YEAR:	CORPORATION:
1999	STONESOFT
RELEASE DATE: 10_03_00	NAME: Annual Report
BUSINESS DESCRIP Networks	
eSolutions	

TEXT AND DESIGN: SPOKESMAN GROUP
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Change
Is a Continuous
Process

YEAR IN BRIEF

STONESOFT CORPORATION WENT ON THE HELSINKI STOCK EXCHANGE ON 12 APRIL 1999.

STONESOFT CONTINUED ITS DYNAMIC GROWTH

- Net sales were up by 166% to €27.7 million.
- Number of personnel grew by 179% to 340 at year-end.
- In June, Stonesoft acquired Avasta Transactions Oy, a company specializing in high-end data management.
- In September, Stonesoft acquired the data collection and billing solutions specialist companies Monesta Data Oy and Monesta Solutions Oy.
- In November, Stonesoft acquired the Internet security and IT solutions specialist company AvantComp Oy.

STONESOFT INTERNATIONALIZED

- Stonesoft beefed up its sales channels in the USA, European and Asian markets.

OPERATIONS WERE STREAMLINED

- The main business areas were consolidated in the hands of two units by configuring Stonesoft eSolutions for information asset management operations.
- Business related to the Optiwise product was spun off as a separate company in January 2000.
- Stonesoft hived off Nordic distribution of its presentation products in Stonegate Oy.

NEW BRANDED PRODUCTS WERE CREATED FOR THE MAIN BUSINESS AREAS

- In November, StoneBeat FullCluster was rolled out. This is a unique, scalable, high-availability technology based on load balancing.
- An Optiwise solution developed for strategic product information and modularization management was launched, and sales organizations for Europe and the USA were unveiled.

KEY FIGURES

	1999		1998	
Net sales, meur	27.7		10.4	
Change in net sales, %	166	%	54	%
Operating profit before goodwill depreciation, meur	3.1		1.6	
% of net sales	11	%	16	%
Operating profit after goodwill depreciation, meur	2.7		1.6	
% of net sales	10	%	15	%
Return on equity, %	20	%	48	%
Return on investment, %	29	%	64	%
Equity ratio, %	73	%	55	%
Net gearing	-0.5		-0.6	
Balance sheet total, meur	27.6		6.9	
R&D expenses, meur	2.3		1.0	
% of net sales	8	%	8	%
Number of personnel at year-end	340		122	
Earnings per share, eur	0.04		0.04	
Equity per share, eur	0.41		0.11	

BUSINESS DESCRIPTION

Stonesoft Corporation specializes in solutions for corporate clients, enabling them to maintain high network availability and scalability, data security and information asset management. With the products and solutions developed and provided by Stonesoft, corporations can upgrade their existing business operations or develop totally new business processes in a network environment. Stonesoft supplies solutions globally to leading companies in their fields.

Stonesoft is among the top companies in its sphere. Its expertise is derived from its strong commitment to research and development and to its networking with the world's foremost software houses.

Stonesoft's main business divisions are Networks and eSolutions. The core of the Networks division is its development of high-availability technology and products and their application to corporate clients' crucial communication and network solutions such as firewalls and www-servers.

The eSolutions division's business is comprised of solutions for companies' information management and e-business transaction processing, which enable corporate clients the development of network-based business on an increasingly internationalized and networked market.

Stonesoft markets its products globally and today sells them in more than 60 countries. Additionally, Stonesoft operates as a system integrator and distributor of data security in the Nordic region, acting as agent for products of worldwide leading corporations. Stonesoft Corporation is listed on the Helsinki Stock Exchange. Its shares are quoted on the stock exchange I-list. The company has its head office in Espoo, Finland.

ORGANIZATION

STONESOFT CORPORATION

NETWORKS

- StoneBeat family of products sales globally
- Network security solutions business
- Stonegate Oy
  - Distribution of Network security agency products in the Nordic region

eSOLUTIONS

- Product Data Management
- Product traceability
- Product modularization
- Product configuration
- High-end transaction processing systems

OPTIWISE

- Optiwise Oy
  - Optiwise sales globally

PRESIDENT'S REVIEW

For Stonesoft, 1999 was a year of changes. The market grew exponentially. Stonesoft responded to developments with its ability to adapt rapidly. Stonesoft grew dynamically, internationalized and built brands in both its main spheres of business.

The company's net sales grew by 166% to EUR 27.7 million (EUR 10.4 m). The operating profit grew by 90% to EUR 3.1 million (EUR 1.6 m). This dynamic growth was the result of increased demand for the company's own products, but new business acquired by means of takeovers also contributed. The Networks division accounted for 61.0% of the Group's net sales. The Networks division grew by 193% and its profitability was excellent. The eSolutions division grew by 131% and posted a net loss, partly because of lower than expected sales under license. The eSolutions division contributed 39.0% of the Group's net sales.

The market for Internet data security and information management made positive progress during the year. The solutions for which Stonesoft is agent had great potential, which materialized in the form of orders in 1999. Companies invested heavily in high-availability technology, and finance companies and telecom operators invested in e-commerce solutions.

Stonesoft responded to the vibrant growth in demand by upgrading its sales channels. We succeeded in reinforcing our sales channels in the USA as well as in the European and Asian markets. We hold a strong position in all these markets, and we will continue to be able to respond to constantly growing demand in 2000.

In 1999 Stonesoft started sales and support units in Tokyo, Japan, in Munich, Germany, Singapore, San Mateo, Stockholm and in Berkshire, UK. The USA's share of the Group's business is expected to grow by a third and the Asian share to double. It is estimated that 20% of personnel will work in the USA by the end of the year.

In March 1999 we announced that we were seeking a listing on Helsinki Stock Exchange. We arranged an initial public offering, which was oversubscribed many times over. A particularly gratifying point was that 93% of the personnel subscribed shares in the personnel offering. Share offerings brought in EUR 13.7 million. In April, Stonesoft shares were quoted on the stock exchange I-list. By the end of the year, the share price had gone up by 712%, and before the end of the year a split was arranged. The buoyant price rise was due not only to growth in business but also to a higher profile for our industry and a greater number of points of comparison as other software houses also went public.

"As a whole, we are convinced that business will continue to make good progress in 2000.

The primary background factors in the public listing were growth in business operations, acquisitions, and the creation of a source of finance that supported investment in R&D. Another of the aims in going public was to augment the company's ownership base with Finnish and foreign shareholders and to improve the personnel reward and incentive system.

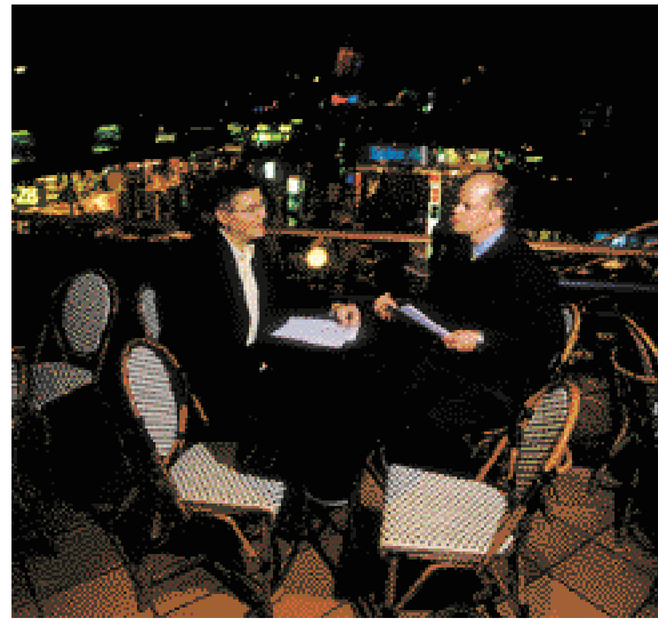
Its status as a public company has promoted Stonesoft's business as expected. We have been able to carry out takeovers by means of exchanges of stock and to establish ourselves as an international software company with both our customers and our partners. As a stock exchange quoted company, one challenge for the future will be to keep the personnel informed so that we continue to be an open-channel company while simultaneously complying with stock exchange rules for disclosure.

After going on the stock exchange, Stonesoft acquired Avasta Transactions Oy (a company specializing in high-end information management and transaction processing), Monesta Data Oy (a specialist in data collection and billing solutions), and AvantComp Oy (an expert in Internet data security and IT solutions).

Growth would not have been possible without skilled employees. We systematically channelled efforts to recruitment, as a result of which we gained highly able people in all our divisions. We have launched new action to raise our profile as an employer, and it is our belief that Stonesoft is already a prized employer among jobseekers. Stonesoft had 340 employees at the end of the year. By the end of 2000, the number of personnel is expected to double.

As a whole, we are convinced that business will continue to make good progress in 2000. We believe that net sales will grow by more than 80% in 2000 and by approximately 60-70% in subsequent years. Our growth expectations are based on the constantly rising demand for our own products. We have particularly strong faith in the success in the marketplace of our Optiwise product, which was launched last year.

Growth in the data security market will continue to be vigorous, but competition is also hotting up as a growing number of competing products become available. It is Stonesoft's objective to maintain its lead in development and to maintain its profitability level in spite of escalating competition. The company is following a cautious policy in dividends and will invest in growth.



President Hannu Turunen and Minister of Transport and Communications Olli-Pekka Heinonen on a business trip to Asia together.

Stonesoft aims to develop its Network Security business area into a network operation in which skills in high-availability technology are integrated with a growing need for network solutions. The net sales of both business areas will grow faster than the market and product cycles.

It is the cornerstone of Stonesoft's operations to create the kind of solutions that measurably add value to the customer's operations. In addition to the customers, our daily work shows our respect for the individual and for transparency, and we require all our employees to be open to continuous change. By standing for healthy values, we seek our goal - that of profitability and enhanced shareholder value.

I would like to express my thanks to our customers and partners for their confidence in the company and to the personnel, whose flexibility has made change possible.

Hannu Turunen
President

NETWORKS

The Networks division is divided into the development, sales and support of high availability solutions globally, the Network Security System integration business and the distribution of Network Security products in the Nordic Countries. The core of the Networks division is the development of high availability technologies and products and their application to corporations' critical communications, network and security solutions. The Networks division's flagship product is the StoneBeat high availability technology, which is suitable for several applications including firewalls and web servers.

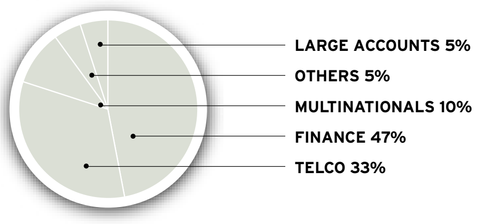
The StoneBeat solution is used in more than 60 countries, by leading banks, insurers, telecom companies, in data communications and aviation, and in government administration.

The customer target sector for Network security integration business is comprised of the telecom sector and the hundred biggest customers in the Nordic region. Stonesoft creates total data security solutions for its customers, from initial consultation to product installation and support. The solutions that the company provides embrace every subdivision of data security; content scanning and virus defence, firewalls, intrusion detection, authorization, user verification solutions and auditing.

The distribution of promotional Network security products for which Stonesoft is agent was consolidated in the hands of Stonegate Oy at the end of the year. Stonegate Oy is engaged in Network security distribution in the Nordic market. The business sector's partners include Check Point Software Technologies Ltd., RSA Security Inc., Trend Micro Inc., Cisco, ISS and WebTrends. It is Stonegate Oy's goal to achieve the leading position for distributing data security products in the Nordic region during 2000.

DEVELOPING PRODUCTS AND SERVICES The Networks division develops solution products capable of being packaged and applied in high-end communications and data security environments.

CUSTOMERS



> In the second half of the year, a new-generation high availability solution was unveiled – StoneBeat FullCluster.

In the second half of the year, a new-generation high availability solution was unveiled – StoneBeat FullCluster. This is suited not only to firewalls and the Virtual Private Network solution but also to other fields of application.

