

Annual Report 2002

STONESOFT



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CEO'S REVIEW

During 2002, Stonesoft has continued its transformation from a vendor of third-party products and a manufacturer of add-on products to a global supplier of security platform software.

The transformation into a global supplier of security platform software has been an enormous change for Stonesoft, and it has caused a lot of changes in how the company operates. In addition, the company's financial result has suffered, due to a decrease in the sales of StoneBeat products that has not yet, in 2002, been compensated for by the increase in the sales of StoneGate, the high availability firewall and VPN product.

We continued to focus our operations last year. As part of our strategy, we sold our IT system integration unit Stonesoft e-solutions Ltd, to Novo Group Plc.

Our flagship product StoneGate, high availability firewall and VPN solution, received a lot of positive feedback from across the world during the last year. For example, SC Magazine chose StoneGate as the "best buy" for the year 2002. The independent network and security testing agency NSS Group awarded StoneGate the highly respected NSS Gold Award. Network Computing Magazine chose StoneGate as the best VPN solution. These examples show the positive interest and respect that the technology, we have further developed during the last year, has received.

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

Prospects for the future

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

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

As a result of adjustments of operations, continuing control of expenses and prospective customer opportunities for StoneGate in 2003, we expect our financial results before goodwill depreciation (EBITA) for the whole fiscal year to improve from the previous year.

Finally, I would like to extend my thanks to the employees, our partners, and our customers for the last year. Above all, our employees deserve special thanks for the strong commitment, and the investment that they have made in Stonesoft, its operations, its philosophy, and its values during the year 2002.

Jorma Turunen
CEO

THE STONESOFT STORY

Employees have to believe in their company. In order for them to believe in their company, the company must have a belief, or philosophy, that guides its every decision. When the company has a sound philosophy, the employees believe in it and work accordingly, then the company will be a success.

Our philosophy

At Stonesoft, our philosophy is the belief we hold in understanding simple, real life solutions to complex problems, promoting economic worth for customers through vision driven development.

We know real life. When we say that we have real life, simple solutions we mean that our solutions are designed for real customers with real problems. Our products offer performance in real life conditions, not just fancy numbers in a laboratory exercise under controlled conditions. We look to solving the problems faced in the field, at the branch office, in the server rooms. Our solutions target those real problems; we don't just create features for the sake of having additional checkboxes on feature lists.

We create real life solutions to real life problems. Complex solutions often create more problems than they fix. In network security, added complexity decreases security. With simple solutions, you can improve security, lower the amount of work, and therefore increase productivity. Not every solution has an easy answer, but we work to ensure we provide the simplest answer possible for any given problem.

Our solutions are not useful if they are not affordable. The solutions created must be economical ones. When we say economical, we don't mean that the purchase price is unusually low, but that we have a competitive market price. But our solutions go beyond the up-front investment costs, to the total cost of the solution. Simple solutions tend to also be solutions that reduce costs, lower investment in new hardware or software, and increase employee productivity.

We develop those solutions with a vision in mind. Our development is driven by a passion—a passion to do things in an innovative, responsive way, without boundaries. We look beyond the existing hardware and software limitations, to what solutions should be like in the future. We develop our products while always questioning the contribution to our vision of secure, manageable networks that are available, reliable and scalable.

Our vision- forerunner in enterprise security and continuity

Stonesoft's vision represents the goals the company is looking to achieve in the longer term. It's the destination at the end of the journey we are on together. It is also a more focused version of the philosophy that is the foundation of everything we do for our customers.

Security solutions are key components in effective e-business. With our exceptional ability to combine knowledge on security, high availability and clustering, we are able to go beyond the traditional approach to security solutions. We can offer secure business continuity to our customers. Therefore it is natural that we want to be a forerunner in enterprise security and continuity, today and in the future.

Our vision for our products is to create interoperable products that have centralized management, yet enable a layered defense, or defense-in-depth. Such a system needs to provide for distributed security policy enforcement. These are the tools needed to solve the real life problems our customers see in today's enterprise network. We create products that work as individual parts of a greater solution. A solution which builds secure, manageable networks that are available, reliable, and scalable. By creating products that solve for these requirements, we can compete in the global marketplace of network security, and succeed.

