



STONESOFT CORPORATION STOCK EXCHANGE RELEASE 3 FEBRUARY 2003 AT 09:00 AM

## STONESOFT CORPORATION FINANCIAL STATEMENTS 2002

### SUMMARY

#### October-December 2002

- Net sales in the fourth quarter were Eur 7,0 million, unchanged from the previous quarter. The comparable net sales in the previous year were Eur 10,4 million, a decrease of 33%.
- License sales decreased by 18% from the previous quarter.
- The sales of StoneGate declined by 28% from the previous quarter, and
- The sales of StoneBeat remained at the level of the previous quarter.
- Operating loss before goodwill depreciation (EBITA) was Eur 3,4 million.
- Extraordinary costs include expenditure of Eur 1,1 million incurred in connection of closing the Optiwise business.
- The company's liquid funds at the end of the period stood at Eur 40,4 million, and the Equity Ratio was 90%.

The market situation remained challenging during the fourth quarter. The lower than expected sales of the StoneGate firewall and VPN product was attributable that significant prospects postponing their purchasing decisions to a later date especially in US.

#### January-December 2002

- The Group net sales were Eur 30,2 million, a decrease of 48% on the previous year.
- The Group figures included Eur 2,1 million from the net sales of the eSolutions business sold in February.
- The net sales of continuing businesses was Eur 28,1 million, a decrease of 35% on the previous year.
- The operating loss before goodwill depreciation (EBITA) was Eur 22,7 million, and the loss for the Financial Year was Eur 16,7 million.
- Restructuring costs totalled Eur 2,8 million during the Financial Year.
- The number of personnel at the end of the Financial Year was 336, compared to 571 at the end of the previous year, of which 417 were employed in the Networks business.

#### Outlook for the future

In 2003, the company expects to invest additional resources in adjusting the sales strategy with a focus on addressing the information security requirements of target customers together with selected partners. Operations will be further focused and adjusted and the sales processes will be further developed.

As a result of adjustments of operations, continuing control of expenses and prospective customer opportunities for StoneGate in 2003, the company expects that its financial results before goodwill depreciation (EBITA) for the whole fiscal year will improve from the previous year.

### GROUP FINANCIAL INDICATORS FOR THE FINANCIAL YEAR

The net sales of the Stonesoft Corporation (hereinafter Group) in January-December were Eur 30,2 million (Eur 57,7 million). The factors for the decrease of net sales include the sale of Stonesoft e-solutions Oy to Novo Group plc (Eur 9,8 million) and the discontinuation in 2001 of the data security distribution businesses in the Nordic countries, and of the data security consultancy business in the US (Eur 2,6 million). For the continuing businesses, net sales decreased by 35% or Eur 15,1 million compared to year 2001.

Operating loss for the Group during the period before goodwill depreciation (EBITA) was Eur 22,7 million (Operating loss Eur 10,4 million), including Eur 2,8 million of restructuring costs of operations.

The loss of the Group before extraordinary items was Eur 24,7 million (loss Eur 11,9 million). During the period, the Group posted one-time goodwill depreciation totalling Eur 1,1 million.

Extraordinary income includes the capital gain of Eur 10,2 million due to the sale of eSolutions business, and the extraordinary costs include a total of Eur 1,1 million of expenditure incurred in connection of closing the Optiwise business in 2000.

The loss for the reporting period was Eur 16,7 million (Eur 10,3 million). The loss per share was Eur 0,49 (loss Eur 0,15).

## KEY INDICATORS FOR THE FOURTH QUARTER

### Net sales and profitability

The net sales were Eur 7,0 million (Eur 13,4 million). The comparable net sales of the Networks business in the previous year totalled Eur 10,4 million. The sales of own software products decreased by 18% compared to the previous quarter. The sales of StoneGate decreased by 28% compared to the previous quarter, accounting for 56% of the sales of the company's own products. The sales of the StoneBeat family of products remained at the same level as previous quarter. The own products and services accounted for 91% (93%) of the total sales by Networks.

The operating loss of the Networks business before goodwill depreciation (EBITA) was Eur 3,4 million (loss Eur 3,5 million). The loss was reduced by Eur 1,7 million compared to the previous quarter.

