or such a company, collective body or any other quarter, in whose bodies he/she acts, or where he/she has a significant holding or other interest, is a contractual party or counter-party of the company, or from which the member expects such an essential benefit, which may be in conflict with the company's interest. A disqualified Board member, CEO or employee may not take part in any discussion, presentation of draft resolution or voting 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 2009 were confirmed by the Annual General meeting in March 2009 as follows:

The Chairman's fee is EUR 4,000 per month and a member's fee is EUR 2,000 per month. In addition, Stonesoft Corporation's Annual General Meeting has granted stock options to the Board members to engage them to the company.

Chief Executive Officer 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 Finland's Employee Pension Act (TEL) 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 months salary and a further optional six 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 Executive Management were December 31, 2009 as follows:

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

Additional information about the Executive Management is available on pages 12-13.

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

The Board of Directors determines the compensation of the CEO. The CEO determines the compensation of other management. The salary paid to the members of the Executive Management having profit responsibility consists of a fixed salary and a commission and other members have a fixed salary. The Board decides on the granting of stock option rights to the Executive Management.

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

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

31.12.2009

	Shares		Option Plans		Forward contracts
	Personal	Controlled Corporations	2004	2008	
Fagnäs Kim	0	0	100 000	150 000	0
Hiidenheimo Ilkka	10 417 400	0	0	0	0
Jalava Mika	1 200	0	40 000	80 000	0
Kivikoski Juha	0	0	112 500	0	0
Laine Saara	5 000	0	80 000	80 000	0
Majewski Klaus	1 500	0	0	80 000	0
Nyberg Mikael	30 000	0	100 000	100 000	0
Piela Topi	30 000	90 000	45 000	15 000	0
Syrjälä Timo	1 024 000	2 884 124	15 000	15 000	1 500 000
Turunen Hannu	7 450 000	0	0	0	0
Viljo Matti	0	0	45 000	15 000	0

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

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

Operational risks

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

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

Furthermore the Charter of the Board adds that;

- (i) the board members shall discuss the auditor's report once a year in a meeting held during the first quarter and
- (ii) one of the Company's auditors should be present in the Board meeting, where the 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 123,402.06 in year 2009. Additionally, the auditor was paid EUR 1,800.00 for the services not related to auditing.

Insiders

The Stonesoft Group has complied with the Guidelines of the NASDAQ OMX Helsinki Ltd (formerly Helsinki Exchanges) for Insiders since July 25 2002, which are complemented by the company's own insider regulations.

Under the Finnish Securities Market Act, the permanent insiders of Stonesoft, based on their positions, are the members of the Board of Directors, the CEO and the auditors. Under the company's own insider regulations, the individuals in the following positions are regarded as permanent insiders: the members of the Group's Executive Management, Regional Directors, Marketing, Communications, Order Team and Product Managers,

lawyers, controllers, the Chief Accountant, assistants of marketing and legal affairs and all other positions entitled to global access to the company's sales management system, Salesforce.com.

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

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

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

Stock Exchange Releases in 2009

16.1.2009	Stonesoft Corporation's year 2008 releases
13.2.2009	Stonesoft Corporation's Financial Statements Release for January-December 2008
5.3.2009	Notice to the Annual General Meeting of Stonesoft Corporation
19.3.2009	Stonesoft's Annual Report 2008 is published
26.3.2009	Decisions made by the Annual General Meeting
22.4.2009	Stonesoft Corporation's Interim Report for January-March 2009
4.5.2009	Stonesoft strives for improved profitability and specifies the savings target for the rest of the year to be around 1.5 million Euros
18.5.2009	Stonesoft strives for improved profitability and specifies the measures by which the savings target for the rest of the year will be reached
20.5.2009	Tekes funding for Stonesoft's research and development project
29.6.2009	Stonesoft received orders from Algerian Telecom at the value of 1.2 million Euros
14.8.2009	Stonesoft Corporation's Interim Report for January-June 2009
9.10.2009	Advance information on operating profit of third quarter
23.10.2009	Stonesoft Corporation's Interim Report for January-September 2009
23.10.2009	The Supreme Court did not grant a leave of appeal to Stonesoft Corporation
3.11.2009	Invitation to Stonesoft's Capital Markets Day 12 November 2009
5.11.2009	Juha Kivikoski appointed Stonesoft Corporation's Chief Operating Officer
29.12.2009	Stonesoft's financial reports in 2010

Executive Management

Ilkka Hiidenheimo

Founder, CEO

Born: 1960

Executive Management:
Member of the 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
- TietotalInfocenter, member of the Board
- Envault Corporation, member of the Board

Shares and share-based rights:

- Shares: 1 0417 400 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 0 units from 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
- CiscSystems, 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: None

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

Saara Laine

Senior Vice President & General Counsel, Legal/Business Support and Human Resources

Born: 1954

Executive Management:
Member of the Executive
Management Group since
2000

Education: Master of Law degree

Area of responsibility: Legal/business support and
Human resources

Essential work experience:

- Stonesoft Oyj, Director of Legal Affairs 2000-, Personnel Manager 2004-
- Castrén & Snellman Attorneys at Law, Legal Counsel 1998-2000
- Director of legal affairs and member of the Executive Board and Board of Directors of IBM Oy in Finland and IBM's EMEA headquarters in Paris, France (1990-1998).

Essential positions of trust: None

Shares and share-based rights:

- Shares: 5 000 kpl as a direct owning and 0 units through controlled corporations
- Stock option rights: 80 000 units from stock option program 2004 and 80 000 units from stock option program 2008



Juha Kivikoski

Chief Operating Officer

Born: 1970

Executive Management:
Member of the 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



Mika Jalava

CTO

Born: 1968

Executive Management:
Member of the Executive
Management Group since
2008

Education: Master of
Science, Engineering

Area of responsibility: Product Development, Product
Management 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: None

Shares and share-based rights:

- Shares: 1 200 units as a direct owning and 0 units
through controlled corporations
- Stock option rights: 40 000 units from stock option
program 2004 and 80 000 units from stock option
program 2008



Kim Fagernäs

Vice President, EMEA and APAC

Born: 1954

Executive Management:
Member of the Executive
Management Group since
2006

Education: Dip. EMC

Area of responsibility: EMEA, APAC and Channel sales

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: No

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



Mikael Nyberg

CFO

Born: 1960

Executive Management:
Member of the Executive
Management Group since
2004

Education: Master of
Science, Business

Administration and Master of Science, Engineering

Area of responsibility: Finance, IT and Order services

Essential work experience:

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

Essential positions of trust: None

Shares and share-based rights:

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



Klaus Majewski

Vice President, Marketing

Born: 1967

Executive Management:
Member of the Executive
Management Group since
2008

Education: Master of
Science, Engineering

Area of responsibility: Marketing

Essential work experience:

- Stonesoft Oyj, several positions 1999-
- IBM Finland, Security Consultant 1996-1999

Essential positions of trust:

- Tietoturva ry, member of the Board
- ISACA Finland Chapter, member

Shares and share-based rights:

- Shares: 1 500 units as a direct owning and 0 units
through controlled corporations
- Stock option rights: 0 units from stock option
program 2004 and 80 000 units from stock option
program 2008



Board of Directors

Matti Viljo

Chairman of the Board, Stonesoft Corporation

Born: 1955

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: 0 units as a direct owning and 0 units through controlled corporations
- Stock option rights: 45 000 units from stock option program 2004 and 15 000 units from stock option program 2008



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

Topi Piela

Member of the Board, Stonesoft Corporation

Born: 1962

Member of the Board of
Stonesoft since 2006

Education: MSc. in
Economics and Business
Administration, CEFA

Main duty: Managing Director, Balance Capital

Essential work experience:

- Managing Director, Amanda Capital Plc and several of its subsidiaries
- Co-founder and Managing Director, Arctos Rahasto
- Investment Director, Ilmarinen Mutual Pension Insurance Company
- Securities and Investment Director, Ålandsbanken Ab

Positions of trust:

- Chairman of the Board of Head Asset Management Plc
- Member of the Board of Amanda Capital Plc, JJPPPT Holding, Piela Ventures Balance Capital, Eyemaker's Finland, QPR Software Plc
- Member of State Pension Fund investments committee

Shares and share-based rights:

- Shares: 30 000 as a direct owning and 90 000 units through controlled corporations
- Stock option rights: 45 000 units from stock option program 2004 and 15 000 units from stock option program 2008



Ilkka Hiidenheimo

Member of the Board, Stonesoft Corporation

Born: 1960

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



Hannu Turunen

Member of the Board, Stonesoft Corporation

Born: 1957

Chairman of the Board of Stonesoft 2000-2007, 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: 7 450 000 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

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

- Member of the Board of Efore Oyj and Orbis Oyj
- Member of the Supervisory Board of As Martinson Trigon

Shares and share-based rights:

- Shares: 1 024 000 units as a direct owning and 2 884 124 units through controlled corporations
- Stock option rights: 15 000 units from stock option program 2004 and 15 000 units from stock option program 2008
- Forward contract: 1 500 000 units

Board of Director's Report

Summary

The comparable figures from 2008 and 2007 are in parentheses and refer to the figures for continuing operations.