STONESOFT'S R&D SEES THE FUTURE

The significance of R&D to a company like Stonesoft is immeasurable. To develop world-class products, it is necessary to have the best expertise, accurate observations of the environment, and continual development work.

Over the next three years, Stonesoft's R&D will create interoperable security solutions that have centralized management, yet enable a layered defense, or defense-in-depth. Such a system needs to provide for distributed security policy enforcement. These are the tools needed to solve the real life problems our customers see in today's enterprise network. We create products that work as individual parts of a total solution. A solution, which builds secure, manageable networks that are available, reliable, and scalable. Stonesoft's R&D is led by the company's founder and CTO Ilkka Hiidenheimo, who tells us what this means in practice.

Security is the key

Naturally, a basic requirement for security solutions is security. "There are various needs and differences, caused by both technical and administrative reasons", states CTO Hiidenheimo. "At Stonesoft, we are always trying to find the simplest solutions possible, even for complex problems. The premise being that the simplicity of a solution ensures better data security."

"We have an unique design architecture in our solutions, facilitating the work of network security professionals in many ways. Our solutions have user-friendly, common management and administrative tools that can be used to eliminate typical human errors and decrease the need for time-consuming troubleshooting. By integrating the operating system and the security application into a seamless unit, data security improves. Furthermore, this makes it possible to perform simple and fast remote solution upgrades, saving a considerable amount in time, labour and travel costs."

Security is also improved by a centralized security management. "On one hand, an advantage of this type of centralized management is that the organisation benefits from the sharpest data security expertise. On the other hand, the weakest links of the system are eliminated — there is rarely enough data security expertise for all of a company's remote offices. By centralizing the management and administration, we ensure that the defined security policies are truly in use in the desired place and at the desired time, independent of what the users are doing," says CTO Hiidenheimo.

In Stonesoft's solutions, data security is layered. Hiidenheimo clarifies, "A defence-in-depth security architecture means that someone trying to break into the system cannot take over the whole system if he or she manages to enter through some port. The multiple data security layers built into the system use several different types of methods to significantly hinder the actions and progress of the person trying to break in."

Even with the defence-in-depth approach, data security cannot interfere with day-to-day business. "The system doing the protecting has to be easy to use. At its best, individual users will not even notice the data security implementation, or, in other words, it's invisible to them," says CTO Ilkka Hiidenheimo from Stonesoft.

For the customer

Stonesoft's solutions are developed in close co-operation with the customer and the solutions respond to real life problems in the enterprise network. Customer benefits are mainly achieved through solution design architecture. We already try to minimise the total cost of ownership of a security solution in the design phase by taking its whole life cycle into consideration. "Our solutions do not require special equipment. They run on commodity platforms, which means that the customer can save considerable amounts of money," says Hiidenheimo.

In addition to the customer's requirements and opinion, the company's own, strong product development vision guides the work. "Our product development is based on our customers trusting us as network security professionals," continued CTO Hiidenheimo. In the data security issues, the customer is not necessarily always right, so he or she must trust the opinions of the security vendor. As the operating environment changes rapidly, and the changes usually come from many different directions, individual customers may not necessarily be able to notice as broad a range of events as Stonesoft.

As an example of this, Hiidenheimo mentions the competition for data security products based on single features. "Each product has a long list of fine features, but who stops to think if all of those features are essential for data security, or if they are possibly even hindering the functionality or data security of the solution. Sometimes customers demand features that solve one problem, but can cause major security risk. As a vendor, we cannot create features for our products that would endanger the security of our customers' entire networks. At Stonesoft, we do not compromise data security. Our customers can trust us in every situation. We are the security professionals," CTO Hiidenheimo says.

Integrated solutions, not puzzle pieces

"Our goal is to develop security solutions that complement each other. Solutions that can be managed centrally and securely, regardless of the size of the operating environment," Ilkka Hiidenheimo says. "At Stonesoft, we start with the fact that the architecture of the products must be compatible with the requirements of the real world. It is imperative that data security systems can be updated quickly, and they must be secure, manageable, scalable and available to fit the needs of the company."

According to Stonesoft's vision, the traditional way of dividing data security solutions according to their historical features and scope disappears, as do the artificial barriers between solutions. The individual pieces of the puzzle melt together into a multipurpose, seamless entity. For example, firewall, intrusion detection (IDS), and intrusion prevention (IPS) technologies are converging, and the problems of monitoring network traffic need to be solved on the basis of real needs.