During the fourth quarter, the personnel costs of Networks were Eur 5,4 million (Eur 7,3 million) remaining at the level of the previous quarter. Other operating costs decreased by 25% on the previous quarter (the above figures do not include the restructuring costs of the operations).

At the end of the period, the Networks business employed 336 people (417), of which 35% (41%) were stationed outside Finland.

### Financing and investments

At the end of the reporting period, the Group's balance sheet total stood at Eur 59,9 million (Eur 82,0 million). The equity ratio was 90% (88%) and net gearing -0,81 (-0,68). At the end of the period, the Group's liquid funds stood at Eur 40,4 million (Eur 45,7 million). The liquid funds per share were Eur 0,71.

The Group's capital expenditure for the whole Financial Year amounted to Eur 0,7 million, of which Eur 0,1 million during the fourth quarter.

### Product business

The market for the company's product business remained challenging during the fourth quarter. The sales of the StoneGate firewall and VPN product decreased by 28% compared to the previous quarter. The market situation remained challenging during the fourth quarter. The lower than expected sales of StoneGate firewall and VPN product was attributable that significant prospects postponing their purchasing decisions to a later date, especially in US. The StoneGate product accounted for 56% of the sales of own licenses during the period under review. The sales of StoneBeat family of products remained at the level of the previous quarter and was 24% of the sales for the same period during the previous year.

The company continues to undergo a transformation from a company selling third party products and manufacturing added value products (the StoneBeat product range) into a global supplier of security platform software (the StoneGate product). This has resulted in changes in the way products are sold. The company's financial results have also been adversely impacted due to a decline in the sales of StoneBeat family of products which has not yet been compensated by the increased sales of StoneGate product.

# STONESOFT

Highlights for the fourth quarter were:

-The company released the first in world firewall and VPN solution for the IBM zSeries mainframes. The StoneGate high availability firewall and VPN solution developed for the IBM mainframe environment became commercially available in January 2003. The first order was already received at the end of 2002.

-In October, the highly respected SC-Magazine awarded StoneGate at the highest five star rating describing it as the best VPN solution on the market. In addition, StoneGate was elected as the best firewall and VPN product in 2002 in SC-Magazine.

## Market areas

The geographical division of business by area was: North and South America 20%, Europe, Middle East and Africa 72%, and the Asia-Pacific Region 7%.

The company's sales in the USA decreased by 26% from the previous quarter. The total sales for Europe, Middle East and Africa increased by 17%. In the Asia-Pacific region, the sales decreased by 30% compared to the previous quarter.

## Other events

In October 2002, the Board of Directors of the Stonesoft Corporation appointed Mr Jorma Turunen, M.Sc.(Eng.), eMBA, as the new CEO of Stonesoft.

Jorma Turunen joined Stonesoft from Comptel Corporation where he was Executive Vice President responsible for Comptel's global sales and marketing. Previously he served in PCA Infocom Finance Oy as Managing Director and Partner, in Foreign Trade Association as Senior Vice President responsible for Infocom unit and in Sonera Corporation in various senior management positions.

## RESEARCH AND DEVELOPMENT

During the fourth quarter, the company's R&D investments totalled Eur 1,9 million (Eur 2,2 million).

Stonesoft's R&D units are located in Helsinki, Turku, Oulu and Sophia Antipolis in France. At the end of September, a total of 94 (116) people were involved in R&D activities in the company.

The company continued the development work for existing and new data security products with high availability for wired and wireless networks. During the period under review, the development work for the first version of StoneGate intended for mainframe environments was completed, and the related beta program was initiated.

R&D expenditure is recorded as expenses when incurred in accordance with the Group's accounting policy.

## CURRENT AUTHORISATIONS

The share capital of the company may be increased in one or more lots in a manner whereby the shares to be issued in the new issue and/or on the basis option rights and/or in connection with a convertible loan may all together increase the Company's share capital with the maximum of Eur 229,204.52, so that the aggregate maximum number of shares eligible for subscription on the basis of the aforementioned alternatives is 11,460,226 shares, each with an accounting equivalent value of Eur 0.02. Option rights may solely be given to increase share capital in connection with mergers and acquisitions. The share capital of the company may be increased by giving option rights with the total maximum of Eur 30,000.

## SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

# STONESOFT

In January, the company released the world's first firewall and VPN solution for the IBM eServer zSeries mainframes. The eServer zSeries is a virtual server concept where a single mainframe computer can replace hundreds of traditional servers. The newly introduced product opens a totally new segment on the firewall and VPN market for the company.

In addition, the company extended its co-operation and reselling agreement with IBM from Nordic to global.

Stonesoft sold its domestic security consultancy business to Nixu Oy, a Finnish network security consultancy company. The Unit consist of 4 people, and their business function.

## OUTLOOK FOR THE FUTURE

Jorma Turunen, CEO, Stonesoft Corporation:

"The challenging market situation will continue to prevail during the early part of the year. We have invested heavily in R&D as evidenced by positive recognition by industry experts and the awarded recognition given to our StoneGate product. We have also taken steps to obtain government certifications and to patent a significant part of the innovative technology developed by the company.

We are able to provide our most important target customers, the world's leading banks, managed service providers and governments, the best high availability firewall and VPN solution, as well as significant cost savings for the entire life-cycle of the solution. By introducing data security to mainframes, we are able to enter new firewall and VPN markets.

We are not satisfied with our ability to exploit our expertise commercially. And we will continue to adjust our sales processes to improve our sales. This year, we will be investing resources to further adjust our sales strategy, focusing on fulfilling the network security needs of our selected target customers. We will continue to focus our business and enhance our operations."

As a result of adjustments of operations, continuing control of expenses and prospective customer opportunities for StoneGate in 2003, the company expects that its financial results before goodwill depreciation (EBITA) for the whole fiscal year will improve from the previous year.

The figures presented in the interim report are not audited.

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Stonesoft Corp.

Jorma Turunen

President and CEO

This release and the material related to the interim report are also available on Stonesoft's Web site at <http://www.stonesoft.com>

Distribution:

Helsinki Stock Exchange

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## Stonesoft Corporation Income Statement (Euro 1000)

1.1-31.12.2002    1.1-31.12.2001

Net Sales	30 173	57 703
Other operating income	755	2 054
Materials and services	2 972	5 826
Personnel costs	27 713	36 537
Depreciations	1 973	2 564
Other operating expenses	20 979	25 247
Operating Profit / Loss (EBITA)	-22 708	-10 417
Goodwill deprecations	2 470	2 449
Operating Profit / Loss (EBIT)	-25 178	-12 866
Share of associated companies result	0	-41
Financial income and expenses	480	1 049
Profit / Loss before extraordinary items	-24 699	-11 858
Extraordinary income	10 160	0
Extraordinary expenses	1 426	1 236
Profit / Loss before taxes and minority Interest	-15 965	-13 094
Direct taxes	742	-2 579
Minority Interest	0	253
Profit / Loss for the Accounting period	-16 707	-10 263

## Stonesoft Corporation Balance Sheet (Euro 1000)

31.12.2002    31.12.2001

### Assets

#### Non-Current Assets

Intangible assets	1 476	1 821
Consolidated goodwill	2 713	6 985
Change in net working capital	2 139	3 379
Investments	4	342
Non-Current Assets Total	6 332	12 528

#### Current assets

Inventories	73	277
Long-term receivables	147	188
Short-term receivables	12 946	23 386
Investments	34 955	37 222
Cash on hand and on deposit	5 462	8 437
Current Assets Total	53 584	69 511

# STONESOFT

Total	59 916	82 039
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## Liabilities

Shareholders' Equity	49 860	66 636
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Provisions	30	0
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## Liabilities

Long-term liabilities	2	26
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Short-term liabilities	10 024	15 377
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Total Liabilities	10 025	15 403
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Total	59 916	82 039
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Key Ratios	2002	2001
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EURO 1000

Net Sales	30 173	57 703
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Net Sales Change %	-48%	-3%
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Operating Profit / Loss Before Goodwill		
Depreciations (EBITA)	-22 708	-10 417
% of Net Sales	-75%	-18%

Operating Profit / Loss After Goodwill		
Depreciations (EBIT)	-25 178	-12 866
% of Net Sales	-83%	-22%

Profit / Loss before Extraordinary Items	-24 699	-11 858
% of Net Sales	-82%	-21%