- Net sales EUR 23.6 (24.4 and 19.0) million, decrease -3%
- Product sales EUR 12.6 (14.8 and 10.6) million, decrease -15%
- Operating result EUR -1.0 (-2.3 and -6.5) million
- Operating result as percentage of net sales -4 (-9 and -34)%
- Earnings per share EUR -0.02 (-0.04 and -0.11)
- Cash flow EUR -0.8 (-1.9 and -6.2) million
- Liquid assets at the end of the period EUR 6.2 (7.0 and 8.2) 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, item 33. of the consolidated Financial Statements.

Net sales

The Group's net sales totaled EUR 23.6 (24.4 and 19.0) million. Decrease compared to the corresponding period in the previous year was EUR -0.8 million or -3%. The operating result (EBIT) was EUR -1.0 (-2.3 and -6.5) million.

StoneGate product sales were EUR 12.6 (14.8 and 10.6) million. Decrease compared to the previous year was -15%.

The net sales were distributed geographically as follows: Europe 64 (60 and 63) %, Emerging markets (Russia, North Africa and Middle East) 13 (17 and 11) %, Americas (North and South America) 20 (19 and 21) % and APAC (Asia-Pacific) 3 (4 and 5) %.

Result

Stonesoft's operating result (EBIT) was EUR -1.0 (-2.3 and -6.5) million, an increase of EUR 1.2 million compared to the previous year. The operating result as percentage of net sales was -4 (-9 and -34) %.

The operating result after taxes was EUR -1.0 (-2.0 and -4.2) million. The earnings per share were EUR -0.02 (-0.04 and -0.11). The equity per share was EUR 0.05 (0.06 and 0.10). 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 16.0 (16.2 and 17.7) million. The equity ratio was 40 (46 and 52) % and gearing (the ratio of net debt to shareholders' equity) was EUR -2.31 (-1.99 and -1.46).

The comparable cash flow during the fiscal year was EUR -0.8 (-1.9 and -6.2) million. The Group has no interest-bearing debt. The consolidated liquid assets at the end of the fiscal year totaled EUR 6.2 (7.0 and 8.2) 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 21.6 million, of which EUR 20.9 million is accrued in Finland and EUR 0.7 million in the United States. The company activated 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 order to strengthen the company's capital structure and to ensure the positive development of the company's strategy and growth plan also in the future, the main shareholders of the company have announced their willingness to invest at least EUR three (3) million in the company in the form of a convertible bond or directed issuance of shares. The commitment given by the main shareholders is in force until the end of the AGM in 2010. The company has not executed the convertible bond arrangement.

Investments in tangible and intangible assets totaled EUR 0.3 (0.5 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.

In 2009, the company's operational result (EBIT) improved considerably, turning positive during the last two quarters of the year.

Stonesoft's organization and sales processes are at the level required by the targets set for the year 2010. 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.

The main business events in 2009

In April, Stonesoft's StoneGate Firewall/VPN solution was granted a Common Criteria Evaluation Assurance Level EAL 4+ information security classification, which is the highest available certificate for commercial products.

In April, Stonesoft introduced the new StoneGate Management Center 5.0 and StoneGate Firewall 5.0, offering new revenue opportunities and cost savings for MSSPs (Managed Security Service Providers).

In April, the leading industry analyst firm Gartner, Inc. positioned Stonesoft's Network Intrusion Prevention System (IPS) for the first time in its Network Intrusion Prevention System Appliances Magic Quadrant report, which compares network intrusion prevention systems.

In May, Stonesoft announced it strives for improved profitability and specified the savings target for the rest of the year to be around 1.5 million Euros. To reach this target the company commenced, among other actions, co-operation negotiations based on which the company decided to terminate employment contract of six (6) employees and lay off the personnel in Finland with certain exceptions for six weeks in stages during the rest of the year.

In May, Stonesoft announced that Tekes, the Finnish Funding Agency for Technology and Innovation, decided to fund Stonesoft Corporation's research and development project "The protection of fast networks of critical infrastructure" with more than a million Euros.

In May, Stonesoft introduced the new StoneGate FW-1030 appliance with next generation firewall capabilities.

In June, Stonesoft introduced the new StoneGate IPS-1030 appliance, which is capable of inspecting and stopping also attacks hidden in encrypted Web traffic. The new appliance provides efficient protection for both corporate network users and public Web services against attacks hidden inside the encrypted Web connection.

In June, Stonesoft introduced the new StoneGate FW-1060 firewall and IPS-1060 intrusion prevention system appliances, which enable efficient proactive defense.

In June, Stonesoft announced it has received orders from Algerian Telecom at the value of 1.2 million Euros. The orders were related to the strategic partnership with the leading national telecommunications company Algeria Telecom, which was entered in 2008 and was now renewed by a contract that is in force for one year at the time, for a maximum period of three years, unless terminated.

In July, Stonesoft introduced the new StoneGate FW-5105 firewall/VPN and StoneGate IPS-6105 intrusion prevention system appliances designed for most demanding high capacity environments.

In August, Stonesoft introduced the new StoneGate SSL-1030 appliance that has been designed to meet the needs of small and medium-sized organizations. The solution is also a valuable tool for MSSPs (Managed Security Service Providers), offering them a straightforward, simple way

to fulfill the security and mobility requirements of their customers.

In September, the US based Info Security Products Guide, industry's leading publication on security-related products and technologies named Stonesoft a winner of the 2009 Best Deployment Scenario Awards in the Firewall Solution category.

In September, Stonesoft announced that its StoneGate VPN Client passed the "Compatible with Windows 7" testing requirements for compatibility.

In November, Stonesoft announced Mr. Juha Kivikoski has been appointed Stonesoft Corporation's Chief Operating Officer (COO) as of 1 December 2009.

In November, Stonesoft announced that it has joined the RSA Secured® Partner Program and received the SecurID® interoperability certification for its StoneGate 5.0 solutions.

In December, Stonesoft announced it will accelerate its research and development and establish a new R&D unit in Cracow, Poland in January 2010.

The above-mentioned events and business activities have strengthened the company's sales, optimized the company's cost structure and reinforced the competitiveness of Stonesoft's product offering during the fiscal period.

Main business events after the fiscal period

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

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

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

The company's R&D operations are located in Finland and France. At the end of 2009, R&D employed altogether 63 (66 and 69) persons. The company's R&D investments during the fiscal period for continuing operations totaled EUR 4.9 (5.2 and 5.3) million.

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

During the fiscal period Stonesoft's StoneGate firewall solution was granted a Common Criteria Evaluation Assurance Level EAL 4+ information security classification. The leading industry analyst firm Gartner, Inc. positioned Stonesoft's Network Intrusion Prevention System (IPS) for the first time in its Network Intrusion Prevention System

Appliances Magic Quadrant report. The US based Info Security Products Guide, industry's leading publication on security-related products and technologies named Stonesoft a winner of the 2009 Best Deployment Scenario Awards in the Firewall Solution category, and Stonesoft's StoneGate VPN Client passed the "Compatible with Windows 7" testing requirements for compatibility. Stonesoft joined the RSA Secured® Partner Program and received the SecurID® interoperability certification for its StoneGate 5.0 solutions.

Further during the fiscal period Stonesoft introduced the new StoneGate Management Center 5.0 and StoneGate Firewall 5.0, offering new revenue opportunities and cost savings for MSSPs (Managed Security Service Providers). The new StoneGate FW-1030 appliance was introduced and offers next generation firewall capabilities. Stonesoft introduced also the new StoneGate IPS-1030 appliance, which is capable of inspecting and stopping also attacks hidden in encrypted Web traffic, and the StoneGate FW-1060 firewall and IPS-1060 intrusion prevention system appliances, which enable efficient proactive defense.

The StoneGate FW-5105 firewall/VPN and StoneGate IPS-6105 intrusion prevention system appliances are designed for most demanding high capacity environment, whereas the introduced StoneGate SSL-1030 appliance meets the needs of small and medium-sized organizations.

In December, Stonesoft announced it will accelerate its research and development and establish a new R&D unit in Cracow, Poland in January 2010. Tekes, the Finnish Funding Agency for Technology and Innovation, decided to fund Stonesoft Corporation's research and development project "The protection of fast networks of critical infrastructure" with more than a million Euros.

Stonesoft was granted three patents during the year. The patents were related to VPN performance measurement, personalized firewall and optimizing the rule base traversal of a security appliance.

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

Development of share prices and turnover

Stonesoft's share value at the beginning of the fiscal year on January 2, 2009 was EUR 0.32 (0.29 and 0.47). At the end of the fiscal year on December 31, 2009, the share price was EUR 0.70 (0.32 and 0.29). The highest share price was EUR 0.78 (0.50 and 0.56), and the lowest EUR 0.31 (0.24 and 0.22). During the year, the total turnover of Stonesoft shares amounted to EUR 5.8 (5.2 and 8.4) million and 11.1 (14.9 and 20.0) million shares, which is 19.4 (26.0 and 34.9) % of the total amount of the shares. Based on the share price on December 31, 2009, Stonesoft's market capitalization was EUR 40.1 (18.3 and 16.6) million.