The world number one American manufacturer of workstations and servers Compaq decided in December to adopt Stonesoft's new-generation StoneBeat FullCluster product as part of its high availability data security solution. Through one of the world's biggest companies in the field, Compaq, the ProLiant Internet Security Solution will be supplied globally. The target customer group for the product is comprised of the Fortune 500 companies. The implementation of the solution is the responsibility of Compaq CustomSystems and Stonesoft.

In 1999, Stonesoft gained more distributors for StoneBeat. The product is now sold globally by more than 400 value added resellers. Stonesoft selects the resellers, evaluates their customer base and monitors their operations. In 1999, hundreds of new resellers were trained.

In November, Stonesoft launched a worldwide, 24-hour-a-day support and maintenance service for companies using the StoneBeat product. The service is based at service centres in Espoo, Atlanta and Singapore. In addition to these centres, a support location network has been built to provide coverage of Europe, the USA and Asia. The global network guarantees services that are geographically close to the customer.

NETWORKS

> The Networks unit's business is expected to continue to make good progress in 2000.

Customers can also contact their service centres by e-mail and the Internet, and they can select the package of services that best suits their needs from a range of options of various scope. When the service was opened in November, customers were replied to within an eight-hour response time. The aim is to cut this to as little as two hours by April 2000, by which time the support and maintenance service will be fully operational.

Stonesoft also beefed up its Internet security consulting business in 1999 by recruiting new personnel. The Finnish Standards Association SFS granted Stonesoft data security certification on the basis of its information security processing, the first such certification to be awarded to a company.

CHANGES IN OPERATIONS In August, a Network security product development unit was set up in Sophia Antipolis, France. This area is one of Europe's main concentrations of the information technology industry, housing about 1,000 datacoms and electronics companies.

In November, Stonesoft acquired the entire issued stock of the Finnish company AvantComp Oy. AvantComp is an expert organization in communications Internet data security and IT solutions. Stonesoft Corporation's stake in AvantComp Oy is now 100%. The transaction also made Stonesoft the owner of a 20% stake in AvantComp Oy's affiliated company Apc Attoparsek Oy, which thus became an affiliate of Stonesoft Corporation. In December 1999 Stonesoft increased its share by 20% of Apc Attoparsek Oy.

The transaction of AvantComp Oy underpins Stonesoft's expertise, particularly in servers, Internet, data security and communication systems. The company's main partners include Cisco Systems, Network Associates, Compaq and Microsoft. The company's net sales in 1999 were FIM 20.2 million.

Long-term strategic partnerships with globally leading software houses have promoted Stonesoft's rapid growth and its position as a technological trailblazer. Collaboration with partners is intended to guarantee solutions for customers that will cover their needs to the maximum possible extent in the field of Network security and information asset management.

PERSONNEL The number of personnel working in the Networks unit was 108 at the end of the year. New employees were recruited steadily throughout the year, and the trend continues both in Finland and abroad. In particular, more employees will be recruited for the R&D unit established in Sophia Antipolis. In all, the number of employees is expected to double in 2000.

THE MARKET SITUATION The need for high availability solutions was rapidly growing. The growth arose from increased corporate use of the Internet for their critical business operations and for electronic trading. Growth was especially fast in Internet banking and in the telecom industry's Internet services. Also, demand grew rapidly in ready-packaged data security solutions.

Compaq's ProLiant Internet Security Solution has been available direct from Compaq since January. Partnership with Compaq offers an important new channel for sales of StoneBeat FullCluster in 2000.

OUTLOOK FOR THE FUTURE The Networks unit's business is expected to continue to make good progress in 2000. Demand for high availability technology and products is constantly rising globally. The StoneBeat product is being developed so that its fields of application are extended, which will open up new markets for the product.

Systems integration business for Internet-based information security is expected to grow significantly in 2000. Companies' need for data security are growing all the time, and the need for a dependable total supplier is in the ascendant.

Sales of principal products through Stonegate will increase in 2000. Stonegate is a significant seller of Network security products in the Nordic region, and as the company only went into business at the start of the year, the real results of the spinoff will only be seen after some months have passed.

PROJECT NUMBER: NTWRK 1-2000	CORPORATION: BNP-Paribas	PHONE: 33(0)1.42.98.12.34
	COUNTRY: France	TELEFAX: 33(0)1.42.98.11.42
	ADDRESS: 3 rue d'Antin, 75002 Paris	
BUSINESS DESCRIPTION: Banking and Finance		PROJECT ID: Networks
STONESOFT SOLUTION: Stonebeat Fullcluster		

PROJECT DESCRIPTION:

PNB-Paribas of France is one of the biggest banks in the world. The strategy of the PNB-Paribas Group is to focus on growth areas in expanding markets, using state-of-the-art technology, creativity and a global network.

International cash management by network has to be absolutely reliable and secure. PNB-Paribas's secure Internet operations high availability, and performance is safeguarded by the StoneBeat FullCluster solution.

The PNB-Paribas Group was formed in 1997 when a number of French banks were merged to form a corporate group specialized in investment banking, asset management and other financial services. The PNB-Paribas Group has 220 branches in 60 countries. PNB-Paribas is one of the world's financially soundest banks, with USD 8.9 billion dollars in equity.

ADDED TO DATABASE

eSOLUTIONS

The eSolutions division is comprised of operations related to information asset management and e-business transaction processing. The solutions enable a company to manage the key processes of product development, sales and production in a network environment. The techniques created by eSolutions make it possible for the customer companies to develop their network business in an increasingly internationalized and networked market. eSolutions supplies techniques supporting business operations for companies whose activities follow international developments, growth in electronic business, globalization and networking.

In the global marketplace, Stonesoft eSolutions markets its own Optiwise and MDB products, which operate in narrow and important segments from the viewpoint of the whole. The Optiwise product was hived off as a separate company in January 2000.

One of the Stonesoft eSolutions division's strong points is experience of managing international supply chains. Bringing product information into the delivery process, linking delivery and billing systems into the company's overall operations, and product traceability can be solved in accordance the changing needs of various types of companies.

In Scandinavia, Stonesoft supplies total solutions in partnership with leading software producers in the field, such as BEA, Agile, Trilogy and Datasweep. It is intended to expand this business to cover other European countries as well.

The eSolutions unit has its business locations in Espoo and Tampere in Finland, in Stockholm in Sweden, and in Atlanta and San Mateo in the USA. The director of the eSolutions division is Raimo Mäensivu.

DEVELOPING PRODUCTS AND SERVICES In February, Stonesoft launched the Optiwise solution, which was developed for strategic product information and modulation management.

"In 1999, Stonesoft devoted major efforts to operational development in systems for transaction processing, information management, and high-end electronic trading.

Optiwise is Stonesoft's main product in the eSolutions sphere. The first Optiwise pilot schemes were carried out in the autumn. In addition to Optiwise, Stonesoft also internationally markets the MDB family of products for transaction processing in electronic commerce. Stonesoft also obtained agencies for new products, such as Datasweep's DataSW product.

CHANGES IN OPERATIONS In 1999, Stonesoft devoted major efforts to operational development in systems for transaction processing, information management, and high-end electronic trading. An international sales organization was created for the eSolutions division, which was able to place the products in a wider market.

In the course of the year, major corporation acquisitions were carried out. These underpinned Stonesoft's expertise and facilitated the development of new operations. eSolutions was formed out of the old Information Asset Management and Customer Solutions business areas combined with transaction processing operations acquired through takeovers (Avasta Transactions Oy, Monesta Data Oy and Monesta Solutions Oy). The new arrangements put several operations together in a single unit which now offers a wide range of high-end solutions. The refocusing of

In the future, it is believed that the eSolutions division will expand in Finland through growth in demand and internationally through expanded sales channels.

business operations has made itself felt in the way in which Stonesoft's electronic commerce products and services have achieved a higher profile in the marketplace.

In June, Stonesoft Corporation acquired Avasta Transactions Oy, a software house specializing in high-end information management. As a result of the deal, Stonesoft gained enhanced capabilities in developing products and services to support the critical operations of telecom both today and in the future. Avasta Transactions' operation has comprised mainly technical consultancy and implementation in the field of transaction processing, along with applications architectures, database design, and systems integration. Avasta Transactions has been an international pioneer as a builder of BEA Systems Inc's Tuxedo-based information systems. The company's customers have included Sonera Corporation, the Ministry of Labour and Finland Post. Its net sales in 1999 were FIM 19.9 million.

In September, Stonesoft signed a contract for the acquisition of the entire issued stock of the Finnish company Monesta Data Oy and a majority holding in another Finnish company, Monesta Solutions Oy. After the deal, the Stonesoft Group holds 100 per cent of both companies' issued stock. Of Monesta Solutions Oy's issued stock Stonesoft Corporation owns 70% directly and 30% through Monesta Data Oy. The deal was a continuation of the earlier acquisition of Avasta Transactions Oy, and it further expanded Stonesoft's expertise and resources in the field of transaction processing.

In its operations, Monesta Data Oy specializes in open application architectures, billing systems, database design and systems integration. Monesta Solutions Oy specializes in data collection and billing solutions, including those for Internet and telecom operators and for information service producers. The companies' customers have included Nokia Telecommunications, Sonera Corporation and Fortum Oil & Gas. The companies' combined net sales in 1999 were FIM 16.6 million.

PERSONNEL The eSolutions division currently has some 200 employees. The electronic transaction processing operation alone employs over 70 people and it is one of the Nordic region's biggest concentrations of expertise in this field.

THE MARKET SITUATION The market of the eSolutions division grew vigorously, but towards the end of the year Y2K projects to some extent exerted a drag on growth.

OUTLOOK FOR THE FUTURE Deployments in transaction processing boosted Stonesoft's market share in Finland. In the future, it is believed that the eSolutions division will expand in Finland through growth in demand and internationally through expanded sales channels.

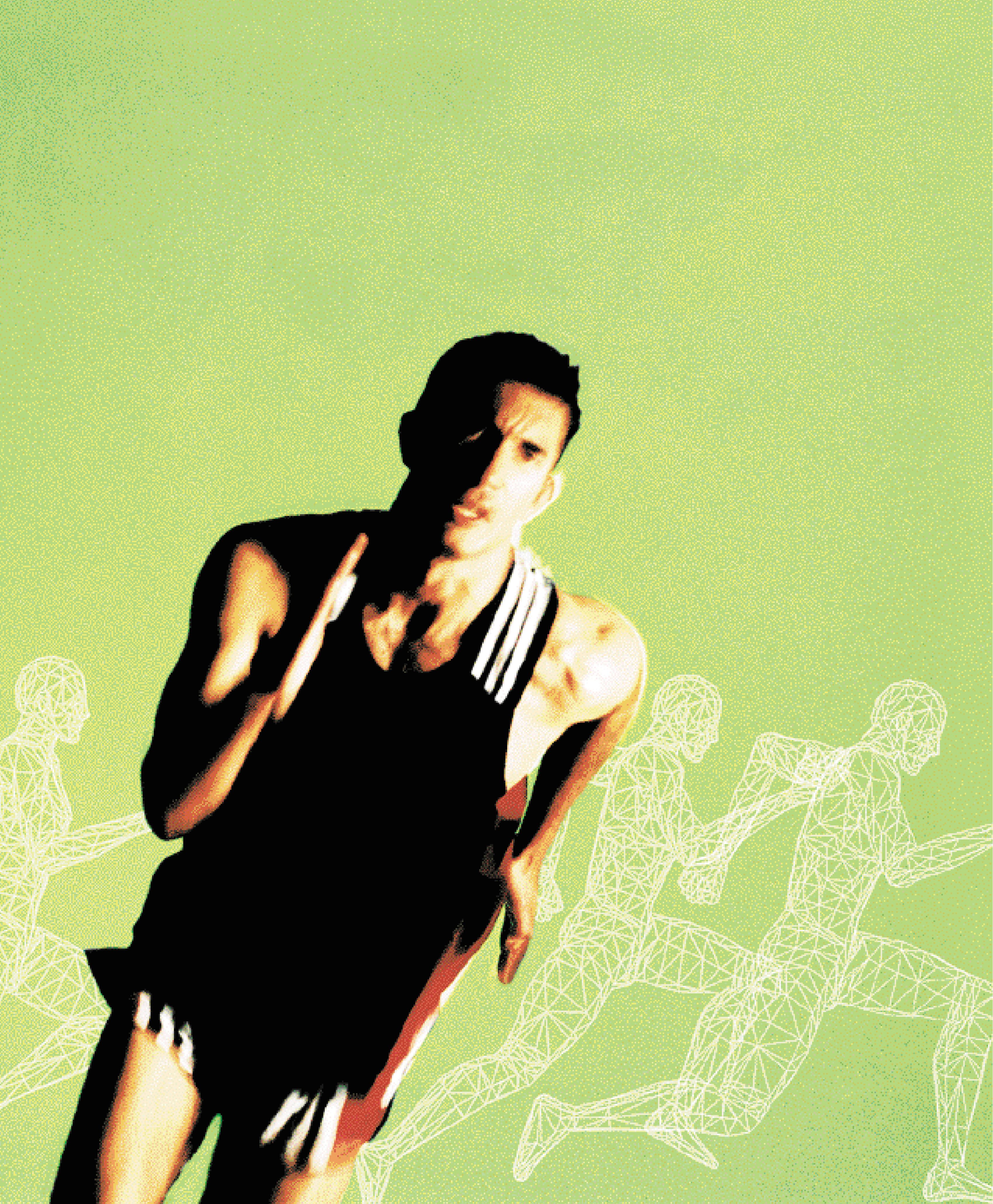
PROJECT NUMBER: e-SOL 2001	**CORPORATION:** Sonera	**PHONE:** +358-9-204015
	COUNTRY: Finland	**TELEFAX:** +358-9-2040 2032
	ADDRESS: Teollisuuskatu 15, Helsinki	
BUSINESS DESCRIPTION: Telecommunication		**PROJECT ID:** eSolutions
STONESOFT SOLUTION: Optiwise		