"In the future, the best firewall solutions will follow the content of the traffic a lot more closely than they do now. Functionally, the barrier between firewalls and IDSs and IPSs is blurring," predicts Hiidenheimo. "For two years now, we have developed a technology that combines the central features of these solutions in a new innovative way. The new technology supports the real environment better than traditional solutions. The first solutions that are based on this design will be introduced to customers this year."

As the CTO and one of the major owners, Hiidenheimo acts as Stonesoft's guardian, but he also looks confidently to the future, "We have the world's best, most skilled group of people here, and we are proud of our world-class, award-winning products."

From day to day at Stonesoft OPPORTUNITIES AND CONFIDENCE IN THE FUTURE

The future, present, and past of Stonesoft are reflected in everyday life at the company. What does it look like through the eyes of our employees?

Hanna Lassila, 28, started working at Stonesoft 2 years ago. “I want my work to vary and be challenging. Also, I greatly value good atmosphere at work and mutual respect,” said Lassila, who became the manager of the technical writing team at the beginning of the year.

Brad Mitchell, 35, was also looking for challenging work when he moved to Finland from the USA 3 years ago. Now Mitchell works at Stonesoft as a lawyer. “I want my job to have meaning. At Stonesoft, I have been able to change my duties according to what I have been interested in. In the last two years, I have worked in four different positions. It's great that the company has given me the possibility to do so.”

“I'm sure this sounds like a cliché, but I found what I wanted at Stonesoft,” Lassila continued. “It wasn't always fun to leave for work in the morning at my previous job. It was hard to fathom that I'd find a job where that problem wouldn't exist at all. I believe the difference being that people at Stonesoft respect each other. In addition, the atmosphere rubs off on new employees, too.”

Great possibilities, great risks

Tobias Christen, 35, has worked in management positions in Stonesoft's R&D department for the last three years. According to Christen, who hails from Switzerland, Stonesoft is different because of the range of possibilities that it offers — in customer solutions and in career opportunities that it offers its own employees.

On the other hand, a large number of options can cause problems. “Excellent possibilities often have great risks as a drawback. At Stonesoft, we make decisions every day to find the best solutions. It's wonderful when we succeed, but it doesn't always turn out that way,” Christen describes.

“In my job interview, I was told that failure is allowed at Stonesoft. This astounded me since any possible mistakes stayed with you forever with my previous employers. At Stonesoft, the central issue is achieving the best possible end result, and a certain amount of risk-taking is allowed in the process.”

Wiser thanks to hard times

Not all of Stonesoft's recent decisions have turned out to be right ones. The company had to let go of some of its employees, and the uncertainty influences the company's atmosphere.

“Now the atmosphere at Stonesoft is good again. We are all a bit wiser and more mature, and our idea of the market situation is more realistic,” Mitchell reflects. “The industry has quieted down since the fever pitch at the end of the 1990s. Right now, things are being done on a more mature and enduring foundation at Stonesoft,” Christen continues.

To alleviate the uncertainty of the employees, the effects that each position has on the company were defined. Lassila emphasises the importance of these measures. “We all do our work better when our work is appreciated both from within the company and from outside.”

“The world's best product”

The great amount of confidence we have in the possibilities of the StoneGate high availability firewall and VPN solutions has not faltered along the way — actually, just the opposite. “The majority of technology firms have had difficulties recently. In addition, some of the companies do not believe in their own products. In our opinion, our product is not just good, it's the best on the market, and we stand behind it 100%,” Mitchell emphasises.

Everyone believes that Stonesoft will soon reach the point that is the start of the path that leads to success. The three eagerly wait to find out what will happen in the future since success is always followed by an unavoidable growth.

The people working here consider it important to profile in the future, too, as an ever more influential authority in the field of information security. “We want to stand firmly behind our principles and dare to say that the customer's expectations are not sensible if they aren't,” Mitchell says.

At Stonesoft, data security is seen as a service, not as a product. All three agree that, in the data security field, customers must completely trust their suppliers. This is considered to be very important at Stonesoft, and the service element will be emphasised even more in the future.