Profit / Loss before taxes and minority Interest	-15 965	-13 094
% of Net Sales	-53%	-23%

ROE %, annualized	-44%	-13%
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ROI %, annualized	-42%	-15%
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Equity Ratio %	90%	88%
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Net Gearing	-0.81	-0.68
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Total Asset	59 916	82 039
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Capital Investments	699	727
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% of Net Sales	2%	1%
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R&D Costs	7 436	9 086
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% of Net Sales	25%	16%
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Number of Employees (Weighted Average)	403	581
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Number of Employees at the end of the period	336	571
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## Share Specific Ratios

Earnings per Share (EUR)	-0.49	-0.15
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Equity per Share (EUR)	0.87	1.16
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Dividend per Share (EUR)	0.00	0.00
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Dividend / Profit %	0%	0%
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Weighted Amount of Shares	57 302 088	57 643 083
(Option dilution effect included)		

Amount of Shares at the End of period	57 302 732	57 301 132
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Quarterly development

# STONESOFT

Stonesoft Corporation (Euro Millions)	Q4/ 2002	Q3/ 2002	Q2/ 2002	Q1/ 2002	Q4/ 2001	Q3/ 2001	Q2/ 2001	Q1/ 2001
Net sales	7.0	7.0	6.4	9.8	13.4	11.8	15.6	16.9
Net sales change %	-48%	-41%	-59%	-42%	-30%	-22%	6%	59%
Operating profit (EBITA) before restructuring costs	-3.2	-4.5	-6.1	-6.1	-3.1	-4.2	-1.5	-1.7
% of net sales	-46%	-65%	-95%	-63%	-23%	-35%	-10%	-10%
Operating profit (EBITA)	-3.4	-5.1	-6.1	-8.1	-3.1	-4.2	-1.5	-1.7
% of net sales	-49%	-73%	-95%	-83%	-23%	-35%	-10%	-10%
Profit / loss before taxes	-4.7	-5.3	-6.6	0.6	-3.7	-5.0	-1.3	-3.1
% of net sales	-68%	-76%	-103%	6%	-27%	-43%	-9%	-18%

Number of employees at the end of the period	336	353	376	423	571	572	590	588
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Networks (Euro Millions)	10-12/ 2002	Q3/ 2002	Q2/ 2002	Q1/ 2002	Q4/ 2001	Q3/ 2001	Q2/ 2001	Q1/ 2001
Net sales	7.0	7.0	6.4	7.7	10.4	8.8	12.5	14.1
Net sales change %	-33%	-21%	-49%	-46%	-35%	-31%	11%	96%
Division net sales of total net sales	100%	100%	100%	79%	77%	74%	81%	84%
Operating profit (EBITA) before restructuring costs	-3.2	-4.5	-6.1	-6.4	-3.5	-4.7	-3.3	-1.9
% of net sales	-46%	-65%	-95%	-83%	-34%	-54%	-27%	-13%
Operating profit (EBITA)	-3.4	-5.1	-6.1	-8.4	-3.5	-4.7	-3.3	-1.9
% of net sales	-49%	-73%	-95%	-109%	-34%	-54%	-27%	-13%

Number of employees at the end of the period	336	353	376	423	417	431	445	435
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eSolutions (Euro Millions)	Q1/ 2002	Q4/ 2001	Q3/ 2001	Q2/ 2001	Q1/ 2001
Net sales	2.1	3.0	3.0	3.0	2.8
Net sales change %	-25%	-3%	20%	-10%	-18%
Division net sales of total net sales	21%	23%	26%	19%	16%
Operating profit (EBITA)	0.3	0.4	0.6	0.4	0.2
% of net sales	12%	14%	19%	14%	6%

Number of employees at the end of the period	161	154	141	145	152
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REPORT BY THE BOARD OF DIRECTORS

Financial Year 1 January 2002 - 31 December 2002

## 1. DEVELOPMENT OF OPERATIONS DURING THE FINANCIAL YEAR 2002

During 2002, the company has transformed from a vendor of third-party products and producer of add-on products into a global supplier of security platform software. As part of its development strategy, during the period under review, the company sold off Stonesoft

# STONESOFT

e-solutions Oy, a company specialising in IT-services, to the Novo Group plc.