Share capital development and stock option programs

At the end of the fiscal year on December 31, 2009, Stonesoft's share capital recorded in the Trade Register totaled EUR 1,146,054. The number of shares at the end of the fiscal year corrected by share issue was 57 727 732 (57 309 875 and 57 302 732). The weighted average value of the numbers of shares corrected by share issue was 57 723 942 (57 307 748 and 57 302 732). The share capital remained unchanged. There is one class of shares and every share has one vote. The shares have no limitations on voting rights. The shares have no nominal value and no bookkeeping equivalent value. There are no redemption or approval clauses related to the shares, or securities entitling to the shares, and no other limitations of transfer. Furthermore, the shares and securities entitling to the shares have no special rights related to the decision making of the company.

The shares of the company have been connected to the book-entry securities system maintained by Euroclear Finland Ltd (former Finnish Central Securities Depository Ltd), which maintains the official shareholder register of the company. The shares of the company are rated on the small company list under the information technology classification with the trade identification SFT1V in the NASDAQ OMX Helsinki Ltd.

The company has currently two valid stock option programs, Stock Option program 2004–2010 and Stock Option program 2008-2014. 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 is graded and will end for all stock options on December 31, 2010. At the end of the year 2009 in total 1,076,250 stock options had been granted under this program. Under the Stock Option program 2008-2014, the subscription price of which 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 2009 in total 1,175,000 stock options had been granted under this program. At the end of the fiscal year in total 1,076,250 shares could be subscribed based on these programs, which represents 1.88% of the present number of shares and votes in the company. During the fiscal year, no subscriptions were made on the basis of the stock option programs targeted for key persons in the company.

Shareholders

At the end of 2009, the company had 5,862 (5,877 and 6,034) shareholders. Nominee registered holdings represented 6.7% of the share capital in 2009.

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

Division of shareholding by classes

The amount of shares 31.12.2009	Shareholders	Shares and voting rights	
	Number	Number	%
1 - 100	1 299	100 937	0.176
101 - 500	1 898	594 477	1.037
501 - 1 000	826	710 167	1.239
1 001 - 5 000	1 254	3 194 989	5.576
5 001 - 10 000	276	2 164 598	3.777
10 001 - 50 000	223	4 883 604	8.522
50 001 - 100 000	35	2 566 615	4.479
100 001 - 500 000	34	7 636 527	13.327
500 001 - 99 999 999	17	35 450 818	61.866
Total	5 862	57 302 732	100.000
of which nominee registered	10	3 826 278	6.677

Division of shareholders by sector

Division of shareholders by sector 31.12.2009	Shareholders	Shares and voting rights	
	Number	Number	%
Corporations	268	12 762 257	22.27
Financial institutions	11	6 055 190	10.57
Governmental institutions	2	731 900	1.28
Households	5 534	35 431 779	61.83
Non-profit organizations	6	447 789	0.78
Foreign registered	41	1 873 817	3.27
Total	5 862	57 302 732	100.00
of which nominee registered	10	3 826 278	6.68

Largest shareholders

Largest shareholders 31.12.2009	Number	%
Hiidenheimo Ilkka	10 417 400	18.2
Turunen Hannu	7 450 000	13.0
Ulkomarkkinat Oy	2 816 900	4.9
Nordea Pankki Suomi Oyj (incl. nominee registered)	2 242 452	3.9
Maijos Oy	1 873 961	3.3
Veikko Laine Oy	1 562 650	2.7
Nordea Pankki Suomi Oyj	1 499 900	2.6
Lapuan Osuuspankki	1 097 712	1.9
Syrjälä Timo	1 024 000	1.8
Syrjälä & Co. Oy	936 363	1.7
Others (incl. nominee registered)	26 381 394	46.0
Total	57 302 732	100.0

Shareholdings of the Board of Directors and the CEO

On December 31, 2009, the members of the Board of Directors, the CEO and the entities under their control held a total of 21,895,524 shares of the company, which represented 38.2% of the shares and the voting rights. The stock option rights held by the members of the Board of Directors on December 31, 2009 entitled them to a subscription of 150,000 shares.

Proposal by the Board of Directors for distribution of profit

The operating result of the parent company was EUR -0.6 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 March 26, 2009, 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.

According to the authorization, the Board of Directors may decide to offer new shares to be issued in a new issue and/or the stock option or special rights for subscription either according to the shareholders' pre-emptive subscription rights, or in deviation from the shareholders' pre-emptive subscription right in case the deviation is justified by a weighty financial reason for the company, such as financing of an acquisition, enabling of a joint venture transaction, providing of additional financial alternatives, and/or an arrangement for incentive program directed to the company's personnel. The issue may be directed partly or in full to the company's main shareholders, Ilkka Hiidenheimo and Hannu Turunen, who have confirmed to be ready to invest at least three (3) million Euros in the company in form of a convertible bond in order to strengthen the company's capital structure with an additional cash reserve and to ensure the continuance of the positive development in the future in line with the company's strategy and growth plan. The commitment given by the main shareholders is in force until the end of the AGM in 2010.

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 2010.

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 March 26, 2009 elected five members to the Board of Directors. Ilkka Hiidenheimo, Topi Piela, Matti Viljo, Hannu Turunen and Timo Syrjälä were elected to the Board. In its statutory meeting held on March 26, 2009, the Board elected Matti Viljo as Chairman of the Board and Topi Piela as Vice Chairman. Furthermore, the Board decided that there will be no separate Board committees because due to the size of the company's business operations and the size of the Board, there is no need to prepare issues in smaller units than the entire Board.

According to the Articles of Association, the company has a Chief Executive Officer (CEO), who is appointed and discharged by the Board of Directors. In 2009, 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 Fagernäs, Saara Laine, Mikael Nyberg, Mika Jalava and Klaus Majewski.

In 2009, authorized public accountants Ernst & Young Oy acted as Stonesoft's auditor and authorized public accountant Bengt Nyholm as the main auditor.

The compensation of the CEO

CEO Ilkka Hiidenheimo will not accept any compensation for his duties until the company is profitable. There is no specific retirement age set forth for the CEO, and the CEO's pension is the same as 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. The same arrangement applies in connection with public takeover bids.

Acquisitions and changes in the structure of the Group

No acquisitions were made during the fiscal year. The Singapore subsidiary was closed in spring 2009. There were no changes in the Group structure.

Foreign branches and representative office

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

Personnel

At the end of the fiscal year, the Group's personnel totaled 174 (185 and 181) people, of which 154 (167 and 165) were employees and 20 (18 and 16) had contractual relationships as full-time sales representatives or consultants.

The salaries and other remuneration paid to the employees, including social security payments, were in total EUR 14.0 (14.8 and 14.2) million.

The average number of personnel during the fiscal period was 178 (183 and 181).

The geographical distribution of Stonessoft personnel was Europe 135 (144 and 145), Emerging markets (Russia, North Africa and Middle East) 12 (9 and 8), Americas (North and South America) 22 (28 and 23) and APAC (Asia and Pacific) 5 (4 and 5).

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. Stonessoft is a member of PYR (The International Register of Packaging PYR Ltd). Stonessoft'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

Stonessoft Corporation's Corporate Governance Statement will be issued separately from The Board of Director's report and published in the Annual Report. Stonessoft's Board of Directors has reviewed and approved the Corporate Governance Statement on 17.2.2010.

Stonessoft 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 October 2008, with the exemption of recommendations concerning the establishment of Board committees. 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 Stonessoft Corporation is available at the corporate website.

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 2010, Stonessoft's main risks and business uncertainties relate to the realization timetable of the sales projects and possible production disruption of our subcontractors and suppliers.

Risk Management, Internal Control and Internal Audit

The Board of Directors of Stonessoft 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 Stonessoft, 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 Stonessoft agreements. The sales operations are supported by the company's internal legal unit seeking to reduce the risks related to the global business operations through continuous management and development of contracts. The company also uses insurance to cover property, operational and liability risks.

Financial risks

Stonessoft 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 costs.

Future outlook

According to the research company Gartner, Inc. the enterprise network equipment market that declined by 19% during 2009, is estimated to recover to annual growth of 4.7% during 2010.

Stonesoft's products protect large and critical network environments that require advanced network security. During 2009 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 not able 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 its customers' changing needs.

The strong growth of MSSP (Managed Security Service Provider)-, virtualization, SAAS (Software as a Service) and cloud services has created a need for ensuring network security and business continuity also in new environments. 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 for example cyber espionage. 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.

Stonesoft will continue its decisive and persistent efforts to increase its net sales and operating result. During the year 2010 the company expects its net sales to grow from the previous year's level and the result to be positive.