PROJECT DESCRIPTION:

Sonera Corporation is one of the pilot companies for the Optiwise product. Sonera is examining the suitability of Optiwise for use in R&D throughout the corporate group. It is Sonera's goal for Optiwise to be an integral part of the group's research and development process. The group is running an evaluation project to verify the applicability of both the method and the product to R&D processes.

With Optiwise, Sonera is able to rationalize and speed up its R&D process and consider the profitability of various product variations. Optiwise helps the user to anticipate the market's demands and to assess his own product's relationship with other, competing products.

ADDED TO DATABASE



OPTIWISE

Optiwise is a method and software package for product definition and design, with which the various parties in an organization can communicate, and determine, model and document the products and services they develop. Optiwise is designed to increase the efficiency of product development processes and to assist the assessment of product competitiveness, also from the perspective of the marketplace.

Operations related to the Optiwise product were hived off as a separate company in January 2000. The company is responsible for global sales of the Optiwise product. European sales operations are managed by Kari Koivukoski and operations in the USA by Steve Baxter.

Optiwise is a method and software package for product specification and design, with which the various parties in an organization can communicate, and determine, model and document the products and services they develop. Optiwise is designed to increase the efficiency of product development processes and to assist the assessment of product competitiveness, also from the perspective of the marketplace.

With the Optiwise product, a company is better able to visualize and outline product information for an extensive product development process, marketing and production.

”With the Optiwise product, a company is better able to visualize and outline product information for an extensive product development process, marketing and production.

The Optiwise product is based on a simple way of specifying components and desired attributes. There are particular compatibility rules for components, which are determined when the components and attributes are categorized. The specifications enable the products to be modelled, and optimal component combinations can be identified.

It is also possible to model product platforms with Optiwise with which it is easy to develop a number of product variations from a single basic solution, according to the customer's needs.

For example, in the automotive industry, it has been possible to cut the number of product platforms while increasing the number of actual products, so the same components can be used globally to manufacture individualized products for the local market.

EMPLOYEES AND TRAINING

Stonesoft employees took part in personal development interviews at which training needs were charted, providing a base for a personal training programme in both technical aspects and 'softskills'. In plotting the personal training path, goals are also set for career development.

Stonesoft had 340 employees at year-end (122). The number of employees was up by 179%.

Some of the new employees were placed through the Stonesoft Network Security University training programme. This challenging programme was designed for IT graduates who wanted to upgrade their skills for jobs in high-specification Internet data security work. In this rapidly evolving field, the qualifications for induction training in data security have increased sharply. Stonesoft's NSU is intended to complement the basic training in data security provided by the national education system.

There were tens of applicants for the first four-month course in the autumn, of which ten were selected after interviews and tests. Those who were accepted and passed were allocated to supporting roles in R&D and sales at Stonesoft.

The applicants for NSU training are required to have basic knowledge of networks and the ability to adopt new technologies. The course comprises a number of units in which the students are familiarized with installing and configuring NT/Unix systems, TCP/IP routing and protocol, and network data security.

The second NSU training programme began in February 2000, with the aim of training more Internet security professionals for the team. There were even more applicants this time.

> It is forecast that the number of Stonesoft's personnel will almost double in 2000.

Stonesoft employees took part in personal development interviews at which training needs were charted, providing a base for a personal training programme in both technical aspects and 'softskills'. In plotting the personal training path, goals are also set for career development.

For technical training, Stonesoft employs both publicly available training services and services individually tailored for Stonesoft. Stonesoft also harnesses the longer-term education provided by the universities as well as training aimed at certification of various types. Softskills are supported by arranging more than 100 days of training a year in collaboration with Mercuri International. The programme includes negotiating, junior management and sales skills as well as working seminar-type training related to teamwork development.

Induction and preparatory training covers all newcomers who joint the Group. General induction training involves familiarization with the company on the Group level, after which training continues with a segment on the newcomer's own business area. On certain projects the employees also participate in training related to particular tools. In addition, all recruits attend a two-day seminar at Mercuri International on developing their own methods. As operations are increasingly international in character, a high priority has been given to language training.

REPORT OF THE BOARD OF DIRECTORS FINANCIAL YEAR 1 JANUARY – 31 DECEMBER 1999

1. TREND IN BUSINESS DURING THE FINANCIAL YEAR 1999

For the Stonesoft Group, 1999 was a year of dynamic change and development.

The parent company went public following its initial public offering in March to institutional investors, the public at large and the personnel. The IPO yielded FIM 81.3 million to fuel the Group's business expansion, corporate acquisitions and product development. Following the IPO, the company applied for a listing on Helsinki Stock Exchange's I-list, which took place on 14 April 1999.

In the financial year 1999, the Group's net sales were FIM 164.6 million, up by 166% on the previous year. The parent company's net sales for the same period were FIM 17.6 million, an increase of 4%.

The Group's profitability remained good. Operating profit before goodwill depreciation was FIM 18.3 million or 11.1% of net sales. Operating profit before goodwill depreciation was up by 90% on the previous financial year. The expenses of the IPO, being FIM 3.5 million, were booked as extraordinary expenses for the financial year. The Group's net profit for the year was FIM 8.5 million. The parent company's profit was FIM 8.2 million.

The number of personnel employed by the Group increased both through takeovers and by a strong recruitment drive. The total number of employees at year-end was 340, an increase of 179% compared with the end of the previous year.

2. SIGNIFICANT CHANGES IN BUSINESS ACTIVITIES

During the financial year, the Group's business was reorganized into two divisions, Networks and eSolutions, which includes Optiwise business.

NETWORKS DIVISION

The core of the Networks division is the development of high availability technology and products and the application of these to companies' critical communications solutions, such as firewalls. The flagship product, which was developed in-house, is StoneBeat – a family of products based on high availability technology. StoneBeat products are sold globally. Also within the Networks division, the Group engages in information security system integration and wholesale in the Nordic region. The division's net sales were FIM 100.1 million, which is up by 193% on the previous year.

In November, Stonesoft Corporation acquired the entire issued stock of the Finnish company Avantcomp Oy for the Networks division. Avantcomp Oy is a specialist in Internet security and IT solutions related to communication. Stonesoft Corporation's holding in Avantcomp Oy is 100%. The transaction also gave Stonesoft a 20% holding in Apc Attoparsek Oy's shares. Founded in the beginning of 1999, Apc Attoparsek Oy concentrates on developing Internet security and network operation systems, including systems for electronic share trading via the Internet and WAP-based solutions. Apc Attoparsek Oy had seven employees at year-end. In December, the company acquired a further 20% holding of Apc Attoparsek Oy shares, making its stake 40% at year-end.

The corporate structure was simplified by merging into the parent company Stonegate Oy, a company which formerly focused on developing information security and its own StoneBeat product. The merger was entered in the Trade Register on 31 December 1999. At the same time, a new Stonegate Oy company was started, with its field of business defined as wholesale of information security products in the Nordic region. The streamlining of the company structure is being continued in 2000 with the dissolution of Avantcomp Oy. Avantcomp Oy's activities will be continued within the parent company.

The Networks division was augmented in 1999 with the establishment of the subsidiary Stonesoft Networks (UK) Ltd. in Britain and an R&D unit Stonesoft France S.A.S in France.

The Networks division had 108 employees at year-end.

eSOLUTIONS DIVISION

The eSolutions division is comprised of information management and transaction processing operations. With eSolutions, the corporate client can manage the key processes of its product development, sales and production in a network environment. With eSolutions, it is possible for corporate clients to develop their Internet operations in an increasingly international and networked market. eSolutions provides tools to support companies' business in following international trends, growth in electronic business, globalization and networking. The division's net sales were FIM 64.5 million, up by 131% on the previous year.

In June, Stonesoft Corporation acquired the entire issued stock of the Finnish software house Avasta Transactions Oy, a company specializing in high-end information management and transaction processing. The deal boosted the Group's ability to develop products and services to support the critical operations of telecom operators today and in the future. Avasta Transactions Oy's business is comprised mainly of technical consultation and implementation in the field of transaction processing, in addition to application architectures, database design and system integration.

In September, Stonesoft Corporation acquired the entire issued stock of the Finnish companies Monesta Data Oy and Monesta Solutions Oy. Monesta Solutions Oy shares are 70% directly owned by Stonesoft Corporation and 30% through Monesta Data Oy. This deal was a continuation of the previous acquisition of Avasta Transactions Oy and further strengthens Stonesoft's expertise and resources in the field of transaction processing.

In its business activities, Monesta Data Oy is focused on open application architectures, billing systems, database design and system integration. Monesta Solutions Oy has specialized in data collection and billing solutions for clients including Internet and telecom operators as well as information service providers.

The eSolutions division's structure was simplified in October 1999. The name of CMD Team Oy was changed to Stonesoft e-solutions Oy and the company was amalgamated with CMD Soft Oy and Sales Net Oy. The merger was entered in the Trade Register on 1 November 1999. It is the Group's intention to continue to simplify the structure and to amalgamate Avasta Transactions Oy, Monesta Data Oy and Monesta Solutions Oy into Stonesoft e-solutions Oy in the course of the year 2000.

The subsidiary Stonesoft AB was established in Sweden in 1999 for the eSolutions division.

The eSolutions division had 156 employees at year-end.

OPTIWISE BUSINESS OPERATIONS

Optiwise is a method and software package for strategic product planning and management solution intended for the specification and design of products, enabling the separate parts of an organisation using it to communicate and collaborate with each other, and to define, model and document the products and services they develop. Optiwise was designed to optimize product development processes and to assist assessments of product's competitiveness also from the viewpoint of the market.

Using the Optiwise product, a company can visualize product information for even an extensive process of product development, marketing and production. During the financial year, the Optiwise™ product was renamed. It had formerly been called Visual Product Management (VPM).

Optiwise business was performed within the parent company during the financial year. In 1999, Optiwise concentrated on product development, product packaging, and building channels for sales and marketing. The net sales from Optiwise are included in the eSolutions division's net sales within the parent company, and they were roughly FIM 1 million in 1999.

Within the Group, it was decided to spin Optiwise business off as a company. In November 1999, the name of Stone Object Solutions Oy was altered to Optiwise Oy and Optiwise business interests were transferred to this company from the parent company on 1 January 2000.