“Earlier, customers didn't necessarily know what they needed. They settled for what they were offered. Nowadays, customers know what data security is, and they know to demand more. We are a company that is truly interested in how we can be of use to our customers. That's why Stonesoft is a good place to be in,” Lassila sums up.

Internationalism and instant coffee

Stonesoft has offices in almost 20 countries. In addition, many other nationalities work in the company. This multicultural environment challenges people at Stonesoft to think about things from different points of view every day. “This international environment demands more from us, but those who apply here, have knowingly been looking for an international company, so they appreciate differences,” Christen says.

Naturally, cultures do not always cross without problems. “The biggest challenge is to get all of the company's units to communicate efficiently. Misunderstandings occur in communication since different nationalities, not to mention individuals, have their own way of communicating and their own expectations of it,” Mitchell says.

“Many companies claim to be international, but Stonesoft really is, which surprised me. Not an hour goes by that I don't speak English,” Lassila says. “In addition, the different nationalities here blend in naturally,” Christen continues.

From day to day, however, this internationalism is present, but goes unnoticed. In Finland, Christen and Mitchell laugh that mostly they have had to get used to the fact that coffee is drunk quickly while working. “In Finland, work isn't done by chatting around a coffee table,” Mitchell laughs.

Year in brief and key figures

- Stonesoft continued its transformation into a global supplier of security platform software.
- IT system integration unit Stonesoft e-solutions Ltd sold to Novo Group Plc.
- Actions initiated to adjust the cost level of expenditure in organisation to better match the present level of business. The estimated cost savings of approximately Eur 3 million was achieved per quarter.
- The StoneGate firewall and VPN solution for the IBM eServer zSeries mainframes released. The newly introduced product opens a totally new segment on the firewall and VPN market for the company.
- The flagship product StoneGate, high availability firewall and VPN solution, received a lot of positive feedback from across the world during the last year. For example, SC Magazine chose StoneGate as the “best buy” for the year 2002. The independent network and security testing agency NSS Group awarded StoneGate the highly respected NSS Gold Award. The Network Computing chose StoneGate as the best VPN solution in the market.
- Jorma Turunen appointed as the new CEO in October.
- The company’s cash position and equity ratio remained strong.

Key figures

<i>Thousand euros</i>	2002	2001
Net sales	30 173	57 703
Net Sales Change - %	-48 %	-3 %
Operating Profit / Loss Before Goodwill Depreciations (EBITA)	-22 708	-10 417
% of Net Sales	-75 %	-18 %
ROE - %	-44 %	-13 %
ROI - %	-42 %	-15 %
Equity Ratio - %	90 %	88 %
Net Gearing	-0,81	-0,68
Total Asset	59 916	82 039
R & D Costs	7 436	9 086
% of Net Sales	25 %	16 %
Number of Employees at the End of the Year	336	571
Earnings per Share (eur)	-0,49	-0,15
Equity per Share (eur)	0,87	1,16

BOARD OF DIRECTORS

The Board of Directors elected at the annual general meeting of shareholders includes three to six members. In 2002, the Board of Directors convened 20 times. The members of the Board of Directors of the Stonesoft Corporation are as follows:

Hannu Turunen

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

Kai Karttunen

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

John C. Yates

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

Ilkka Hiidenheimo

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

Alex Sozonoff

Senior Advisor, Hewlett-Packard
Member of the Board since 2001

As of 30 September 2002, the Chief Executive Officer of the company is Mr. Jorma Turunen. Before that Mr. Esa Korvenmaa was the CEO.

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

Information for shareholders

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

The Stonesoft Corporation will publish the following economic disclosures in 2003:

Interim report for January – March, on 24 April 2003
Interim report for January – June, on 24 July 2003
Interim report for January – September, on 24 October 2003

The Annual General Meeting of shareholders will be held on 12 March 2003.

REPORT BY THE BOARD OF DIRECTORS

Financial Year 1 January 2002 - 31 December 2002

1. DEVELOPMENT OF OPERATIONS DURING THE FINANCIAL YEAR 2002

During 2002, the company has transformed from a vendor of third-party products and producer of add-on products into a global supplier of security platform software. As part of its development strategy, during the period under review, the company sold off Stonesoft e-solutions Oy, a company specialising in IT-services, to the Novo Group plc.