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)	Note	1.1-31.12.2009	1.1-31.12.2008
Continuing operations			
Net Sales	1. 3.	23 597	24 427
Other operating income	4.	969	1 275
Material and services		-3 539	-3 547
Personnel expenses	7.	-14 004	-14 796
Depreciation	6.	-454	-483
Other operating expenses	5.	-7 616	-9 161
Operating Result		-1 048	-2 286
Financial income and expenses	8. 9.	316	276
Result before taxes		-731	-2 010
Taxes	10.	-240	-219
Result from continuing operations		-971	-2 229
Profit from discontinued operations	2.	0	186
Result for the accounting period		-971	-2 043
Other comprehensive income			
Exchange differences on translating foreign operations		15	-30
Total other comprehensive income		15	-30
Total comprehensive income		-956	-2 074
Earnings per share from continuing operations			
Basic earnings per share (EUR)	11.	-0,02	-0,04
Diluted earnings per share (EUR)	11.	-0,02	-0,04
Earnings per share from discontinued operations			
Basic earnings per share (EUR)	11.	0,00	0,00
Diluted earnings per share (EUR)	11.	0,00	0,00

Stonesoft Group

Balance Sheet (IFRS)

(1 000 Euros)	Note	31.12.2009	31.12.2008
Assets			
Non-Current Assets			
Tangible assets	12.	494	692
Intangible assets	13.	176	104
Other financial assets		10	10
Deferred tax assets	15.	0	0
Total		680	806
Current assets			
Inventories	16.	673	911
Trade and other receivables	17.	8 383	7 371
Prepayments		67	19
Marketable securities	14.	5 240	6 310
Cash in hand and in bank	18.	970	738
Total		15 333	15 348
Total assets		16 013	16 154
Equity and Liabilities			
Equity attributable to equity holders of the parent	19.		
Share capital		1 146	1 146
Share premium account		76 821	76 821
Conversion differences		-936	-951
Retained earnings		-74 346	-73 473
Total		2 685	3 543
Long-term liabilities			
Provisions	21.	0	26
Other long-term liabilities*)	23.	2 606	2 336
Total		2 606	2 363
Short-term liabilities			
Trade and other payables*)	23.	10 604	9 991
Tax liabilities		81	41
Provisions	21.	37	214
Short-term interest bearing liabilities	22.	0	2
Total		10 722	10 248
Total Liabilities		13 328	12 611
Total equity and liabilities		16 013	16 154
*) Other liabilities consist mainly of customers advance payment of support and maintenance contracts		9 267	8 372

Stonesoft Group

Cash flow statement (IFRS)

(1 000 Euros)	Note	1.1-31.12.2009	1.1-31.12.2008
Cash flow from operating activities			
Result for the period		-1 048	-2 286
Adjustments	27.		
Operations without money transfer		644	319
Financial expenses		-129	-93
Financial incomes		336	375
Change in net working capital		-226	614
Taxes paid		-210	-218
Total cash flow from operating activities		-632	-1 288
Cash flow from investing activities			
Investments in tangible assets		-202	-422
Investments in intangible assets		-126	-66
Investments in affiliated company		0	0
Investments in shares		0	-10
Net cash flow investing activities continuing operations		-328	-498
Net cash flow investing activities discontinued operations	2.	0	761
Total cash flow investing activities		-328	263
Cash flow from financing activities			
Payments of financial leasing liabilities		-2	-72
Total cash flow from financing activities		-2	-72
Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period		7 048	8 210
Conversion differences		15	-30
Changes in the market value of investments		109	-34
Total cash and cash equivalents at end of period *)	14. 18.	6 210	7 048
*) Total cash and cash equivalents at end of the period contains pledged securities		452	315

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	Retained earnings	Total
Shareholders' equity at 1.1.2008	1 146	76 821	-927	-71 461	5 579
Comprehensive income			-24	-2 043	-2 068
Stock options		32			32
At the closing on the 31.12.2008 transferred stock option expenses accumulated retained earnings		-32		32	0
Shareholders' equity at 31.12.2008	1 146	76 821	-951	-73 473	3 543

Equity attributable to equity holders of the parent	Share capital	Share premium	Conversion differences	Retained earnings	Total
Shareholders' equity at 1.1.2009	1 146	76 821	-951	-73 473	3 543
Comprehensive income			15	-971	-956
Stock options				98	98
Shareholders' equity at 31.12.2009	1 146	76 821	-936	-74 346	2 685

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 from 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's businesses 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 loadbalancing 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 user needs.

The Board of Stonesoft Corporation has approved these Financial Statements for publishing in its meeting on February 17th, 2010. 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 31.12.2009 as well as SIC and IFRIC interpretations have been applied. The notes to the Financial Statements are also compliant with Finnish accounting and company legislation.

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

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

The group has since 1.1.2009 applied the following new and renewed standards and interpretations which impact the Financial Statements:

- The renewed IAS 1 Presentation of Financial Statements. The changes primarily impact how the profit and loss statement and the calculation of changes in own capital are presented.
- Changes to IFRS 7, Financial Instruments: Disclosures – Improving the information given on Financial Instruments in the notes.
- IFRS 8 Operating Segments (in force starting 1.1.2009 or for reporting periods starting after this date). According to IFRS 8 the segment information presented must be based on the internal reporting provided to the management and the principles used for creating these reports.

Principles applied in preparing the consolidated Financial Statements

Group companies

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

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

During the financial period 2009, Stonesoft Singapore PTE Ltd was closed.

Conversion of currency items

The result and financial situation of Group entities are measured in the currency primarily used in its operating environment ("operating currency"). The consolidated Financial Statements are presented in Euros, the parent company's operating and reporting currency.

Business transactions in foreign currency are booked in the operating currency using the exchange rate of the transaction date. Currency based monetary values are translated into the operating currency using the exchange rates of the closing day.

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

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

Tangible assets

Tangible assets are valued at original acquisition prices less cumulated planned depreciation and write-offs based on impairment testing.

Repair and maintenance related to tangible assets is booked through the income statement when completed.

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

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

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

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

Costs related to liabilities

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

Intangible assets

Research and development costs

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

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

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

Tekes has granted Stonesoft Corporation financing for two development projects called "Protecting the internal networks of the future" and "ICT SHOK Future Internet Programme". Project durations are 1.3.2009 - 28.2.2011 and 1.6.2009 - 31.12.2010. The Group has booked subsidies from Tekes for a total of 707 thousand Euros in other operating income in 2009 (377 thousand in 2008).

Other intangible assets

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

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

The estimated useful lives of intangible assets are:

Computer software	5 years
Other intangible assets	5 years

Inventories

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

Leases

Leases of tangible assets where the Group carries a substantial part of the risks and benefits normally associated with ownership are classified as financial leases. Assets obtained through financial leases are booked into the balance sheet at the beginning of the lease at the fair value of the leased asset or a lower net present value of the minimum lease payments. Leasing payments are split into financial costs and deduction of payables. The group has no leases classified as financial leases in its 2009 Financial Statements.

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

Impairment

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

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

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

Employee benefits

Pensions

The pension arrangements of the Group in different countries abide with local regulations and practices. The pension arrangements are classified as payment based and booked through the income statement during the period the charges related to.

Share-based payment plans

The Group has stock option based incentive programs, which are paid with equity based instruments. Stock options are valued at market prices on the granting date and booked as costs evenly during the period of earning. The cost defined at the moment of the option grant is based on the Group's estimate on the amount of options to which the right to subscribe is expected to be born at the end of the subscription period.

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

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

Provisions

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

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

A provision for loss-making contracts is booked when the required expenditure to fulfill the obligations of the contract exceeds the benefits. The Group has no loss-making contracts in the 2009 balance sheet.

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 next financial years.

The Group has no deferred tax assets or liabilities in its financial statements for year 2009.

Revenue recognition – sold products and services rendered

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

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

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

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

Interest and dividends

Interest income has been booked in accordance with the effective interest method. The Group booked no dividend income during financial years 2009 and 2008.

Assets Held for Sale and discontinued operations

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

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

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

The Profit/Loss of the discontinued operations is presented separately in the income statement. Assets Held for sale, groups of assets, bookings made into equity related to assets Held for Sale and liabilities linked

to discontinued assets are shown separately from other assets in the Balance Sheet.

There are no assets classified as Assets Held for Sale in the balance sheet of the Group.

Financial assets and financial liabilities

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

Tradeable financial assets and financial assets due within 12 months are included in short term assets. Items in this class are valued at fair value. Fair values of all items in this class are defined as published prices on functioning markets, i.e. based on purchasing prices on the closing 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 26. 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 2009 or 2008.

Equity

The common shares issued are presented as equity.

Operating result

The IAS 1 "Presentation of Financial Statements" standard does not define Operating result. The Group has defined it as follows: Operating result is the net amount arising from adding other income to revenue, deducting cost of sales corrected for changes in inventories and cost of products taken into own use, deducting costs related to employee benefits, depreciation and possible

impairments as well as other operating expenses. Foreign exchange differences are included in operating result in case they originate from operating items, otherwise they are booked in financial income and expenses.

Preparing principles requiring judgement by management and main uncertainties related to estimates done. In preparing the Financial Statements one is forced to make estimates and assumptions related to the future, which may deviate from the final outcome.

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

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:

- IAS 27 Consolidated and separate Financial Statements (changed 2008, effective for annual periods beginning on or after 1 July 2009).
- Changes to the IAS 39 Financial Instruments: Recognition and Measurement - (Eligible Hedged Items) (effective for annual periods beginning on or after 1 July 2009).
- Improvements to IFRS - (April 2009) (In force mainly 1.1.2010 or for reporting periods starting after this date).
- Changes to the IAS 32 Financial Instruments Presentation - Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009).

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 situated.