Optiwise operations had 33 employees at year-end.

3. POST BALANCE SHEET EVENTS

The company has decided in early 2000 to establish companies for the Networks division in Germany, Spain, Hongkong and Australia. Also, it has been decided to establish a company for the Optiwise division in the USA with the name Optiwise Inc.

4. FORECAST OF LIKELY FUTURE TRENDS

The company believes that the growth in net sales will continue to grow in the chosen fields of business, and it estimates the rate of growth in 2000 at more than 80%. The company will continue to make substantial placements during 2000 in developing and marketing new and existing products and services, and in related other investments. The operating profit before goodwill depreciation is expected to remain at the present level for the entire financial year 2000, although it may fluctuate in different quarters.

5. SCOPE OF RESEARCH AND DEVELOPMENT

For the Networks division, R&D expenses amounted to FIM 6.5 million. This was allocated to the development of StoneBeat FullCluster™ technology and new StoneBeat products, as well as to the development of other information security products. In the eSolutions division's field of operations, the R&D expenses for the Optiwise™ product were FIM 6.9 million. In all, R&D expenses are expected to double in 2000.

6. PROPOSAL BY THE BOARD OF DIRECTORS FOR THE DISPOSAL OF PROFITS

The parent company's net profit for the financial year was FIM 8,220,104.20.

At year-end, the Group's distributable equity was FIM 21,540,807.27 and the parent company's distributable equity was FIM 16,611,621.92. The Board proposes to the annual general meeting that no dividend be paid and that the profit for the financial year be posted to the retained earnings account.

7. TREND IN SHARE PRICE

The subscription price of one Stonesoft share in the IPO was €6.50. Since the listing took place, the rise in the share price has been steady. The lowest traded price in April was €6.30 and the highest was €6.75. The value of the shares traded by the end of April was €2,200,763. The average daily trading in April was €115,830. The company's market capitalization as at 30 April 1999 was €85,128,458.

Towards the end of the year, the price rose and the highest traded price during the year before the stock split was €50.50. The stock was split (1:4) on 29 December and the closing price on 30 December was €13.20, the highest price of the year. The year's share trades totalled €119,309,878 and the average daily trading in December was €2,291,168. The company's market capitalization on 30 December 1999 was €693,477,048.

8. INCREASING THE SHARE CAPITAL BY WAIVING SHAREHOLDERS' PREEMPTION RIGHTS

An extraordinary meeting of the company held on 15 June 1999 passed a resolution to authorize the Board of Directors to decide on increasing the company's share capital by means of a new issue of shares pursuant to chapter 4 section 1 of the Companies Act; and/or by issuing share options; and/or by issuing convertible bonds. The maximum amount of the increase in the share capital is €203,291.84, with which a maximum of 2,541,148 shares may be subscribed, with a book parity of €0.08. The Board of Directors has exercised its authorization as follows:

Date	Increase number of shares	Increase in share capital (€)	Intended use
20 August 1999	196,388	15,711.04	Targeted issue to the owners of Avasta Transactions Oy
1 October 1999	148,976	11,918.08	Targeted issue to the owners of Monesta Data Oy and Monesta Solutions Oy
29 November 1999	82,931	6,634.48	Targeted issue to the owners of Avantcomp Oy

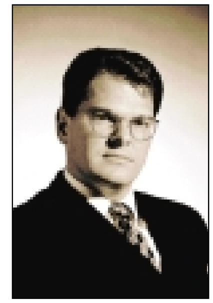
In addition, a resolution was passed by the extraordinary meeting of the company held on 7 December 1999 to change the number of the company's shares without increasing the share capital (split 1:4). The split was entered in the Trade Register on 28 December 1999. The number of shares on 31 December 1999 was 52,536,140 and their book parity was €0.02.

9. CORPORATE ORGANIZATION, MANAGEMENT AND AUDITORS

Hannu Turunen served as the company's President.

The chairman of the Board of Directors was Kai Karttunen (President of EVLI Corporate Finance Ltd) and the ordinary members of the Board were John C. Yates (partner in the law firm Morris, Manning & Martinin LLP), Hannu Turunen, Ilkka Hiidenheimo and Hannu Tamminen until 15 June 1999 and Arto T. Karila (Professor, Helsinki University of Technology) as of 15 June 1999.

The firm of authorized public accountants Tilintarkastajien Oy - Ernst & Young served as the auditor, with Pekka Luoma, APA, as the auditor in charge.



KAI KARTTUNEN
President
EVLI Corporate Finance Ltd

HANNU TURUNEN
President
Stonesoft Corp.

ILKKA HIIDENHEIMO
Chief Technology Officer
Stonesoft Corp.

JOHN C. YATES
Partner-In-Charge
of the Technology Group
Morris, Manning & Martin

ARTO T. KARILA
Professor
Helsinki University of Technology

INCOME STATEMENT (GROUP)

	1 Jan. – 31 Dec. 1999		1 Jan. – 31 Dec. 1998	
	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000
INCOME STATEMENT				
Net sales	**164,595**	**27,683**	**61,971**	**10,423**
Other income from business operations	868	146	139	23
Materials and services	-25,583	-4,303	-13,559	-2,281
Personnel expenses	-68,722	-11,558	-24,646	-4,145
Depreciation	-5,116	-860	-1,181	-199
Other expenses of business operations	-49,998	-8,409	-13,118	-2,206
Operating profit/loss	**16,044**	**2,698**	**9,604**	**1,615**
Financial income and expenses	2,271	382	123	21
Profit/loss before extraordinary items	**18,315**	**3,080**	**9,727**	**1,636**
Extraordinary items +/-	-5,000	-841	0	0
Profit before appropriations and taxes	**13,315**	**2,239**	**9,727**	**1,636**
Direct taxes	-6,494	-1,092	-3,455	-581
Net change in deferred tax credit	1,648	277	744	125
Profit for financial year	**8,469**	**1,424**	**7,016**	**1,180**

The financial information in the income statement, balance sheet, cash flow statement, key indicators, and the notes to the financial statements has been rounded to the nearest thousands marks. For this reason, calculations based on the rounded figures will not necessarily give the same final results as those given in the annual report, as the figures in the annual report have been rounded or calculated from precise figures.

BALANCE SHEET (GROUP)

	31 Dec. 1999		31 Dec. 1998	
	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000
ASSETS				
Fixed assets				
Immaterial goods	1,746	294	327	55
Group goodwill	31,725	5,336	210	35
Tangible assets	11,734	1,973	1,988	334
Investments	631	106	0	0
Fixed assets, total	**45,836**	**7,709**	**2,526**	**425**
Current assets				
Inventories	985	166	247	41
Current receivables	56,932	9,575	24,271	4,082
Deferred tax receivable	2,646	445	744	125
Securities included in financial assets	37,382	6,287	567	95
Cash on hand and on deposit	20,318	3,417	12,709	2,137
Current assets, total	**118,263**	**19,890**	**38,538**	**6,482**
Total	**164,100**	**27,600**	**41,064**	**6,906**
LIABILITIES AND SHAREHOLDERS' EQUITY				
SHAREHOLDERS' EQUITY				
Share capital	6,247	1,051	529	89
Share premium account	85,818	14,434	6,099	1,026
Profit from previous financial years	13,757	2,314	7,399	1,244
Profit for financial year	8,469	1,424	7,016	1,180
Shareholders' equity total	**114,292**	**19,223**	**21,043**	**3,539**
Provisions	**1,468**	**247**	**0**	**0**
Liabilities				
Deferred tax liability	255	43	0	0
Long-term liabilities	63	11	188	32
Current liabilities	48,023	8,077	19,833	3,336
Liabilities, total	**48,340**	**8,130**	**20,021**	**3,367**
Total	**164,100**	**27,600**	**41,064**	**6,906**

CASHFLOW STATEMENT (GROUP)

	1999		1998	
	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000
BUSINESS OPERATIONS				
Operating profit	16,044	2,698	9,604	1,615
Adjustments to operating profit	5,116	860	1,181	199
Change in net working capital	-6,857	-1,153	-3,101	-522
Interest received	3,556	598	123	21
Interest paid	-1,307	-220	0	0
Dividends received	22	4	0	0
Other financing items	0	0	0	0
Extraordinary items	-3,532	-594	0	0
Taxes paid	-4,846	-815	-3,469	-583
Net cash flow from business operations	**8,197**	**1,379**	**4,339**	**730**
INVESTMENTS				
Investments in goodwill	-33,742	-5,675	0	0
Affiliates acquired	-631	-106	0	0
Other purchases of shares	0	0	0	0
Other purchases of fixed assets	-14,054	-2,364	-1,992	-335
Group companies sold	0	0	0	0
Affiliates sold	0	0	0	0
Sales of other shares	0	0	0	0
Sales of other fixed assets	0	0	0	0
Increase in other long-term investments	0	0	0	0
Decrease in other long-term investments	0	0	0	0
Cash flow from investments, total	**-48,427**	**-8,145**	**-1,992**	**-335**
CASH FLOW BEFORE FINANCING	**-40,230**	**-6,766**	**2,347**	**395**
FINANCING				
Utilization of long-term loans	0	0	0	0
Instalments on long-term loans	-125	-21	-285	-48
Increase (-)/decrease (+) in long-term receivables	0	0	0	0
Dividends paid	-688	-116	-360	-61
Share issue	81,322	13,677	0	0
Share issue in kind	4,116	692	6,268	1,054
Others	31	5	112	19
Financing, total	**84,655**	**14,238**	**5,736**	**965**
INCREASE (-)/DECREASE (+) IN LIQUID ASSETS	**44,425**	**7,472**	**8,083**	**1,359**
Liquid assets Jan. 1	13,276	2,233	5,193	873
Liquid assets Dec. 31	57,701	9,705	13,276	2,233

INCOME STATEMENT (PARENT)

	1 Jan. - 31 Dec. 1999		1 Jan. - 31 Dec. 1998	
	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000
INCOME STATEMENT				
Net sales	**17,629**	**2,965**	**16,941**	**2,849**
Other income from business operations	3	1	35	6
Materials and services	-618	-104	0	0
Personnel expenses	-19,254	-3,238	-12,222	-2,056
Depreciation	-1,685	-283	-867	-146
Other expenses of business operations	-8,971	-1,509	-3,906	-657
Operating profit/loss	**-12,895**	**-2,169**	**-18**	**-3**
Financial income and expenses	899	151	95	16
Profit/loss before extraordinary items	**-11,996**	**-2,018**	**77**	**13**
Extraordinary items +/-	21,408	3,601	5,000	841
Profit before appropriations and taxes	**9,412**	**1,583**	**5,077**	**854**
Appropriations	-691	-116	0	0
Direct taxes	-501	-84	-1,498	-252
Profit for financial year	**8,220**	**1,383**	**3,578**	**602**

BALANCE SHEET (PARENT)

	31 Dec. 1999		31 Dec. 1998	
	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000
ASSETS				
Fixed assets				
Immaterial goods	1,160	195	324	54
Tangible assets	7,697	1,295	942	158
Investments	47,514	7,991	7,261	1,221
Fixed assets total	**56,371**	**9,481**	**8,527**	**1,434**
Current assets				
Inventories	713	120	0	0
Current receivables	44,037	7,407	11,836	1,991
Deferred tax receivable	2,583	434	0	0
Securities included in financial assets	37,382	6,287	0	0
Cash on hand and on deposit	7,230	1,216	790	133
Current assets total	**91,945**	**15,464**	**12,626**	**2,124**
Total	**148,316**	**24,945**	**21,154**	**3,558**
LIABILITIES AND SHAREHOLDERS' EQUITY				
SHAREHOLDERS' EQUITY				
Share capital	6,247	1,051	529	89
Share premium account	85,818	14,434	6,099	1,026
Reserve fund	8,392	1,411	5,501	925
Profit for financial year	8,220	1,383	3,578	602
Shareholders' equity total	**108,677**	**18,278**	**15,708**	**2,642**
Accumulation of appropriations	**803**	**135**	**0**	**0**
Liabilities	**1,468**	**247**	**0**	**0**
Liabilities				
Long-term liabilities	63	11	188	32
Current liabilities	37,306	6,274	5,258	884
Liabilities total	**37,368**	**6,285**	**5,446**	**916**
Total	**148,316**	**24,945**	**21,154**	**3,558**