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

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

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

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

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

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

2. MAJOR CHANGES IN BUSINESS OPERATIONS

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

NETWORKS BUSINESS GROUP

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

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

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

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

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

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

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

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

ESOLUTIONS BUSINESS GROUP

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

3. SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

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

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

In February, the Board decided to terminate Option Plan III, which had been established in connection with certain acquisitions in Italy in the year 2000. The subscription right for shares was dependent on the sales of a specific software suite. The sales targets have not been reached. All the holders of option rights have given their written consent to the termination. The Plan authorized the holders to subscribe for a maximum of 607 182 shares.

4. OUTLOOK FOR THE FUTURE

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

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

5. REVIEW OF MAJOR RESEARCH AND DEVELOPMENT ACTIVITIES

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

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

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

7. DEVELOPMENT IN SHARE PRICES AND TURNOVER

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

8. DEVELOPMENT IN SHAREHOLDERS' EQUITY AND OPTION PLAN

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

The share capital of the company may be increased in one or more lots in a manner whereby the shares to be issued in the new issue and/or on the basis option rights and/or in connection with a convertible loan may all together increase the Company's share capital with the maximum of Eur 229,204.52, so that the aggregate maximum number of shares eligible for subscription on the basis of the aforementioned alternatives is 11,460,226 shares, each with an accounting equivalent value of Eur 0.02. Option rights may solely be given to increase share capital in connection with mergers and acquisitions. The share capital of the company may be increased by giving option rights with the total maximum of Eur 30,000. The authorisation remains valid until the 2003 General Annual Meeting of Shareholders.

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

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

9. CORPORATE ORGANISATION, MANAGEMENT AND AUDITORS

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

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

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

Stonesoft Corp.
Board of Directors

Corporate Option Plans

Option plan 1

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

A total of 625,00 options with warrants were issued. Some of the options with warrants are granted to Stonesoft's wholly owned subsidiary to be issued for the company's current or future employees. The subscription period for the shares begin in stages as follows: September 1, 2000, September 1, 2001, September 1, 2002, September 1, 2003, and September 1, 2004. Subscription under all the warrants shall end on April 30, 2005. The subscription price of each share under the warrants is €6.50. The company's share capital may be increased under the options with warrants by a maximum of €50,000.

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

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

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

Option plan 2

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

A total of 2,500,00 options with warrants were issued. Some of the options with warrants are granted to Stonesoft's wholly owned subsidiary to be issued for the company's current or future employees. The subscription period for the shares begin in stages as follows: September 1, 2000, September 1 2001, September 1, 2002, September 1, 2003, and September 1, 2004. Subscription under all the warrants shall end on April 30, 2005. The subscription price of each share under the options with warrants is €6.50. The company's share capital may be increased under the options with warrants with a maximum of €50,000.

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

Options subscribed for by the employees were entered in the Trade Register on August 16, 2000. A total of 2,492,500 options with warrants have been registered, allowing an increase of €49.850 in share capital.

Option plan 3

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

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

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

In the meeting held on February 12, 2003 the Board of Directors has decided to end the option plan 3 and to ask the Trade Register to remove the records regarding the option plan 3.

Option plan 4

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

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

Group Income Statement		1.1. - 31.12.2002	1.1. - 31.12.2001
<i>thousand euros</i>			
	<i>note</i>		
Net Sales	<i>1</i>	30 173	57 703
Other operating income	<i>2</i>	755	2 054
Materials and services	<i>3</i>	-2 972	-5 826
Personnel costs	<i>4</i>	-27 713	-36 537
Depreciations and reduction in value	<i>5</i>	-4 443	-5 013
Other operating expenses		-20 979	-25 247
Operating profit / loss		-25 178	-12 866
Share of associated companies profit / loss		0	-41
Financial income and expenses	<i>6</i>	480	1 049
Profit / loss before extraordinary items		-24 699	-11 858
Extraordinary items +/-	<i>7</i>	8 734	-1 236
Profit / loss before taxes and minority Interest		-15 965	-13 094
Direct taxes	<i>9</i>	-742	2 579
Minority Interest		0	253
Profit / loss for financial year		-16 707	-10 263