The operating result of a segment consists of geographical sales, local costs of Group companies and cost allocations from headquarters. In allocating costs, the Group uses net sales as 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. - 31.12.2009

(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

Operating segments 1.1. - 31.12.2008

(1 000 Euros)	Europe	Emerging Markets	Americas	APAC	Total
External net sales total	14 740	4 123	4 495	1 069	24 427
Depreciation	-441	-10	-32	-1	-483
Segment result before taxes	6 215	2 373	687	497	9 772
Costs allocated to the segment	-7 024	-2 035	-2 195	-528	-11 782
Segment result before taxes total	-809	338	-1 508	-31	-2 010
Assets					
Segment assets	6 586	1 646	1 366	237	9 835
Investments	447	-13	52	1	488
Liabilities					
Segment liabilities	9 388	1 248	1 824	150	12 611

Reconciliations

Net sales (1 000 Euros)	2009	2008	
Segment external net sales	23 597	24 427	
The Group's total net sales	23 597	24 427	
Result before taxes (1 000 Euros)	2009	2008	
Segment result before taxes	9 292	9 772	
Cost allocated to the segment	-10 023	-11 782	
The Group's total result before taxes	-731	-2 010	
Assets (1 000 Euros)	2009	2008	
Segment assets	10 773	9 835	
Unallocated assets	5 240	6 319	
The Group's total assets	16 013	16 154	
Liabilities (1 000 Euros)	2009	2008	
Segment liabilities	13 328	12 611	
The Group's total liabilities	13 328	12 611	
2009 (1 000 Euros)	Segment total	Corrections	Group total
Investments	328	0	328
Depreciation	-454	0	-454
2008 (1 000 Euros)	Segment total	Corrections	Group total
Investments	488	0	488
Depreciation	-483	0	-483

2. Assets held for sale and discontinued operations

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

According to the contract made end 2006 the final contract price was partly linked to the EMBE Systems Oy result in the 2007 reporting period. The final payment was booked in the 2008 reporting period.

There are no new assets classified as Assets Held for Sale for the reporting periods 2009 and 2008.

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

(1 000 Euros)	1.1.-31.12.2009	1.1.-31.12.2008
EMBE Systems Oy		
Income	0	186
Costs	0	0
Result before taxes	0	186
Taxes	0	0
Profit from discontinued operations	0	186

Impact of the sale of Embe Systems Oy on the Group's financial situation

(1 000 Euros)	2009	2008
Received as cash	0	761
Cash of the discontinued operation	0	0
Impact on cash flow	0	761

3. Net sales

(1 000 Euros)	2009	2008
Income from sales of softwares	1 563	2 555
Income from sales of services	10 907	9 460
Income from sales of appliances	11 015	12 338
Other sales	113	73
Total	23 597	24 427

The Group has no unfinished long-term assets in its financial statements in 2009 and 2008.

4. Other operating income

(1 000 Euros)	2009	2008
Leasing income	125	723
Public grants TEKES	707	377
Others	137	175
Total	969	1 275

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

5. Other operating expenses

(1 000 Euros)	2009	2008
Optional personnel expenses	240	296
Leasing and other building expenses	1 548	2 442
Office expenses	327	237
EDP-expenses	608	596
Travel expenses	738	802
Car expenses	124	218
Entertainment expenses	177	164
Marketing expenses	1 234	1 415
Telephone expenses	366	377
External services	1 684	1 931
Other expenses	569	683
Total	7 616	9 161

Auditors' fees

(1 000 Euros)	2009	2008
Auditors	123	128
Tax Advice	2	30
Other services	0	1
Total	125	160

6. Depreciation, amortization and impairment

(1 000 Euros)	2009	2008
Depreciation and amortization by asset type		
Intangible assets		
Other Intangible assets	54	44
Tangible assets		
Machinery and equipment	383	422
Other tangible assets	16	17
Total	454	483

7. Personnel expenses

(1 000 Euros)	2009	2008
Wages and salaries	11 474	12 276
Pensions – defined contribution plans	1 173	1 306
Granted share based and paid options	98	32
Other personnel costs	1 259	1 182
Total	14 004	14 796

Average number of personnel in Group	2009	2008
Europe	139	145
Emerging Markets	10	8
Americas	24	26
APAC	5	4
Total	178	183

Information on benefits offered to the management is presented in the notes, item 31. Related party transactions
Information on granted options are presented in the notes, item 20. Share based payment plans.

8. Financial income

(1 000 Euros)	2009	2008
Interest income	4	50
Exchanges gains	108	112
Fair value gains and losses on financial instruments	111	-34
Sales profit of securities held for trading	216	240
Other financial income	5	7
Total	445	375

Exchange gains included in operating result total 382 thousand Euros in 2009 (483 thousand Euros in 2008).

9. Financial expenses

(1 000 Euros)	2009	2008
Interest expenses	0	3
Exchange expenses	75	90
Other financial expenses	54	6
Total	129	99

Exchange losses included in operating result total 195 thousand Euros in 2009 (333 thousand Euros in 2008). Other financial expenses do not include interest booked during the period related to financial leases (3 thousand Euros in 2008).

10. Income taxes

(1 000 Euros)	2009	2008
Current income tax for the year	211	214
Current income tax of previous years	29	4
Deferred tax	0	1
Total	240	219

Other taxes related to comprehensive income

2009 (1 000 Euros)	Before taxes	Tax effect	After taxes
Conversion differences	15	0	15
Total	15	0	15
2008 (1 000 Euros)	Before taxes	Tax effect	After taxes
Conversion differences	-30	0	-30
Total	-30	0	-30

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

(1 000 Euros)	2009	2008
Profit before tax	-731	-2 010
Tax calculated at Finnish statutory tax rate	-190	-523
Unrecognized tax receivables of losses	1	48
Effect of different tax rates in foreign subsidiaries	37	31
Income not subject to tax	-10	-124
Expenses not deductible for tax purposes	911	983
Previously unbooked usage of tax losses	-595	-215
Current income tax of previous years	27	-10
Other	59	29
Tax charge	240	219

When calculating the taxable income the group has activated 2898 thousand Euros of product development costs in 2009 (3 147 thousand Euros in 2008).

11. 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)	2009	2008
Profit attributable to equity holders of the parent company, continuing operations	-971	-2 229
Profit attributable to equity holders of the parent company, discontinued operations	0	186
Weighted average number of shares outstanding (1000 pcs)	57 303	57 303
Effect of issued share options (1000 pcs)	421	5
Diluted weighted average number of shares outstanding (1000 pcs)	57 724	57 308
Diluted earnings per share (1 EUR), continuing operations	-0,02	-0,04
Diluted earnings per share (1 EUR), discontinued operations	0,00	0,00

12. Tangible assets

(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

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

The tangible assets not include assets rented through financial leasing contracts in 2009 (14 thousand Euros in 2008). The acquisition value remaining after depreciation of machinery and equipment in tangible assets is 482 thousand Euros in 2009 (661 thousand Euros in 2008).

Financial leasing

Tangible assets include assets rented through financial leases as follows:

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

1.1. - 31.12.2008 (1 000 Euros)	Machinery and equipment
Acquisition cost at 1.1.2008	325
Additions	0
Disposals	-311
Acquisition cost at 31.12.2008	14
Accumulated depreciation at 1.1.2008	256
Depreciation on disposals	-306
Depreciation during the financial year	62
Accumulated depreciation at 31.12.2008	12
Book value at 1.1.2008	69
Book value at 31.12.2008	2

Additions to acquisition costs of tangible assets do not include new assets acquired through financial leases in 2009 and 2008.

13. Intangible assets

(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

(1 000 Euros)	Other intangible assets
Acquisition cost at 1.1.2008	1 595
Additions	2
Disposals	66
Change in exchange rates	-71
Acquisition cost at 31.12.2008	1 592
Accumulated depreciation at 1.1.2008	1 513
Depreciation during the financial year	2
Disposals	44
Change in exchange rates	-71
Accumulated depreciation at 31.12.2008	1 488
Book value at 1.1.2008	82
Book value at 31.12.2008	104

14. Other investments and marketable securities

(1 000 Euros)	2009	2008
Available for sale financial assets		
Unquoted equity investments	10	10
Securities held for trading	5 240	6 310
Total	5 250	6 320

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 2009 and 2008, the group has not re-classified neither financial assets booked at fair value through profit/loss nor assets valued at amortized cost.

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

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

During the financial years 2008 and 2009 the group did not sell any unquoted shares.

15. Deferred tax receivables and liabilities

Change in the deferred taxes

(1 000 Euros)	31.12.2008	Changed to statement of earnings	Changed to shareholders' equity	31.12.2009
Deferred tax receivables:				
Other	0	0	0	0
Total	0	0	0	0
Deferred tax liabilities:	0	0	0	0
Total	0	0	0	0

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

The Group has cumulated, taxable losses for a total of 82 141 thousand Euros at the closing on the 31.12.2009 (87 386 thousand Euros in 2008) expiring in the years 2011-2017. Losses confirmed in the 2008 taxation equal 84 340 thousand Euros (85 158 thousand Euros in 2007), expiring in the years 2011-2017. There is no certainty about the parent company generating the parent company generating taxable income within the time frame against which the losses could be utilized. No deferred tax income has been booked related to the cumulated losses.