CASHFLOW STATEMENT (PARENT)

	1999		1998	
	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000
BUSINESS OPERATIONS				
Operating profit	-12,895	-2,169	-18	-3
Adjustments to operating profit	1,685	283	867	146
Change in net working capital	-3,449	-580	-3,537	-595
Interest received	1,993	335	123	21
Interest paid	-1,116	-188	-34	-6
Dividends received	22	4	0	0
Other financing items	0	0	5,000	841
Extraordinary items	22,988	3,866	6	1
Taxes paid	-501	-84	-1,498	-252
Net cash flow from business operations	**8,726**	**1,468**	**909**	**153**
INVESTMENTS				
Group companies acquired	-39,643	-6,668	-6,610	-1,112
Affiliates acquired	-610	-103	0	0
Other purchases of shares	0	0	0	0
Other purchases of fixed assets	-9,276	-1,560	-637	-107
Group companies sold	0	0	0	0
Affiliates sold	0	0	0	0
Sales of other shares	0	0	0	0
Sales of other fixed assets	0	0	79	13
Increase in other long-term investments	0	0	0	0
Decrease in other long-term investments	0	0	0	0
Cash flow from investments, total	**-49,529**	**-8,330**	**-7,168**	**-1,206**
CASH FLOW BEFORE FINANCING	**-40,802**	**-6,862**	**-6,259**	**-1,053**
FINANCING				
Utilization of long-term loans	0	0	0	0
Instalments on long-term loans	-125	-21	-97	-16
Increase (-)/decrease (+) in long-term receivables	0	0	0	0
Dividends paid	-688	-116	-360	-61
Share issue	81,322	13,677	0	0
Share issue in kind	4,116	692	6,268	1,054
Others	0	0	0	0
Financing total	**84,624**	**14,233**	**5,811**	**977**
INCREASE (-)/DECREASE (+) IN LIQUID ASSETS	**43,822**	**7,370**	**-448**	**-75**
Liquid assets Jan. 1	790	133	1,239	208
Liquid assets Dec. 31	44,612	7,503	790	133

ACCOUNTING PRINCIPLES

SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Stonesoft Group figures have been consolidated from the figures from Stonesoft Corp, Stonesoft e-solutions Oy, Stonegate Oy, Optiwise Oy, Sales Net Oy, CMD Soft Oy, Stonesoft Inc. (USA), Stonesoft AB (Sweden, as of 1 April 99), Avasta Transactions Oy (as of 1 July 99), Monesta Data Oy (as of 1 September 99), Monesta Solutions Oy (as of 1 September 99), Avantcomp Oy (as of 1 October 99), Stonesoft France S.A.S (as of 1 October 1999) and Stonesoft Networks (UK) Ltd (as of 1 November 99) for the period 1 January 1999 – 31 December 1999.

The affiliated company Apc Attoparsek Oy has not been included in the consolidation due to its slight impact on earnings.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements were produced by acquisition accounting. The difference between the acquisition cost of subsidiaries and the shareholders' equity proportionate to the holding acquired has been entered as goodwill. The consolidated goodwill is depreciated over five years.

Transactions, receivables and debts within the Group have been eliminated.

The income statements of foreign Group companies have been translated at the average exchange rate for the financial year and the balance sheets have been translated into Finnish currency at the year-end closing rate. Differences arising from the translation, like translation adjustments in shareholders' equity, are given under the item "profit from previous years".

GROUP NET SALES

In the calculation of net sales, indirect sales taxes and other sales adjustment items are deducted from sales revenue.

The maintenance income and expenses of software products are matched against the contractual period. Maintenance payments and equivalent purchases are income-recognized, however, in taxation for the year in which the maintenance payments are invoiced.

A tax expense which does not belong to the period is booked as a deferred tax receivable.

ITEMS DENOMINATED IN FOREIGN CURRENCY

The financial statements have been drawn up in Finnish currency. The receivables and debts in the balance sheet at year-end are translated into Finnish currency at the average rate for the date of closing the books. Exchange rate difference in accounts receivable have been booked as sales adjustment items and purchases are similarly translated into purchase exchange rate differences. Exchange rate differences arising from the valuation of other receivables and debts are posted to financial exchange rate differences.

OTHER INCOME FROM BUSINESS OPERATIONS

Posted to Other income from business operations are marketing support received plus proceeds from the sale of fixed assets and securities included in financial assets.

PENSION EXPENSES

The company's pension arrangements have been made in accordance with local legislation. Pension expenditure is booked on an accruals basis as an annual expense. Statutory pension liability has been fully covered by annual pension insurance payments.

VALUATION OF R&D EXPENSES

Research and development expenses are booked as an annual expense in the year they arise.

RENTS

Rental expenses are booked as an annual expense in the year they arise.

Rental liabilities are figured in for the amounts remaining to be paid for the lease period.

VALUATION PRINCIPLES

Valuation of non-current assets

Non-current assets are entered in the balance sheet at the acquisition cost less depreciation according to plan. The planned depreciation is calculated in straight-line instalments over the economic life of the non-current assets in question.

	Group 1999	Group 1998	Stonesoft Corp. 1999	Stonesoft Corp. 1998
Depreciation period for non-current assets				
Machinery	3	3	3	3
Equipment	5	5	5	5
Other tangible assets	5	5	5	5
Other long-term expenditure	5	5	5	5
Consolidated goodwill	5	5	5	5

NOTES TO THE FINANCIAL STATEMENTS

	Group 31 Dec. 1999		Group 31 Dec. 1998		Stonesoft Corp. 31 Dec. 1999		Stonesoft Corp. 31 Dec. 1998	
	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000
Net sales by market area								
Finland	94,265	15,854	46,606	7,839	17,629	2,965	16,941	2,849
EMEA	25,868	4,351	6,899	1,160	0	0	0	0
Americas	35,114	5,906	7,029	1,182	0	0	0	0
Asia Pacific	9,347	1,572	1,437	242	0	0	0	0
Total	164,595	27,683	61,971	10,423	17,629	2,965	16,941	2,849
Net sales by division								
Networks	100,089	16,834	34,109	5,737	0	0	0	0
eSolutions	64,506	10,849	27,861	4,686	17,629	2,965	16,941	2,849
	164,595	27,683	61,971	10,423	17,629	2,965	16,941	2,849
Other income from business operations								
Marketing support	783	132	104	17	0	0	0	0
Capital gains	84	14	35	6	3	1	35	6
	868	146	139	23	3	1	35	6
Wages, salaries and indirect employee expenses								
Wages, salaries and emoluments	55,726	9,372	19,882	3,344	15,507	2,608	9,753	1,640
Pension expenses	7,555	1,271	2,981	501	2,584	435	1,468	247
Other indirect employee expenses	5,440	915	1,783	300	1,163	196	1,001	168
Total	68,722	11,558	24,646	4,145	19,254	3,238	12,222	2,056
Salaries and emoluments paid								
To the Board of Directors and President	3,017	507	1,477	248	569	96	810	136
Personnel, average								
Personnel, average (weighted average)	168	168	74	74	50	50	42	42
Depreciation								
Goodwill	2,227	375	11	2	0	0	0	0
Other tangible assets	21	3	1	0	0	0	0	0
Tangible assets	2,403	404	1,030	173	1,343	226	729	123
Immaterial assets	465	78	139	23	343	58	138	23
Total	5,116	860	1,181	199	1,685	283	867	146
Financial income								
Other interest and financial income								
From companies in same Group	0	0	0	0	0	0	117	20
From others	3,578	602	148	25	2,015	339	12	2
Interest and other financial income, total	3,578	602	148	25	2,015	339	129	22

NOTES TO THE FINANCIAL STATEMENTS

	Group 31 Dec. 1999		Group 31 Dec. 1998		Stonesoft Corp. 31 Dec. 1999		Stonesoft Corp. 31 Dec. 1998	
Interest expenses and other financial expenses	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000
From companies in same Group	0	0	0	0	0	0	10	2
From others	1,307	220	25	4	1,116	188	25	4
Interest expenses and other financial expenses, total	1,307	220	25	4	1,116	188	34	6
Financial income and expenses, total	2,271	382	123	21	899	151	95	16
The interest and financial income includes								
Exchange rate gains	223	37	9	2	37	6	6	1
The interest and financial expenses includes								
Exchange rate losses	0	0	0	0	0	0	0	0
Extraordinary items								
Profit on merger	0	0	0	0	6,939	1,167	0	0
Group subventions	0	0	0	0	18,000	3,027	5,000	841
Extraordinary income total	0	0	0	0	24,939	4,194	5,000	841
Extraordinary expenses								
Obligatory reserve related to preliminary tax inspection	-1,468	-247	0	0	0	0	0	0
Public listing expenses	-3,530	-594	0	0	-3,530	-594	0	0
Others	0	0	0	0	0	0	0	0
Extraordinary expenses total	-4,999	-841	0	0	-3,530	-594	0	0
Extraordinary items total	-4,999	-841	0	0	21,408	3,601	5,000	841
Appropriations								
Difference between planned depreciation and depreciation in taxation	0	0	0	0	691	116	0	0
Direct taxes								
Income taxes on extraordinary items	1,400	235	0	0	-4,051	-681	-1,400	-235
Income taxes on actual business	-7,894	-1,328	-3,455	-581	3,550	597	-98	-17
Change in deferred tax liabilities	1,648	277	744	125	0	0	0	0
Direct taxes, total	-4,846	-815	-2,711	-456	-501	-84	-1,498	-252
Intangible rights								
Acquisition cost Jan. 1	824	139	694	117	818	138	688	116
Increases	1,557	262	130	22	1,045	176	130	22
Increases mergers / acquisitions	645	109	0	0	167	28	0	0
Acquisition cost Dec. 31	3,026	509	824	139	2,031	342	818	138
Accumulated depreciation Jan. 1	-496	-83	-357	-60	-494	-83	-356	-60
Accumulated depreciation of merged/acquired companies	-305	-51	0	0	-33	-6	0	0
Depreciation for financial year	-478	-80	-139	-23	-343	-58	-138	-23
Accumulated depreciation Dec. 31	-1,279	-215	-496	-83	-870	-146	-494	-83
Balance sheet value Dec. 31	1,746	294	327	55	1,160	195	324	54

NOTES TO THE FINANCIAL STATEMENTS

	Group 31 Dec. 1999		Group 31 Dec. 1998		Stonesoft Corp. 31 Dec. 1999		Stonesoft Corp. 31 Dec. 1998	
Consolidated goodwill	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000
Acquisition cost Jan. 1	222	37	0	0	0	0	0	0
Increases	33,742	5,675	222	37	0	0	0	0
Acquisition cost Dec. 31	33,964	5,712	222	37	0	0	0	0
Accumulated depreciation Jan. 1	-11	-2	0	0	0	0	0	0
Depreciation for financial year	-2,227	-375	-11	-2	0	0	0	0
Accumulated depreciation Dec. 31	-2,238	-376	-11	-2	0	0	0	0
Balance sheet value Dec. 31	31,725	5,336	210	35	0	0	0	0
TANGIBLE ASSETS								
Machinery and equipment								
Acquisition cost Jan. 1	5,609	943	3,140	528	3,246	546	2,818	474
Increases	10,580	1,779	2,577	433	7,010	1,179	507	85
Increases mergers / acquisitions	2,279	383	0	0	1,398	235	0	0
Reductions	-1	0	-109	-18	0	0	-79	-13
Acquisition cost Dec. 31	18,466	3,106	5,609	943	11,653	1,960	3,246	546
Accumulated depreciation Jan. 1	-3,654	-615	-2,361	-397	-2,333	-392	-1,604	-270
Accumulated depreciation of merged/acquired companies	-878	-148	-277	-47	-310	-52	0	0
Accumulated depreciation on reductions	0	0	15	2	0	0	0	0
Depreciation for financial year	-2,403	-404	-1,030	-173	-1,343	-226	-729	-123
Accumulated depreciation Dec. 31	-6,935	-1,166	-3,654	-615	-3,986	-670	-2,333	-392
Balance sheet value Dec. 31	11,531	1,939	1,955	329	7,668	1,290	913	154
Other tangible assets								
Acquisition cost Jan. 1	34	6	29	5	29	5	29	5
Increases	177	30	5	1	0	0	0	0
Acquisition cost Dec. 31	211	36	34	6	29	5	29	5
Accumulated depreciation Jan. 1	-1	0	0	0	0	0	0	0
Depreciation for financial year	-8	-1	-1	0	0	0	0	0
Accumulated depreciation Dec. 31	-8	-1	-1	0	0	0	0	0
Balance sheet value Dec. 31	203	34	33	6	29	5	29	5
INVESTMENTS								
Stocks and shares								
Acquisition cost Jan. 1	0	0	0	0	7,261	1,221	651	109
Increases	631	106	0	0	40,568	6,823	6,610	1,112
Reductions	0	0	0	0	-315	-53	0	0
Acquisition cost Dec. 31	631	106	0	0	47,514	7,991	7,261	1,221