Group			
Balance Sheet		31.12.2002	31.12.2001
<i>thousand euros</i>			
ASSETS			
Fixed Assets	<i>note</i>		
Intangible assets	10	1 476	1 821
Consolidated goodwill	10	2 713	6 985
Tangible assets	11	2 139	3 379
Investments	12	4	342
Fixed Assets Total		6 332	12 528
Current Assets			
Inventories		73	277
Long-term receivables		147	188
Short-term receivables	13	12 946	23 386
Investments	14	34 955	37 222
Cash on hand and on deposit		5 462	8 437
Current Assets Total		53 584	69 511
Total		59 916	82 039
LIABILITIES			
Shareholders' Equity			
Share capital	15	1 146	1 146
Other restricted share capital	15	76 277	76 952
Profit / loss from previous financial years	15	-10 856	-1 200
Profit / loss for the financial year	15	-16 707	-10 263
Shareholders' equity total		49 860	66 636
Provisions		30	0
Liabilities			
Long-term liabilities	16	2	26
Short-term liabilities	16	10 024	15 377
Total Liabilities		10 026	15 403
Total		59 916	82 039

Group Cashflow Statement	2002	2001
<i>thousand euros</i>		
Business operations		
Operating profit / loss	-25 178	-12 866
Adjustments to operating profit / loss	4 473	4 618
Financial income and expenses	480	1 049
Other Operating Income	5 331	2 567
Extraordinary items	-1 426	-1 236
Taxes paid	-741	-175
Total	-17 062	-6 043
Investment activities		
Investments to intangible and tangible assets	-386	-727
Investments to (-) / sales of (+) shares in subsidiaries	12 570	474
Investments to other shares	34	0
Total	11 913	-253
Financing activities		
Change in long-term receivables	-24	-31
Issue of Shares paid	0	55
Other	-69	-61
Total	-93	-38
Change in liquid assets	-5 242	-6 333
Liquid assets at the beginning of the financial year	45 659	51 993
Liquid assets at the end of the financial year	40 418	45 659

Parent company Income Statement		1.1.-31.12.2002	1.1.-31.12.2001
<i>thousand euros</i>			
	<i>note</i>		
Net Sales	<i>1</i>	17 624	34 812
Other operating income	<i>2</i>	2 074	2 178
Materials and services	<i>3</i>	-535	-2 452
Personnel costs	<i>4</i>	-8 114	-9 117
Depreciations	<i>5</i>	-1 938	-1 382
Other operating expenses		-35 028	-40 127
Operating profit / loss		-25 917	-16 088
Financial income and expenses	<i>6</i>	-222	1 615
Profit / loss before extraordinary items		-26 140	-14 474
Extraordinary items +/-	<i>7</i>	8 444	3 393
Profit / loss before taxes and minority Interest		-17 696	-11 081
Appropriations	<i>8</i>	0	140
Direct taxes	<i>9</i>	-266	-209
Profit / loss for financial year		-17 962	-11 149

Parent company
Balance Sheet
thousand euros

31.12.2002 31.12.2001

ASSETS

	<i>note</i>		
Fixed Assets			
Intangible assets	<i>10</i>	1 324	1 496
Tangible assets	<i>11</i>	813	942
Investments	<i>12</i>	9 220	16 979
Fixed assets total		11 357	19 417
Current Assets			
Inventories		65	115
Short-term receivables	<i>13</i>	11 590	17 867
Investments	<i>14</i>	34 872	37 208
Cash on hand and on deposit		2 593	3 377
Current Assets Total		49 120	58 566
Total		60 477	77 983

LIABILITIES

Shareholders' Equity

Share capital	<i>15</i>	1 146	1 146
Other restricted share capital	<i>15</i>	76 821	76 821
Profit / loss from previous financial years	<i>15</i>	-11 670	-521
Profit / loss for the financial year	<i>15</i>	-17 962	-11 149
Shareholders' equity total		48 336	66 297

Liabilities

Short-term liabilities	<i>16</i>	12 141	11 686
Total Liabilities		12 141	11 686
Total		60 477	77 983