When calculating the taxable income the group has activated 2898 thousand Euros of product development costs in 2009 (3 147 thousand Euros in 2008).

16. Inventories

(1 000 Euros)	2009	2008
Finished goods	673	911
Goods in transit	0	0
Total	673	911

Impairment costs have been booked related to inventories for a total of 341 thousand Euros in 2009 (78 thousand Euros in 2008).

17. Trade and other receivables

(1 000 Euros)	2009	2008
Trade receivables	7 255	6 187
Prepayments	67	19
Accrued incomes	977	892
Other receivables	151	292
Total	8 451	7 389

Writedowns on unsure receivables have been reduced in 2009 for a total value of 163 thousand Euros (41 thousand Euros in 2008).

The Group has booked credit losses on its receivables for a total of 46 thousand Euros in 2009 (68 thousand Euros in 2008). 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 Group has Finnvera credit guarantees available to the most important trade receivables.

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

The ageing analysis of trade receivables is as follows:

(1 000 Euros)	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

The group has a credit risk guarantee from Finnvera for 800 thousand Euros linked to the receivables over 90 days overdue in 2009.

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

18. Cash on hand and on deposit

(1 000 Euros)	2009	2008
Cash and bank	970	738
Total	970	738

According to cash flow statement:

(1 000 Euros)	2009	2008
Cash and bank	970	738
Securities held for trading	5 240	6 310
Total	6 210	7 048

Total cash and cash equivalents include client- and rentalcontract-based pledged securities for a total of 452 thousand Euros in 2009 (315 thousand Euros in 2008).

19. Share capital of the parent company

(1 000 Euros)	Number of shares	Share capital	Share premium	Total
31.12.2007	57 302 732	1 146	76 821	77 967
Stock options exercised			32	32
At the closing on the 31.12.2008 transferred stock option expenses accumulated retained earnings			-32	-32
31.12.2008	57 302 732	1 146	76 821	77 967
Stock options exercised			0	0
31.12.2009	57 302 732	1 146	76 821	77 967

The Group is not IFRS-compliant reporting after the actual stock certificates issued labeling options.

The Group has transferred the 31.12.2008 incorrectly recorded stock option expenses from share premium to accumulated retained earnings.

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

A description of the equity reserves is presented below:

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 base don 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.

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 2009 and 2008 no dividends have been paid.

20. Share based payment plans

Share based stock options expire unless they are vested before or on the vesting date defined in the option plan. Stock options are lost if the person leaves the company before he/she has the right to exercise the stock options. During the reporting period 2009 and 2008 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 98 thousand Euros has been booked as provisions against equity for benefits of employment based on stock options during the reporting period 2009 (32 thousand Euros in 2008). A cost of 47 thousand Euros in 2010 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 Stonesoft Corporation, held on November 24, of 2004 approved a new stock option plan proposed by the Board of Directors.

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

Stock Option Plan 2008

The board of Stonesoft corp approved the new option plan 6.5.2008 and 17.6.2008.

Under the stock Option Plan a maximum of 3 000 000 option rights are offered, deviating from the stock owners subscription rights, to the Stonesoft group companie's members of the Board of Directors, other management and personnel. Each option right entitles to subscribing one Stonesoft share. The subscription periods start as following: March 1. 2010, March 1. 2011, March 1. 2012 and March 1.2013. The subscription period ends for all option rights on the 31 December 2014. The exercised price is 0,30 Euro.

The Group has not exercised options for financial years 2009 and 2008.

The terms of the option plans are the following:

Option right	Subscription price for one share, Euros	Subscription period	Options
Option plan 2004 A	0,56	1.1.2006 - 31.12.2010	311 250
Option plan 2004 B	0,56	1.1.2007 - 31.12.2010	291 250
Option plan 2004 C	0,56	1.1.2008 - 31.12.2010	267 500
Option plan 2004 D	0,56	1.1.2009 - 31.12.2010	206 250
Option plan 2008 A	0,30	1.3.2010 - 31.12.2014	586 250
Option plan 2008 B	0,30	1.3.2011 - 31.12.2014	566 250
Option plan 2008 C	0,30	1.3.2012 - 31.12.2014	11 250
Option plan 2008 D	0,30	1.3.2013 - 31.12.2014	11 250

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	2009 weighted average exercise price Euros/share	Number of options	2008 weighted average exercise price Euros/share	Number of options
At the beginning of the financial year	0,55	1 111 250	0,56	1 087 500
Allocated new options	0,30	1 250 000	0,46	125 000
Forfeited options	0,30	110 000	0,56	-101 250
At the end of the financial year	0,42	2 251 250	0,55	1 111 250
Vested options outstanding at end of the financial year	0,56	1 076 250	0,56	858 750
Vested options during the financial year		0		0

Outstanding options at end of the financial year:

Ending of exercised	Subscription price (Euros)	2009 Number of shares	2008 Number of shares
2010	0,56	1 076 250	1 061 250
2014	0,30	1 175 000	50 000
Total		2 251 250	1 111 250

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 7. Personnel expenses.

21. Provisions

(1 000 Euros)	Guarantee provision	Losses on projects	Other provisions	Total
31.12.2008	29	54	158	241
Additional provisions	0	0	30	30
Used provisions	0	0	-89	-89
Utilized during year	-21	-54	-69	-145
31.12.2009	7	0	30	37

(1 000 Euros)	2009	2008
Short term	37	214
Long term	0	26
Total	37	241

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 2009 guarantee provisions were 7 thousand Euros (29 thousand Euros in 2008). The guarantee provision is based on experience of faulty products in previous years. The guarantee provisions are expected to be used during the next two years.

Losses on contracts

The group has renewed part of its rental agreements related to office space. The group has no rental agreements in its Balance sheet 31.12.2009 which the group does not utilize in it's own business. The group has no provisions related to loss-making contracts in 2009 (54 thousand Euros in 2008).

Other provisions

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

22. Financial liabilities

(1 000 Euros)	2009	2008
Short term interest bearing liabilities valued at amortized cost		
Finance lease liabilities	0	2

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

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

The weighted averages of effective interest rates in the long term, interest bearing debt 31.12.2009 and 31.12.2008 were:

	2009	2008
Short-term finance lease liabilities	-	7,89 %

Finance lease liabilities are payable

(1 000 Euros)	2009	2008
Finance lease liabilities - Minimum lease payments		
In less than one year	0	2
Total minimum lease payments	0	2
Finance lease liabilities - Present value of minimum lease payments		
In less than one year	0	2
Total present value of minimum lease payments	0	2
Future financial charges	0	0
Finance lease liabilities total	0	2

23. Trade and other payables

(1 000 Euros)	2009	2008
Short term payables valued at amortized cost		
Trade payables	1 293	1 196
Accrued expenses	8 770	8 285
Other	541	510
Total	10 604	9 991
Long term payables valued at amortized cost		
Accrued expenses	2 606	2 336
Short term and long term total	13 210	12 327

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

24. Management of financial risks

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

Foreign currency risk

The Group operates on four continents but uses as its main invoicing currency Euros and to a lesser extent US dollars. The cost structure Forward contracts were used in 2009 and 2008 to hedge USD receivables. The cost structure also consists mainly of Euros, to a lesser extent US dollars and of currencies linked to both of these. Transaction risks are managed based on the net position using, when required, forward contracts or options.

There are no forward contracts open in the 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)	2009 USD	2009 GBP	2008 USD	2008 GBP
Current assets				
Trade and other receivables	1 030	35	2 610	29
Short-term liabilities				
Interest bearing liabilities	0	0	0	0
Non-interest bearing liabilities	493	99	535	202
Open position	537	-64	2 075	-173

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)	2009 USD	2008 USD
Increase / decrease	-3.3%	5.4%
Effect on profit after tax	41	-145

The Group does 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 eurobased instruments linked to short term interest rates with a remaining duration of maximum one year. The general development of the interest markets in the Euroarea impacts the value of these investments. 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)	2009	2008
3 month Euribor	365	100

Credit risk

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

The Group does not have any significant pools of receivables and credit risk related thereto. The credit losses impacting the result of the reporting period amounted to 46 thousand Euros during 2009 (68 thousand Euros in 2008). The credit losses were a result of sudden, unexpected changes in the customers economical environment. The age distribution of the receivables has been presented in the notes, item 17. Trade and other receivables.

Liquidity risk

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

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

2009 (1 000 Euros)	Balance Sheet value	Cash flow	Less than 1 year
Interest bearing liabilities	0	0	0
Trade and other payables	1 293	1 293	1 293
2008 (1 000 Euros)	Balance Sheet value	Cash flow	Less than 1 year
Interest bearing liabilities	2	2	2
Trade and other payables	1 196	1 196	1 196

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 conversionrisk of capital is deemed very small. External capital has not been used with the exception of some leasing.