	Group holding, %	Shareholders' equity in most recent financial statements		Parent company's holding book value		Profit/loss according to most recent financial statements	
Stocks and shares held by the Group		FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000
and parent company Stonesoft Corp., 31 Dec. 1999							
Optiwise Oy, formerly Stone Object Solutions Oy, Espoo	100	274	46	315	53	-23	-4
Stonesoft e-solutions, formerly CMD Team Oy, Espoo	100	12,470	2,097	6,916	1,163	4,221	710
Stonesoft Inc., USA, Atlanta	100	1,214	204	255	43	671	113
Avasta Transactions Oy, Tampere	100	4,393	739	3,210	540	2,798	471
Stonesoft AB, Sweden, Stockholm	100	54	9	67	11	-1,942	-327
Monesta Data Oy, Helsinki	100	1,524	256	21,785	3,664	1,474	248
Monesta Solutions Oy, Helsinki	100	150	25	4,128	694	50	8
Avantcomp Oy, Espoo	100	1,667	280	9,918	1,668	1,091	184
Stonegate Oy, Helsinki (formerly Colias Oy)	100	60	10	63	11	0	0
Stonesoft Networks Ltd, UK, Reading	100	55	9	10	2	45	8
Stonesoft France S.A.S., France, Sophia Antipolis	100	323	54	238	40	85	14
Total				46,904	7,889		

Group affiliates' stocks and shares, 31 Dec. 1999

	Group holding, %	Book value		Stonesoft Corp holding, %	Book value	
		FIM 1,000	EURO 1,000		FIM 1,000	EURO 1,000
Apc Attoparsek Oy, Helsinki	40.00	622	105	20.00	610	103

	Group 31 Dec. 1999		Group 31 Dec. 1998		Stonesoft Corp. 31 Dec. 1999		Stonesoft Corp. 31 Dec. 1998	
FINANCIAL ASSETS	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000
Current receivables								
Accounts receivable	52,715	8,866	23,015	3,871	29,737	5,001	1,479	249
Receivables from companies in same Group								
Accounts receivable	0	0	0	0	0	0	800	135
Other receivables	0	0	0	0	12,518	2,105	9,391	1,580
Accrued assets	3,651	614	1,257	211	1,782	300	166	28
Deferred tax credit								
Deferred tax credit for matching differences	2,646	445	758	127	2,583	434	0	0
Deferred tax liability on appropriations	0	0	-14	-2	0	0	0	0
Other receivables	141	24	0	0	0	0	0	0
Receivables, total	59,152	9,949	25,015	4,207	46,620	7,841	11,836	1,991

The deferred tax credit comprises tax on maintenance matching and on the obligatory reserve.

Securities included in financial assets

Stocks and shares								
Replacement cost	37,192	6,255	0	0	37,192	6,255	0	0
Book value	37,270	6,268	0	0	37,270	6,268	0	0
Difference	-78	-13	0	0	-78	-13	0	0

NOTES TO THE FINANCIAL STATEMENTS

	Group 31 Dec. 1999		Group 31 Dec. 1998		Stonesoft Corp. 31 Dec. 1999		Stonesoft Corp. 31 Dec. 1998	
SHAREHOLDERS' EQUITY	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000
Share capital Jan. 1	529	89	360	61	529	89	360	61
Raising of share capital 31 Mar. 1999	4,507	758	0	0	4,507	758	0	0
Initial public offering 8 Apr. 1999	1,007	169	0	0	1,007	169	0	0
Increase in share capital 1 July 1999	93	16	0	0	93	16	0	0
Increase in share capital 30 Sept. 1999	71	12	0	0	71	12	0	0
Increase in share capital 31 Dec. 1999	39	7	0	0	39	7	0	0
New issue 22 Dec. 1998	0	0	169	28	0	0	169	28
Share capital Dec. 31	6,247	1,051	529	89	6,247	1,051	529	89
Share premium account Jan. 1	6,099	1,026	0	0	6,099	1,026	0	0
Raising of share capital 31 Mar. 1999	-4,507	-758	0	0	-4,507	-758	0	0
Initial public offering 8 Apr. 1999	80,314	13,508	0	0	80,314	13,508	0	0
Change in share premium account 1 July 1999	2,916	490	0	0	2,916	490	0	0
Change in share premium account 30 Sept. 1999	421	71	0	0	421	71	0	0
Change in share premium account 31 Dec. 1999	574	97	0	0	574	97	0	0
Issue premium	0	0	6,099	1,026	0	0	6,099	1,026
Share premium account Dec. 31	85,818	14,434	6,099	1,026	85,818	14,434	6,099	1,026
Profit from previous financial years Jan. 1	14,415	2,424	7,647	1,286	9,080	1,527	5,861	986
Dividend payment	-688	-116	-360	-61	-688	-116	-360	-61
Translation adjustment	31	5	0	0	0	0	0	0
Transfer to own shares' fund	0	0	0	0	0	0	0	0
Others	0	0	112	19	0	0	0	0
Profit from previous financial years Dec. 31	13,757	2,314	7,399	1,244	8,392	1,411	5,501	925
Profit for financial year	8,469	1,424	7,016	1,180	8,220	1,383	3,578	602
Shareholders' equity total	114,292	19,223	21,043	3,539	108,677	18,278	15,708	2,642
Accumulated appropriations								
Accumulated appropriations are comprised of accumulated depreciation difference								
Obligatory reserve								
Obligatory reserve related to preliminary tax inspection	1,468	247	0	0	1,468	247	0	0
CALCULATION OF DISTRIBUTABLE FUNDS								
Distributable assets from previous years	13,690	2,303	7,399	1,244	8,392	1,411	5,501	925
Profit for financial year	8,469	1,424	7,016	1,180	8,220	1,383	3,578	602
Portion of accumulated depreciation difference entered in shareholders' equity, increase	-588	-99	-36	-6	0	0	0	0
Translation adjustment	-31	-5	0	0	0	0	0	0
Distributable funds	21,541	3,623	14,379	2,418	16,612	2,794	9,080	1,527

NOTES TO THE FINANCIAL STATEMENTS

	Group 31 Dec. 1999		Group 31 Dec. 1998		Stonesoft Corp. 31 Dec. 1999		Stonesoft Corp. 31 Dec. 1998	
LIABILITIES	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000
Deferred tax liability of depreciation difference	255	43	0	0	0	0	0	0
Long-term liabilities								
Loans from financial institutions	63	11	188	32	63	11	188	32
Current liabilities								
Loans from financial institutions	200	34	285	48	125	21	285	48
Advances received	173	29	0	0	65	11	0	0
Accounts payable	9,523	1,602	3,804	640	6,115	1,028	643	108
Debts to companies in same Group								
Other debts	0	0	0	0	9,341	1,571	348	59
Deferred liabilities	27,976	4,705	10,882	1,830	18,673	3,141	2,905	489
Other debts	10,151	1,707	4,863	818	2,987	502	1,077	181
Current liabilities total	48,023	8,077	19,833	3,336	37,306	6,274	5,258	884
PLEDGES								
Guarantee for loan from financial institution	188	32	313	53	188	32	313	53
Bank guarantee liability	56	9	0	0	56	9	0	0
Corporate mortgages provided	700	118	500	84	500	84	500	84
Leasing liabilities	4,115	692	1,687	284	3,039	511	950	160
Rental liabilities								
New office building, Itälahdenkatu 22, rental liability								
Liability for year 2000	2,774	466	0	0	2,774	466	0	0
Liability for years 2001-2010	67,063	11,279	0	0	67,063	11,279	0	0
Rental liability total	69,836	11,746	0	0	69,836	11,746	0	0
Other rental liabilities	4,359	733	404	68	1,962	330	242	41
Rental liabilities, total	74,195	12,479	404	68	71,799	12,076	242	41

THREE-YEAR REVIEW

Key indicators for financial trend	1999		1998		1997	
	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000	FIM 1,000	EURO 1,000
Net sales total	164,595	27,683	61,971	10,423	40,212	6,763
Change in net sales, %	166%	166%	54%	54%	103%	103%
Operating profit before goodwill depreciation	18,271	3,073	9,615	1,617	4,753	799
% of net sales	11%	11%	16%	16%	12%	12%
Operating profit after goodwill depreciation	16,044	2,698	9,604	1,615	4,753	799
% of net sales	10%	10%	15%	15%	12%	12%
Profit before extraordinary items, reserves and taxes	18,315	3,080	9,727	1,636	4,844	815
% of net sales	11%	11%	16%	16%	12%	12%
Profit before reserves and taxes	13,315	2,239	9,727	1,636	5,248	883
% of net sales	8%	8%	16%	16%	13%	13%
Return on equity, %	20%	20%	48%	48%	54%	54%
Return on investment, %	29%	29%	64%	64%	70%	70%
Equity ratio, %	73%	73%	55%	55%	44%	44%
Net gearing	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6
Balance sheet total, FIM 1,000	164,100	27,600	41,064	6,906	18,139	3,051
Gross investments in fixed assets	12,314	2,071	1,992	335	365	61
% of net sales	7%	7%	3%	3%	1%	1%
R&D expenses	13,441	2,261	6,008	1,011	3,298	555
% of net sales	8%	8%	10%	10%	8%	8%
Number of personnel (weighted average)	168	168	74	74	61	61
Number of personnel at year-end	340	340	122	122	67	67
Share indicators						
Earnings per share, FIM	0.25	0.04	0.22	0.04	0.12	0.02
Equity per share, FIM	2.41	0.41	0.65	0.11	0.28	0.05
Dividend per share, FIM	0.00	0.00	0.02	0.00	0.01	0.00
Dividend per profit, %	0%	0%	10%	10%	11%	11%
Weighted average number of shares (adjusted for split)	47,449,164	47,449,164	32,188,240	32,188,240	28,800,000	28,800,000
Number of shares at year-end (adjusted for split)	52,536,140	52,536,140	42,352,960	42,352,960	28,800,000	28,800,000

INFORMATION ON SHAREHOLDERS

Distribution of holdings Number of shares 1 Feb. 2000	Shareholders, number	%	Shares and voting rights, number
1 - 1,000	5,899	83.8%	2,026,965
1,001 - 5,000	863	12.3%	1,866,367
5,001 - 25,000	173	2.5%	1,727,446
25,001 - 50,000	20	0.3%	740,890
50,001 - 100,000	28	0.4%	1,925,620
100,001 - 500,000	41	0.6%	9,798,612
500,001 - 1,000,000	3	0.0%	2,624,100
1,000,001 +	9	0.1%	31,826,140
	7,036	100.0%	52,536,140