During the Financial Year 2002, the Group's net sales were Eur 30,2 million. Compared with the previous year, net sales decreased by 48%. The decrease in net sales was partly due to the sale of the eSolutions business (Eur 9,8 million) to Novo Group plc, and the discontinuation of the data security distribution business in the Nordic countries, and the data security consultancy business in US (Eur 2,6 million). The net sales of the continuing business decreased by 35% i.e., Eur 15,1 million from 2001.

The Group's operating loss before goodwill depreciation (EBITA) during the Financial Year was Eur 22,7 million (Eur 10,4 million), which includes one-time restructuring charges of Eur 2,8 million. Thanks to the cost savings schemes implemented, the quarterly result (EBITA) has improved from the Eur -8,1 million in the first quarter to Eur -3,4 million during the fourth quarter.

The Group posted an operating loss before extraordinary items of Eur 24,7 million (Eur 11,9 million). During the period, the Group made a one-time goodwill depreciation of Eur 1,1 million.

Extraordinary income includes the capital gain of Eur 10,2 million due to the sale of eSolutions business, and the extraordinary costs include a total of Eur 1,1 million of expenditure incurred in connection of closing the Optiwise business in 2000.

The loss for the reporting period was Eur 16,7 million (Eur 10,3 million). The loss per share was Eur 0,49 (Eur 0,15).

The number of personnel decreased, and was 336 at the end of the period (having been 571 at the end of the previous year). The previous year's figures include the 154 employees of e-solutions Oy that was sold off at the end of February.

## 2. MAJOR CHANGES IN BUSINESS OPERATIONS

On 21 January 2002, Stonesoft Corp. signed a contract regarding the sale of the entire share capital of Stonesoft eSolutions Oy to Novo Group plc. The transaction was closed on 28.2.2002 through a share exchange whereby Novo Group plc issued Stonesoft with 4,111,111 new shares. Stonesoft sold the shares in March, accruing a capital gain of Eur 10,2 million for the transaction.

### NETWORKS BUSINESS GROUP

The Networks business comprises security and high availability software for wired and wireless networks. Stonesoft's main products are its high availability firewall and VPN (Virtual Private Network) solution StoneGate and the high availability StoneBeat family of products.

Net sales by Networks during the period were Eur 28,1 million, down 39% on the previous year. In continued businesses, net sales decreased by 35% compared to the year 2001.

The networks business made a loss before goodwill depreciation totalling Eur 23,0 million, or 82% of net sales. At the end of the year, the number of personnel was 336.



# STONESOFT

The company continues to undergo a transformation as it develops from a company selling third party products and developing add-on products (the StoneBeat family of products) into a global supplier of security platform software (the StoneGate solution). This has resulted in marked changes in the way products are sold. The company's financial results have also suffered due to a decline in the sales of StoneBeat products which has not yet been compensated by the increased sales of StoneGate firewall and VPN solution.

In April, the company initiated actions to adjust the cost level in the organisation to better match the present level of business, with the objective of enhancing the process of trying to achieve profitability. During 2002, these actions resulted in permanent cost savings of some Eur 3 million per quarter.

During the Financial Year, the company signed several new distributor and reselling agreements regarding StoneGate. In addition, the company signed several new end user agreements during the third quarter with the leading service operators of its area. These include companies like Telia, Sonera, NTT Singapore and Tunisia Telecom.

The StoneGate product and its special features have received widespread recognition and high marks in tests. The SC-Magazine evaluated StoneGate to be the best Firewall and VPN solution on the market in 2002. The company was also awarded first place in a VPN test by the Network Computing magazine. According to the international research institute IDC, StoneGate was the fastest growing firewall and VPN solution on the Spanish market in 2002.

The Israeli data security company Check Point Software Technologies Ltd. in April gave an undertaking to the EU Commission with regard to the conduct of Check Point in the distribution channel. The undertaking by Check Point was the result of a complaint that Stonesoft Corp had lodged with the Commission in June 2001, stating that Check Point was abusing its dominant position with the objective of excluding Stonesoft from the market. Following the undertaking by Check Point, Stonesoft agreed to withdraw its complaint.