The Group's capital structure is monitored by gearing. The Group's has not interest bearing liabilities end of year 2009 (2 thousand Euros in 2008) and the gearing was -2.31 % (-1.99 % in the reporting period 2008). 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)	2009	2008
Interest bearing liabilities	0	2
Cash and cash equivalents	-6 210	-7 048
Net liabilities	-6 210	-7 045
Shareholders' equity total	2 685	3 543
Net gearing	-2,31 %	-1,99 %

25. Financial assets and liabilities by categories

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

Financial assets by categories 2009 (1 000 Euros)	Note	Loans and receivables Amortised cost	Financial assets at fair-value through profit and loss Fair- value recognise	Total financial assets
Financial instruments in non-current assets				
Trade receivables	17.	7 255	0	7 255
Marketable securities	14.	0	5 240	5 240
Cash and cash equivalents	18.	970	0	970
Total		8 225	5 240	13 465

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

Financial liabilities by categories 2009 (1 000 Euros)	Note	Other financial liabilities Amortised cost	Total financial liabilities
Financial instruments in current liabilities			
Interest-bearing liabilities	22.	0	0
Trade payables	23.	1 293	1 293
Total		1 293	1 293

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

26. Fair value of financial assets and liabilities

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

Investments in shares, mutual funds and other investments

In the Financial Statements 31.12.2009 there are no non-quoted shares in the continuous operations assets for a total of 10 thousand Euros (10 thousand Euros in 2008). 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 31.12.2009.

Financial lease liabilities

Fair values are based on discounted cash flows. As interest rate in the discounting calculation a rate for which the leasing liability is amortized by the end of the leasing period was used. The group has no financial lease liabilities in 2009 (2 thousand Euros in 2008).

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.

27. Adjustments for cash flow from operating activities

(1 000 Euros)	2009	2008
Non-cash transacting		
Depreciations	454	483
Decrease in fair values	306	49
Employment benefits	98	32
Deferred transactions	-214	-279
Financial expenses	-129	-93
Financial incomes	445	375
Fair value gains/loss of financial instruments hold for trading	-109	34
Total	851	601

28. Subsidiaries

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

29. Operating lease commitments

Group as leaseholder

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

(1 000 Euros)	2009	2008
In less than one year	897	1 765
Between one and five years	1 644	1 612
Total	2 541	3 377

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 2009 contains rents paid based on rental agreements for a total of 1 251 thousand Euros (1 940 thousand Euros in 2008).

The group has renewed some of its rental agreements for office space during 2009. Since 1.3.2009 the group no longer rents out any office space.

Group as landlord

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

(1 000 Euros)	2009	2008
In less than one year	0	373
Between one and five years	0	172
Total	0	545

30. Contingent liabilities

(1 000 Euros)	2009	2008
Other contingent liabilities		
Other contingent liabilities	117	63

Disputes and litigations

There are no open disputes or litigations against Stonesoft Oyj. Against other group companies there are two work contract related litigations ongoing. Related to one of these there are provisions in the financial statements for lawyer and court costs. Furthermore a provision has been made linked to responsibilities in conjunction with closing one daughter company.

According to the management's view none of these processes are likely to have any material impact on the groups result or financial position.

31. 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 %
Parentcompany 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 Italy S.r.l	Italy, Milan	99,99	99,99
Stonesoft LTDA	Brasil, São Paulo	99,99	99,99
Stonesoft Tunis SARL	Tunis, Ariana	99,99	99,99
BVBA Stonesoft Belgium	Belgium, Diegem	99,00	99,00

Employee benefits of Directors and Executive Officers (1 000 Euros)	2009	2008
Salaries and other short term employee benefits	643	851
Other long term payments	11	11
Share based payments	40	13
Total	695	874

Remuneration for Board of Directors and Managing Directors (1 000 Euros)	2009	2008
Managing Directors	0	0
Board of Directors		
Viljo Matti, chairman of the Board	45	46
Hiidenheimo Ilkka	0	0
Piela Topi	23	30
Turunen Hannu	0	0
Syrjälä Timo	25	16
Ervi Pertti	0	16

The impacts of the stock options are presented in the notes, item 20. Share based payment plans.

The company management and Board were awarded 500 000 stock options in 2009 (125 000 in year 2008). No options were sought back during the year 2009 (88 750 in 2008). The stock options of management and the Board have same terms and conditions. The management and the Board had on the 31.12.2009 a total of 1 072 500 granted stock options out of which 537 500 were vestable (572 500 in 2008 out of which 307 500 vestable).

32. Events after the Balance Sheet Date

In January Stonesoft established a new Research and Development unit in Cracow, Poland

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

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

33. Key Ratios

(1 000 Euros)	IFRS 2009	IFRS 2008	IFRS 2007	IFRS 2006	IFRS 2005
Net sales	23 597	24 427	19 020	21 879	22 237
Net sales change-%	-3%	28%	-13%	-2%	-1%
Net sales, continuing operations	23 597	24 427	19 020	16 479	16 453
Net sales change-%	-3 %	28 %	15 %	0 %	
Net sales, discontinued operations	0	0	0	5 400	5 783
Net sales change-%	-	-	-	-7 %	
Operating result	-1 048	-2 286	-6 514	-6 536	-6 258
% of Net sales	-4%	-9%	-34%	-30%	-28%
Operating result, continuing operations	-1 048	-2 286	-6 514	-6 608	-6 460
Operating result, discontinued operations	0	0	0	72	202
Result before taxes	-731	-2 010	-6 312	-6 170	-5 719
% of Net sales	-3%	-8%	-33%	-28%	-26%
Result for the accounting period	-971	-2 043	-4 212	-6 448	-6 008
% of Net sales	-4%	-8%	-22%	-29%	-27%
Return on equity (ROE) %	-31%	-49%	-85%	-50%	-31%
Return on investment (ROI) %	-19%	-40%	-78%	-46%	-29%
Equity ration %	40%	46%	52%	66%	74%
Net gearing	-2.31	-1.99	-1.46	-1.50	-1.14
Capital investments	328	488	495	381	437
% of Net sales	1%	2%	3%	2%	2%
R&D costs	4 918	5 230	5 285	4 804	4 612
% of Net sales	21 %	21 %	28 %	22 %	21 %
Number of employees (weighted average)	178	183	181	251	247
Number of employees at the end of the year	174	185	181	254	252
Earnings per share	-0.02	-0.04	-0.07	-0.11	-0.10
Earnings per share, continuing operations	-0.02	-0.04	-0.11	-0.11	-0.11
Earnings per share, discontinued operations	0.00	0.00	0.04	0.00	0.00
Equity per share	0.05	0.06	0.10	0.17	0.28
Dividend	0.00	0.00	0.00	0.00	0.00
Dividend per share	0.00	0.00	0.00	0.00	0.00
Dividend/profit %	0%	0%	0%	0%	0%
Average number of shares adjusted for share issue	57 723 942	57 307 748	57 302 732	57 302 732	57 302 732
Number of shares adjusted for share issue at year end	57 727 732	57 309 875	57 302 732	57 302 732	57 302 732

Definitions for key indications

$$\text{Return on equity (ROE) \%} = \frac{(\text{Profit before taxes} - \text{taxes}) \times 100}{\text{Equity} + \text{minority interest}}$$

$$\text{Return on investment (ROI) \%} = \frac{(\text{Profit before taxes} + \text{interest expenses} + \text{net other financial expenses}) \times 100}{\text{Balance sheet total} - \text{Interest-free liabilities (average)}}$$

$$\text{Equity ration \%} = \frac{(\text{Equity} + \text{minority interest}) \times 100}{\text{Balance sheet total} - \text{advances received}}$$

$$\text{Net gearing} = \frac{\text{Interest bearing net debt} - \text{cash in hand and on deposit} - \text{marketable securities}}{\text{Equity} + \text{minority interest}}$$

$$\text{Earnings per share} = \frac{\text{Profit before taxes} - \text{minority interest} - \text{taxes}}{\text{Average number of shares outstanding}}$$

$$\text{Equity per share} = \frac{\text{Equity}}{\text{Issue-adjusted number of shares at December 31}}$$

$$\text{Dividend per share} = \frac{\text{Total dividend}}{\text{Issue-adjusted number of shares at December 31}}$$

$$\text{Dividend \& profit \%} = \frac{\text{Total dividend} \times 100}{\text{Earning per share}}$$

Stonesoft Oyj

Parent company

Income statement (FAS)

(1 000 Euros)	Note	1.1.-31.12.2009	1.1.-31.12.2008
Net sales	1.	23 597	24 427
Other operating income	2.	1 041	1 191
Materials and services	3.	-3 539	-3 547
Personnel costs	4.	-6 542	-7 191
Depreciations and reduction in value	5.	-230	-197
Other operating expenses		-15 949	-17 612
Operating Result		-1 622	-2 929
Financial income and expenses	6.	1 037	1 402
Result before extraordinary items		-585	-1 527
Extraordinary items +/-	7.	0	233
Result before appropriations and taxes		-585	-1 294
Direct taxes	8.	0	-1
Result for financial year		-585	-1 294

Stonesoft Oyj

Parent company

Balance sheet (FAS)