Distribution of ownership by sector 1 Feb. 2000	Holdings, number	%	Shares and voting rights, number
Companies	405	5.8%	1,342,207
Financial and insurance institutions	56	0.8%	5,442,884
Public-sector organizations	29	0.4%	1,002,944
Non-profit organizations	39	0.6%	499,340
Households	6,471	92.0%	39,919,203
Foreigners and nominee-registered	36	0.5%	4,329,562
	7,036	100.0%	52,536,140

Major shareholders 1 Feb. 2000	Number	%
Hiidenheimo Ilkka	10,952,000	20.8%
Turunen Hannu	8,700,000	16.6%
Ärmänen Jari	1,619,560	3.1%
Suoniemi Antti	1,480,000	2.8%
Koljonen Paavo	1,310,760	2.5%
Tamminen Hannu	1,263,460	2.4%
Kosonen Jukka	1,180,720	2.2%
Mäki-Kullas Jukka	1,160,000	2.2%
Silventola Anssi	1,000,000	1.9%
Westerstråhle Karl	968,700	1.8%
Others	22,900,940	43.6%
	52,536,140	100.0%
Nominee-registered, total	4,304,030	8.2%

Shares and share options held by the members of the Board of Directors, 1 Feb. 2000	Shares	Options
Karttunen Kai	14,400	25,000
Yates John	0	25,000
Karila Arto	0	0
Hiidenheimo Ilkka	10,952,000	0
Turunen Hannu	8,700,000	0
	19,666,400	50,000

Share issues in the financial year, Board's authorizations for issues, Adjusted for split

	Date	Shares	Number of shares, cumulative	Share capital Euros	Issue authorization Until 14 June 2000	Remaining
At start of financial year	1 Jan. 1999	2,117,648	2,117,648	89,040.71		
Bonus issue	1 Mar. 1999	40,235,312	42,352,960	847,059.20		
IPO	12 Apr. 1999	8,470,000	50,822,960	1,016,459.20		
Board's authorization for issue	15 June 1999				10,164,592	20.0%
Targeted issue / Avasta Transactions Oy	20 Aug. 1999	785,552	51,608,512	1,032,170.24	9,379,040	18.2%
Targeted issue / Monesta Data Oy and Monesta Solutions Oy	1 Oct. 1999	595,904	52,204,416	1,044,088.32	8,783,136	16.8%
Targeted issue / Avantcomp Oy	29 Nov. 1999	331,724	52,536,140	1,050,722.80	8,451,412	16.1%

Share exchanges

	Agreement date	Market value, FIM	Shares given as consideration, number	Cash value of shares, FIM	Paid cash consideration, FIM
Avasta Transactions Oy	22 June 1999	12,528,430	196,388	12,528,430	0
Monesta Data Oy	17 Sept. 1999	26,500,000	65,000	5,399,020	21,100,980
Monesta Solutions Oy	17 Sept. 1999	10,700,000	83,976	6,975,202	3,724,798
Avantcomp Oy	15 Nov. 1999	17,999,779	82,931	8,983,915	9,015,864
		67,728,209	428,295	33,886,567	33,841,642

As an incentive to the personnel, an extraordinary meeting of the company held on 15 March 1999 decided to issue share options to key persons in the Group. The company meeting's resolution on the options programme was entered in the Trade Register on 22 March 1999. Options have been issued to subscribe on the following terms (summarized here):

- The total number of options issued was 625,000. Some of the options were issued to a wholly owned subsidiary of the Company for surrender to people later employed or recruited to work for the Group. The issue period for the shares starts in stages on 1 Sept. 2000, 1 Sept. 2001, 1 Sept. 2002, 1 Sept. 2003 and 1 Sept. 2004. The period for share subscription ends for all options on 30 Apr. 2005. The subscription price of a share with all the options is €6.50. The share capital may be raised on the basis of the options by no more than €50,000.
- In the case of a subscriber's employment or position with the Group end, he or she must, with certain exceptions, without delay offer, without compensation, such options to the Company for which the share subscription period has not yet begun at that time.
- The options subscribed by the personnel entitled to do so were entered in the Trade Register on 30 Sept. 1999.
- After the share split (1:4) carried out by the company on 28 Dec. 1999, one option may be used to subscribe four shares at a price of €1.625 per share.

AUDITORS' STATEMENT

TO THE SHAREHOLDERS OF STONESOFT OYJ

We have audited the accounting records, financial statements and management of Stonesoft Oyj for the financial year 1 January – 31 December 1999. The financial statements prepared by the Board of Directors and the President contain the operating review and the consolidated and parent company income statements, balance sheets and notes to the financial statements. On the basis of our audit, we issue a statement on the financial statements and corporate management.

The audit was carried out in compliance with generally accepted auditing standards. The accounting records and the principles, content and presentation of the financial statements have thus been audited to the extent sufficient to determine that the financial statements are free from material errors or omissions. The audit of the corporate management examined the compliance of the actions of the Board of Directors and the President with the provisions of the Finnish Companies Act.

We declare that the financial statements, in which the parent company's net profit for the financial year is given as FIM 8,220,104.20, were prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the drafting of financial statements. The financial statements provide a true and fair view, as prescribed by the Accounting Act, of the Group's and company's operating results and their financial status. The financial statements, together with the consolidated financial statements, can therefore be adopted and the members of the Board of Directors and the President can be discharged from personal liability for the financial year audited by us. The proposal by the Board of Directors for the disposal of profit is in accordance with the Companies Act.

We have examined the interim reports published during the financial year. In our opinion, the interim reports were drawn up in accordance with the applicable regulations.

Espoo, 18 February 2000

TILINTARKASTAJIEN OY – ERNST & YOUNG, APA firm

Pekka Luoma, APA

CALCULATION OF BUSINESS RATIOS

RETURN ON EQUITY, ROE-%

$$\frac{\text{Result before extraordinary items - taxes x 100}}{\text{Shareholders' equity + minority interest}}$$

RETURN ON INVESTMENT, ROI-%

$$\frac{\text{Result before extraordinary items + interest and other financial expenses x 100}}{\text{Balance sheet total - interest-free liabilities}}$$

EQUITY RATIO-%

$$\frac{\text{Shareholders' equity + minority interest x 100}}{\text{Balance sheet total - advances received}}$$

NET GEARING

$$\frac{\text{Liabilities at interest - cash on hand and on deposit}}{\text{Shareholders' equity + minority interest + voluntary provisions and depreciation differential less imputed (deferred) tax liability}}$$

EARNINGS PER SHARE (FIM)

$$\frac{\text{Result before extraordinary items - taxes -/+ minority interest}}{\text{Average accounting-period number of shares adjusted for stock issue}}$$

EQUITY PER SHARE (FIM)

$$\frac{\text{Shareholders' equity}}{\text{Year-end number of shares adjusted for stock issue}}$$

DIVIDEND PER SHARE (FIM)

$$\frac{\text{Total dividend}}{\text{Year-end number of shares adjusted for stock issue}}$$

DIVIDEND / PROFIT-%

$$\frac{\text{Dividend per share x 100}}{\text{Earnings per share}}$$

BOARD'S PROPOSAL

THE FOLLOWING MATTERS WILL BE HANDLED AT THE MEETING ON 3 MARCH 2000:

1. Matters pursuant to Section 10 of the Articles of Association.

2. The proposal by the Board of Directors on the authorisation for the Board of Directors to decide upon increasing the share capital.

The Board of Directors proposes to the Annual General Meeting of Stonesoft Oyj to be held on 3 March 2000 that the Annual General Meeting would decide to give a new authorisation to the Company's Board of Directors to resolve on the increase of the Company's share capital subject to the provisions mentioned in paragraphs 1.-6. below pursuant to Section 1, Chapter 4 of the Companies Act and that the Annual General Meeting would cancel the remaining part of the Board's authorisation to increase the share capital given on 15 June 1999.

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

The terms and conditions of the authorisation are:

1) The Company's share capital may be increased in one or more lots in a manner whereby the shares to be issued in the new issue and/or on the basis of option rights and/or in connection with a convertible loan may altogether increase the Company's share capital with the maximum of 210,144.56 euros, so that the aggregate maximum number of shares eligible for subscription on the basis of the aforementioned alternatives is 10,507,228 shares, each with an accounting equivalent value of 0.02 euros.

2) The Company's Board of Directors is entitled to decide on who shall have the right to subscribe for new shares in a new share issue, subscribe for option rights or for convertible loan. The new shares and/or option rights and/or convertible loan may, in accordance with Chapter 4 Section 6 of the Companies Act (734/1978, as amended), be subscribed against contribution in kind or otherwise under specific conditions.

3) The new shares to be issued in a share subscription by way of a new issue and/or on the basis of option rights and/or in connection with a convertible loan may be offered for subscription deviating from the shareholders' pre-emptive subscription right pursuant to Chapter 4, Section 2 of the Companies Act if the deviation is justified by a weighty financial reason of the Company, such as financing of a Company acquisition, the enabling of joint venture transactions, providing of additional financial alternatives and motivating the personnel.

4) The Company's Board of Directors is entitled, in a share subscription by way of a new issue and/or on the basis of option rights and/or in connection with a convertible loan, to decide on the grounds on the basis of which the subscription price shall be determined and on the subscription price which may not, however, be less than the accounting equivalent value of the shares.

5) The Company's Board of Directors is entitled within the limits as set out in the Companies Act (734/1978) to decide on all other matters and provisions related to a new issue and/or the granting of option rights and/or convertible loans, such as an eventual interest payable on the convertible loan.

6) The authorisation is in force one year from the decision of the Annual General Meeting.

3. Options programme number II

The Company's Board of Directors proposes to the Annual General Meeting of Stonesoft Oyj to be held on 3 March 2000 that the Annual General Meeting would grant option rights to the persons belonging to the boards of directors, other management and staff of the Group and Group companies as decided by the Group Board of Directors of Stonesoft Oyj as well as to the Company's wholly-owned subsidiary.

The option rights shall be granted to the above mentioned parties deviating from the shareholders' pre-emptive subscription right for the purpose of enhancing their commitment and motivation. The proposal for deviation from the shareholders' pre-emptive subscription right is made because the option rights are intended as part of the Company's incentive program, and therefore it shall be deemed to constitute a weighty financial reason for the Company.

The share subscription price for all the option rights is the average of the closing price of the Company's shares during trading days between 1 Jan. 2000 – 16 Feb. 2000. The subscription price may not, however, be less than the accounting equivalent value of a share.

Part of the persons entitled to subscribe belong to the inner circle of the Company. Since the Board of Directors will according to the proposal be entitled to determine the persons to whom option rights will be offered, the shares of the Company owned by such persons cannot be determined at this stage. The number of the shares available for subscription on the basis of the options to be now issued shall constitute 4.76% of the Company's shares and 4.76% of the votes the shares give.

Espoo, 16 February 2000
THE BOARD

STONESOFT AS AN INVESTMENT, FINANCING RISKS

INFORMATION ON SHARES AND ON STONESOFT AS AN INVESTMENT

Stonesoft Corporation was listed on the Helsinki Stock Exchange on 14 April 1999.

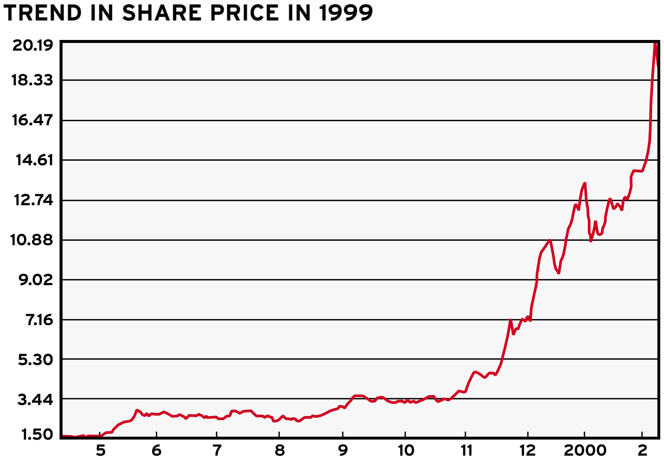
The major factor behind the listing was to create a source of finance for growth in business, for acquisitions, and for placements in R&D. Another purpose of the listing was to expand the ownership bases with new Finnish and foreign shareholders and to enhance the system of incentives and motivation for the personnel.