## ESOLUTIONS BUSINESS GROUP

Stonesoft divested the eSolutions business at the end of February. In 2002, eSolutions accrued net sales totalling Eur 2,1 million and a profit (EBITA) of Eur 0,3 million to Stonesoft. The capital gains for the sale, Eur 10,2 million, was entered as extraordinary income.

## 3. SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

In January, Stonesoft released the world's first firewall and VPN solution for the IBM eServer zSeries mainframes. The eServer zSeries is a virtual server concept where a single mainframe computer can replace hundreds of conventional servers. For Stonesoft, the new product opens a totally new segment on the firewall and VPN market.

Stonesoft sold its domestic security consultancy business to Nixu Oy, a Finnish network security consultancy company. The Unit consist of 4 people, and their business function.

## 4. OUTLOOK FOR THE FUTURE

# STONESOFT

In 2003, the company expects to invest additional resources in adjusting the sales strategy with a focus on addressing the information security requirements of target customers together with selected partners. Operations will be further focused and adjusted and the sales processes will be further developed.

As a result of adjustments of operations, continuing control of expenses and prospective customer opportunities for StoneGate in 2003, the company expects that its financial results before goodwill depreciation (EBITA) for the whole fiscal year will improve from the previous year.

## 5. REVIEW OF MAJOR RESEARCH AND DEVELOPMENT ACTIVITIES

Stonesoft invests heavily in innovative product development and the protection of related immaterial rights. During the year in review, the company's R&D activities were focussed on the development work for existing and new data security solutions with high availability on wired and wireless networks. The R&D costs were Eur 7,4 million during the year, equivalent to 26% of the net sales of the Networks business.

## 6. PROPOSAL BY THE BOARD OF DIRECTORS FOR DISTRIBUTION OF PROFIT

The loss incurred by the Group for the financial year was Eur 17,961,518. At the end of the period, neither the Group nor the parent company had any distributable equity in its shareholders' equity. The Board of Directors proposes that the parent pay no dividend for 2002 and that the loss be debited to the retained earnings account.

## 7. DEVELOPMENT IN SHARE PRICES AND TURNOVER

On 2 January 2002, Stonesoft's shares were valued at Eur 2,11. At the end of the year, the share price was Eur 0,55. The highest share price was Eur 2,63 and the lowest Eur 0,30. During the year, Stonesoft shares were traded for a total of Eur 37,2 million. The Stonesoft's share price fell by 74% during 2002. Over the same period, the Helsinki Stock Exchange HEX index decreased by 33%. According to the share price on 31 December 2002, Stonesoft's market capitalisation was Eur 31,5 million.

## 8. DEVELOPMENT IN SHAREHOLDERS' EQUITY AND OPTION PLAN

The General Annual Meeting of Shareholders held on 13.3.2002 resolved to issue a new authorisation to the Board of Directors for increasing the share capital in the following manner:

The share capital of the company may be increased in one or more lots in a manner whereby the shares to be issued in the new issue and/or on the basis option rights and/or in connection with a convertible loan may all together increase the Company's share capital with the maximum of Eur 229,204.52, so that the aggregate maximum number of shares eligible for subscription on the basis of the aforementioned alternatives is 11,460,226 shares, each with an accounting equivalent value of Eur 0.02. Option rights may solely be given to increase share capital in connection

# STONESOFT

with mergers and acquisitions. The share capital of the company may be increased by giving option rights with the total maximum of Eur 30,000. The authorisation remains valid until the 2003 General Annual Meeting of Shareholders.

The subscription of 1,600 shares, made on the basis of the options programmes targeted at key personnel, increased the share capital of Stonesoft Corporation by Eur 32 in 2002.

At the end of the financial year on 31 December 2002, Stonesoft's share capital entered in the Trade Register was Eur 1,146,054.64. The total number of shares was 57,302,732 and their par value Eur 0,02.

## 9. CORPORATE ORGANISATION, MANAGEMENT AND AUDITORS

Jorma Turunen was appointed the CEO of the company from 30 September 2002. Until that date, the position of CEO was held by Mr Esa Korvenmaa.

Hannu Turunen was the Chairman of the company's Board of Directors. Other Members of the Board were John C. Yates, Kai Karttunen, Ilkka Hiidenheimo and Alex Sozonoff.

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

Stonesoft Corp.  
Board of Directors