(1 000 Euros)	Note	31.12.2009	31.12.2008
Assets			
Non-current assets			
Intangible assets	9.	179	120
Tangible assets	10.	210	235
Investments	11.	984	1 017
Non-current assets total		1 373	1 372
Current assets			
Inventories		673	911
Short-term receivables	12.	8 195	7 076
Marketable securities	13.	5 240	6 270
Cash in hand and in bank		731	546
Current assets total		14 838	14 804
Total		16 211	16 176
Equity and Liabilities			
Shareholders' equity			
Share capital	14.	1 146	1 146
Share premium account	14.	76 821	76 821
Retained earnings/loss	14.	-75 012	-73 718
Profit/loss for the financial year	14.	-585	-1 294
Shareholders' equity total		2 371	2 955
Provisions	15.	7	83
Liabilities			
Short term liabilities	16.	13 833	13 138
Liabilities total		13 833	13 138
Total		16 211	16 176

Stonesoft Oyj

Parent company

Cash flow statement (FAS)

(1 000 Euros)	1.1.-31.12.2009	1.1.-31.12.2008
Cash flow from operating activities		
Operating result	-1 622	-2 929
Adjustments to operating result	31	-16
Financial income and expenses	548	513
Change in net working capital	-95	456
Taxes paid	-0	-1
Total	-1 137	-1 944
Cash flow from investing activities		
Investments to intangible and tangible assets	-245	-234
Investments to (-) / sales of (+) shares in subsidiaries	0	186
Dividends received	489	889
Other sales of shares / investments	0	-10
Total	244	830
Cash flow from financing activities total	48	10
Change in cash and cash equivalents	-846	-1 104
Cash and cash equivalents at the beginning of the period	6 816	7 920
Cash and cash equivalents at the end of the period	5 971	6 816

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	2009	2008
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

(1000 Euros)	2009	2008
Europe	15 182	14 740
Emerging Markets	3 162	4 123
Americas	4 605	4 495
APAC	648	1 069
Total	23 597	24 427

1b. Net sales by business functions

(1000 Euros)	2009	2008
Software and appliance revenue		
Software	1 563	2 555
Appliance	11 015	12 338
Service revenue		
Services	10 907	9 460
Other revenue		
Other revenue	113	73
Total	23 597	24 427

2. Other income from business operations

(1000 Euros)	2009	2008
Sales of fixed assets	18	1
Rental income	125	723
Lunch sold to employees	107	90
Tekes allowance	707	377
Other operating income	84	0
Total	1 041	1 191

3. Materials and services

(1000 Euros)	2009	2008
Materials and goods		
Purchases during the financial period	3 188	3 323
Change in stocks	239	157
	3 427	3 480
External services	112	67
Total	3 539	3 547

4. Wages, salaries and indirect employee expenses

(1000 Euros)	2009	2008
Wages and salaries	5 518	6 022
Pension expenses	808	917
Other indirect employee expenses	216	252
Total	6 542	7 191
Salaries and fees paid to the Board of Directors and CEO	88	96
Consultation fees paid to Members of the Board	0	0
Number of personnel, average	108	108

5. Depreciation

(1000 Euros)	2009	2008
Goodwill	0	2
Tangible assets	141	143
Intangible assets	62	52
Investment and financial asset write-downs	27	0
Total	230	197

6. Financial income and expenses

(1000 Euros)	2009	2008
Dividend income from Group companies	489	889
Interest and other financial income	672	604
Financial income, total	1 161	1 493
Interest and other financial expenses	124	91
Financial income and expenses, total	1 037	1 402
Financial income and expenses includes		
exchange rate gains/losses (net)	33	25
gains/losses from securities market	216	240
exchange rate gains/losses (net) from securities market	150	0

7. Extraordinary items

(1000 Euros)	2009	2008
Extraordinary income		
Profit from sold subsidiary	0	186
Group contribution	0	47
Extraordinary income, total	0	233
Extraordinary items, total	0	233

8. Income taxes

(1000 Euros)	2009	2008
Taxes from previous financial periods	0	-1
Direct taxes, total	0	-1

Notes to the Balance Sheet

9. Intangible assets

(1000 Euros)	2009	2008
Intangible rights		
Acquisition cost 1.1.	1 535	1 476
Additions	122	59
Acquisition cost 31.12.	1 657	1 535
Accumulated depreciation 1.1.	-1 434	-1 396
Depreciation for financial period	-49	-38
Accumulated depreciation 31.12.	-1 483	-1 434
Balance sheet value 31.12.	174	101
Goodwill		
Acquisition cost 1.1.	100	100
Additions	0	0
Acquisition cost 31.12.	100	100
Accumulated depreciation 1.1.	-100	-98
Depreciation for financial period	0	-2
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	0	0
Acquisition cost 31.12.	1 201	1 201
Accumulated depreciation 1.1.	-1 182	-1 168
Depreciation for financial period	-14	-14
Accumulated depreciation 31.12.	-1 196	-1 182
Balance sheet value 31.12.	5	19

10. Tangible assets

(1000 Euros)	2009	2008
Machinery and equipment		
Acquisition cost 1.1.	1 589	1 414
Additions	116	175
Acquisition cost 31.12.	1 705	1 589
Accumulated depreciation 1.1.	-1 360	-1 217
Depreciation for financial period	-141	-143
Accumulated depreciation 31.12.	-1 501	-1 360
Balance sheet value 31.12.	204	229
Other tangible assets		
Acquisition cost 1.1.	6	5
Additions	14	29
Reductions	-14	-28
Acquisition cost 31.12.	6	6
Accumulated depreciation 1.1.	0	0
Depreciation for financial period	0	0
Accumulated depreciation 31.12.	0	0
Balance sheet value 31.12.	6	6

11. Investments

(1000 Euros)	2009	2008
Stocks and shares		
Acquisition cost 1.1.	994	1 001
Additions	0	0
Reductions	-33	-7
Acquisition cost 31.12.	961	994

A specification of the daughter companies including ownership information can be found in item 31. Related party transactions in the financial statements of the group.

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	0
Additions	0	10
Balance sheet value 31.12.	10	10

12. Short term receivables

(1000 Euros)	2009	2008
Accounts receivable	7 255	6 179
Receivables from Group companies		
Other receivables	140	99
Other receivables		
VAT receivables	0	144
Prepayments and accrued income		
Rental deposits	14	15
Tekes	214	279
Other prepayments and accrued income	572	360
Short term receivables, total	8 195	7 076

Stonesoft Oyj has cumulated, taxable losses for a total of 80 417 thousand Euros at the closing on the 31.12.2009 (85 469 thousand Euros on the 31.12.2008). Losses confirmed in the 2008 taxation total 82 360 thousand Euros (83 177 thousand Euros in year 2007), 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 3 147 thousand Euros on taxation 2008 and a total 2 898 thousand Euros on taxation 2009.

13. Securities included in financial assets

Marketable securities (1000 Euros)	2009	2008
Replacement value	5 240	6 309
Book value	5 092	6 270
Difference	148	39

14. Shareholders' equity

(1000 Euros)	2009	2008
Share capital		
Share capital 1.1	1 146	1 146
Share capital 31.12	1 146	1 146
Other restricted shareholders' equity		
Share premium account 1.1	76 821	76 821
Share premium account 31.12	76 821	76 821
Other restricted shareholders' equity total	76 821	76 821
Retained earnings/loss		
Retained earnings/loss 1.1	-75 012	-73 718
Retained earnings/loss 31.12	-75 012	-73 718
Result for the financial period	-585	-1 294
Shareholders' equity, total	2 371	2 955

Calculation on distributable funds (1000 Euros)	2009	2008
Retained earnings/loss	-75 012	-73 718
Result for the financial period	-585	-1 294
Total	-75 596	-75 012

15. Provisions

(1000 Euros)	2009	2008
Other provisions		
Losses on contracts	0	54
Guarantee reserve	7	29
Total	7	83

16. Liabilities

(1000 Euros)	2009	2008
Short term liabilities		
Accounts payable	1 182	1 082
Debts to the Group companies		
Other debts	1 928	2 151
Substantial items included in deferred liabilities		
Matched maintenance cost	9 267	8 372
Other deferred liabilities	1 244	1 382
Other debts	213	151
Short term liabilities total	13 833	13 138
Liabilities total	13 833	13 138

17. Contingent liabilities

(1000 Euros)	2009	2008
Leasing liabilities		
Payable in year 2010	21	38
Payable later	9	34
Leasing liabilities to the Group companies		
Payable in year 2010	208	149
Payable later	0	126
Rental liabilities and pledges		
Rental liabilities	1 941	2 603
Performance bond	117	63
Contingent liabilities total	2 296	3 013

For performance bond collateral pledged to Marketable securities 21 thousand Euros financial year 2009.

Auditor's Report

To the Annual General Meeting of Stonesoft Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Stonesoft Oyj for the year ended on 31 December, 2009. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

The responsibility of the Board of Directors and the Managing Director

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

Auditor's responsibility

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

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

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

Opinion on the consolidated financial statements

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

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

In our opinion, the financial statements 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.

We recommend that the Members of the Board of Directors and the Managing Director should be discharged from liability for the financial period audited by us.

Helsinki, 17 February 2010

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, 17 February, 2010

Matti Viljo
Chairman of the Board
Topi Piela
Member of the Board
Ilkka Hiidenheimo
CEO

Hannu Turunen
Member of the Board
Timo Syrjälä
Member of the Board

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, 17 February, 2010

Ernst & Young Oy
Authorized Public Accountant Firm
Bengt Nyholm
Authorized Public Accountant

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STONESOFT

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