The IPO took the form of a combined issue and sale of shares. The issue began on 26 March and the issue targeted on institutional investors and the public was discontinued on 26 March due to oversubscription. The personnel issue ended on 29 March. Subscription commitments were obtained from a total of roughly 4,000 investors.

In the institutional issue and sale, a total of 2,000,000 shares were offered. These were oversubscribed twelvefold. In the public issue, 534,000 shares were offered, and subscription commitments were obtained from roughly 3,500 investors. The shares were oversubscribed more than fivefold. In the public issue, some 80% placed their subscription via the Internet. In the personnel issue, 133,000 shares were offered and this was fully subscribed. The share issues brought in FIM 81.3 million.

Stonesoft Corporation follows a cautious policy on dividends. The appreciation of the investment is seen as based on the growth of the established company, which is forecast to be 60-70% a year over the next three years. The operating profit before depreciation on goodwill is expected to remain on the order of 10-15%.

TREND IN SHARE PRICE IN 1999



FINANCING RISKS

The Stonesoft Group's internal unit of accounting is the Finnish markka. The currency in the euro zone is the euro, of which the markka is an expression. In addition to the euro, the US dollar is used as the billing currency for business in the American and Asian markets. Dollar-denominated trade accounts for roughly 30% of the Group's sales.

Stonesoft supplies software packages by order on a rapid schedule, and long-term, project-type deliveries do not form a part of its business. There are virtually no changes of currency between trading and payments. Stonesoft uses the net value method in its dollar-denominated trade, deducting purchases in dollars from sales in dollars. The transaction risks do not amount to a significant risk, and when necessary US dollars have been converted to the internal unit of accounting. In the euro zone, devaluation is not a feasible threat. Fluctuations in the US dollar rate are possible, and in 1999 changes in the rate yielded exchange-rate earnings.

The Group's financing operations and risk management are the responsibility of the parent company. A considerable part of Stonesoft Corporation's asset management has been outsourced to Leonia Asset Management Ltd. Cash assets are invested within the guidelines set by Stonesoft Corporation's Board of Directors. Most of the cash assets are invested in money market instruments and bonds. Cash-flow planning is handled by the Group administration. The parent company guarantees the operations of its foreign subsidiaries and covers costs arising. Billing is handled in Finland by the parent company and the foreign companies act as service suppliers. Within the Group, the parent company grants loans to the subsidiaries.

The Group currently has no derivative instruments.

CORPORATE GOVERNANCE

Stonesoft Corporation's administrative procedures are based on the requirements set by the articles of association and the law. The Board of Directors has from three to six ordinary members. The Board of Directors elects one of its members as the Chairman. The company has a President, elected by the Board of Directors. The Board of Directors consists of the following persons:

Kai Karttunen
President, EVLI Corporate Finance Ltd
Member of the Board since 1998
Chairman of the Board since 1999

John C. Yates
Partner-In-Charge of the Technology Group,
Morris, Manning & Martin LLP
Member of the Board since 1998

Arto T. Karila
Professor, Helsinki University of Technology
Member of the Board since 1999

Ilkka Hiidenheimo
Chief Technical Officer, Stonesoft Corporation
Member of the Board since 1990

Hannu Turunen
President, Stonesoft Corporation
Member of the Board since 1992

The annual general meeting of the company elects the members of the Board of Directors and determines their emoluments. The Board of Directors elects the President and decides on the remuneration to be paid to the President and other benefits.

The company has one auditor, which must be an auditing firm approved by the Central Chamber of Commerce. The annual general meeting elects the auditor for an indefinite term.

Stonesoft Corporation's auditor is Tilintarkastajien Oy Ernst & Young Oy, with Pekka Luoma, Authorized Public Accountant, as the auditor in charge.

STOCK RELEASE REVIEW

9 MARCH 1999

STONESOFT GOING PUBLIC ON THE HELSINKI STOCK EXCHANGE I-LIST

Stonesoft Corporation's Board of Directors decided on 8 March 1999 to begin preparations for public listing and to seek the inclusion of the company's shares on the Helsinki Stock Exchange I-list. The listing will be preceded by a combined sale of shares and share issue at a time to be announced later.

The premise behind the listing was to create a new source of finance for growth in business, for potential acquisitions, and to support R&D, as well as to expand the ownership base with new Finnish and foreign shareholders and to enhance the system of incentives and motivation for the personnel.

17 MARCH 1999

TERMS AND TIMETABLE FOR THE IPO

The initial public offering begins on 26 March 1999. The subscription price of a share in the public and institutional sales is €6.50.

26 MARCH 1999

PUBLIC OFFERING AND THE INSTITUTIONAL OFFERING AND SALE DISCONTINUED

Stonesoft Corporation's Board of Directors and sellers have decided to discontinue the public offering and the institutional offering and sales today, Friday 26 March 1999, at 4 p.m., owing to the oversubscription caused by heavy demand.

29 MARCH 1999

STONESOFT CORPORATION'S IPO ENDS

The personnel issue ended on 29 March 1999 at 4 p.m.

A total of approximately 4,000 investors made subscription commitments in Stonesoft Corporation's initial public offering. Subscription commitments were received for some 27 million shares, which is the equivalent of roughly FIM 1 billion. The entire IPO was oversubscribed about tenfold, of which the institutional offering was oversubscribed roughly twelvefold and the public offering roughly fivefold. In the public offering, subscription commitments were received from some 3,500 investors, of whom some 80% subscribed through the Internet. The personnel issue was fully subscribed.

8 APRIL 1999

STONESOFT CORPORATION ON THE PRE-LIST ON 12 APRIL 1999 AND THE I-LIST ON 14 APRIL 1999

Trading in Stonesoft Corporation shares will begin on the Helsinki Stock Exchange Pre-list on 12 April 1999. The trading code for the share will be SFT1V and the minimum trading batch will be 50 shares. Trading will begin on the I-list on 14 April 1999.

20 MAY 1999

STONESOFT CORPORATION'S INTERIM REPORT (3 MONTHS)

Net sales FIM 26.6 million, up by 84.6% on the same period in the previous year. Operating profit FIM 3.9 million, up by 86.9% on the same period in the previous year. Number of personnel 153 at the end of the period under review.

10 JUNE 1999

STONESOFT CORPORATION'S BOARD OF DIRECTORS APPROVES OPTION ENTITLEMENT SUBSCRIPTION

Stonesoft Corporation's Board of Directors has approved a targeted subscription of share options to the Group companies' Board of Directors, other management and staff members as well as to wholly owned subsidiaries of Stonesoft Corporation. All the share options offered, amounting to 625,000, were fully subscribed.

22 JUNE 1999

ENTIRE ISSUED STOCK OF AVASTA TRANSACTIONS OY ACQUIRED BY STONESOFT CORPORATION

A letter of intent signed by the owners of Stonesoft Corporation and Avasta Transactions Oy on 28 May 1998 led to a final contract today whereby the entire issued stock of Avasta Transactions Oy will become the property of Stonesoft Corporation on 30 June 1999.

22 JUNE 1999

SALES AND PURCHASING SYSTEM FOR FORTUM

Stonesoft's Avasta Transactions Oy has contracted with Fortum Oil & Gas for the supply of a sales and purchasing system. The contract is valued at some ten million markkas.

6 AUGUST 1999

DECISIONS OF STONESOFT CORPORATION'S BOARD MEETING, 5 AUGUST 1999

Stonesoft Corporation's Board of Directors has decided to establish an Internet data security R&D unit in Sophia Antipolis, France.

6 AUGUST 1999

STONESOFT CORPORATION'S INTERIM REPORT (6 MONTH)

Net sales FIM 58.8 million, up by 78% on the same period in the previous year. Operating profit FIM 6.3 million, 11% of net sales, up by 23% on the same period in the previous year. Number of personnel 204 at the end of the period under review. Equity ratio 85%.

17 SEPTEMBER 1999

DEAL SIGNED ON MONESTA DATA OY AND MONESTA SOLUTIONS OY

Stonesoft Corporation has today signed a contract for the acquisition of the entire issued stock of Monesta Data Oy and a majority holding in Monesta Solutions Oy. These are Finnish software houses specialized in transaction processing, high-end information management and collection, and project management.

27 SEPTEMBER 1999

STONESOFT REORGANIZES ITS STRUCTURE - eSOLUTIONS TO FOCUS ON NETWORKING BUSINESS SOLUTION SHIPMENTS

As Stonesoft's operation grows and evolves, the Group's business areas have been reorganized into two divisions. The divisions are Network Security and eSolutions.

5 NOVEMBER 1999

STONESOFT CORPORATION'S INTERIM REPORT (9 MONTHS)

Net sales FIM 102.8 million, up by 96%. Operating profit before goodwill depreciation (EBITA) FIM 14.7 million, 14.3% of net sales. Number of personnel 291 at the end of the period under review. Own products and services account for 74% of aggregate Internet data safety sales.

5 NOVEMBER 1999

WORLDWIDE AROUND-THE-CLOCK SUPPORT AND MAINTENANCE SERVICE OPENS

As of 15 November 1999, Stonesoft Corporation will provide worldwide, around-the-clock support and maintenance services to companies using the StoneBeat high availability firewall solution developed by Stonesoft.

15 NOVEMBER 1999

AVANTCOMP OY DEAL SIGNED

Stonesoft Corporation today signed a final contract on the acquisition of Avantcomp Oy. After the deal, the Stonesoft Group will hold the company's entire issued stock. Also transferred to Stonesoft Corporation in the deal is a significant holding in Avantcomp Oy's affiliated company Apc Attoparsek Oy, which will thus become an affiliate of Stonesoft Corporation.

20 DECEMBER 1999

STONEBEAT INTEGRATED IN COMPAQ DATA SECURITY SOLUTION

Stonesoft and Compaq, the world's biggest Intel/NT workstation and server maker, announced today in Atlanta that Stonesoft's high availability data security product StoneBeat FullCluster is to become a part of Compaq's packaged high availability data security solution.

28 DECEMBER 1999

STOCK EXCHANGE TRADING BATCH 100 SHARES STONESOFT CORPORATION SPLIT (1:4)

The Stonesoft Corporation share split (1:4) comes into force in the Helsinki Stock Exchange's HETI trading system as of 29 December 1999.

3 JANUARY 2000

MERGER OF STONEGATE OY INTO STONESOFT CORPORATION

In the Stonesoft Group, it has been decided to amalgamate Stonegate Oy (Trade Register number: 604.285), a member of the Networks business area, into the parent company Stonesoft Corporation. The implementation of the amalgamation took place on 31 December 1999. On the same occasion, the Networks business area has been restructured in such a way that a new Stonegate Oy has been established to take responsibility for the Stonesoft Group's data security wholesale business in the Nordic region.

14 JANUARY 2000

OFFICE IN HONGKONG, LATER IN SYDNEY, AUSTRALIA

As Stonesoft's operations in Asia are growing and developing, the company's Board of Directors has decided to open an office in Hongkong. The aim is to establish the office in spring 2000. Later this year it is intended to set up at least one more office, in Sydney, Australia.

27 JANUARY 2000

HIGH AVAILABILITY STONEBEAT PRODUCTS FOR FIREWALL SOLUTIONS OF NETWORK ASSOCIATES AND AXENT

Stonesoft Corporation today released worldwide new high availability StoneBeat products both for Network Associates' Gauntlet firewall software package and for Axent Technologies' Raptor firewall application.

INFORMATION FOR SHAREHOLDERS

Stonesoft Corporation shares are quoted on the Helsinki Stock Exchange I-list. The share's trading code is SFT1V.

Stonesoft Corporation will publish the following economic disclosures in 2000:

- financial statement bulletin for 1999 17 February 2000
- annual report in week 10
- interim report for January-March 11 May 2000
- interim report for January-June 8 August 2000
- interim report for January-September 9 November 2000

The annual general meeting will be held on 3 March 2000 at 3 p.m. at Innopoli.

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