Parent company Cashflow Statement	2002	2001
<i>thousand euros</i>		
Business operations		
Operating profit / loss	-25 917	-16 088
Adjustments to operating profit / loss	2 707	1 879
Financial income and expenses	451	952
Change in working capital	6 456	6 630
Extraordinary items	-247	-268
Taxes paid	-266	-209
Total	-16 817	-7 105
Investment activities		
Investments to intangible and tangible assets	-532	-827
Sales of intangible and tangible assets	0	1 451
Investments to / Sales of shares in subsidiaries	14 229	-2 375
Total	13 697	-1 751
Financing activities		
Issue of Shares paid	0	55
Total	0	55
Change in liquid assets	-3 120	-8 801
Liquid assets at the beginning of the financial year	40 585	49 386
Liquid assets at the end of the financial year	37 465	40 585

NOTES TO FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

Scope of the consolidated financial statements

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

Stonesoft Oyj - parent company

Stonesoft Finland Oy

Embe Systems Oy

Embe Systems Inc (USA)

Stonesoft International Oy (former Fence Technologies Oy)

Optiwise Inc

Optiwise Oy

Stonesoft France S.A.S

Stonesoft Ab (Sweden)

Stonesoft Networks Ltd (UK)

Stonesoft Germany GmbH

Stonesoft Japan K.K

Unirel Sistemi S.r.l (Italy)

Stonesoft Italy Srl

Stonegate AG (Switzerland)

Stonesoft Netherlands B.V.

Stonesoft Espana S.A. (Spain)

Stonesoft Australia Pty Ltd

Stonesoft Singapore

Stonesoft Hong Kong

Stonesoft Inc (USA)

Stonesoft Canada Inc

Stonesoft LTDA, Brazil

including Stonesoft e-Solutions Oy, Jan-Feb 2002 financial results

Principles of consolidation

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

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

Group net sales

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

Items in foreign currency

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

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

Pension expenses

The company's pension arrangements have been made in compliance with local legislation. Pension costs are recorded as expenses for the financial period. The statutory pension liability has been fully covered by annual pension insurance payments.

Research and Development

R&D expenses have been recorded as annual expenditure for the year they incurred.

Rents

Rental expenses are recorded as expenditure for the financial period they incurred. The rents for the outstanding rental contract terms have been taken into account as rental liabilities.

Valuation of capital assets

Capital assets have been entered in the balance sheet at acquisition price, less scheduled depreciation. The scheduled depreciation has been calculated using straight line method on the basis of economical lifespan of the capital asset items.

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Depreciation period for capital assets				
Machinery	3	3	3	3
Equipment	5	5	5	5
Other tangible assets	5	5	5	5
Other long-term expense items	5	5	5	5
Consolidated goodwill	5	5	-	-

Securities included in financial assets

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

NOTES TO THE INCOME STATEMENT

thousand euros

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
1a. Net sales by market areas				
Emea	20 798	38 781	8 873	16 656
Americas	6 806	13 503	6 182	12 738
Asia Pacific	2 570	5 419	2 570	5 419
Total	30 173	57 703	17 624	34 812

1b. Net sales by business functions

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Licence revenue				
Own licences	10 217	22 158	9 710	21 366
Other licences	554	3 604	-55	1 335
Licence revenue total	10 771	25 762	9 655	22 701
Service revenue				
Consultation and training	8 872	18 227	393	825
Support, own	8 247	8 717	7 848	8 359
Support, other	1 341	2 810	11	1 113
Service revenue total	18 460	29 754	8 252	10 297
Other revenue				
Hardware	1 121	1 279	-13	656
Other sales	-179	908	-270	1 158
Total	30 173	57 703	17 624	34 812

2. Other income from business operations

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Business subsidy for R&D activities	65	318	65	190
Sales of fixed assets	30	0	0	0
Rental income	521	56	426	0
Sales of Optiwise technology	0	1 430	0	0
Income from personnel canteen	117	123	67	83
Others	23	128	0	0
Group internal administration fee	0	0	1 516	1 905
Total	755	2 054	2 074	2 178

3. Materials and services

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Materials and goods				
Purchases during the financial period	2 520	5 421	269	2 192
Changes in stock levels	204	-25	47	-43
	2 724	5 396	316	2 149
External services	248	430	219	303
Total	2 972	5 826	535	2 452

4. Wages, salaries and indirect employee expenses

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Wages and salaries	22 814	29 737	6 390	7 266
Pension expenses	3 861	5 055	1 101	1 245
Other indirect employee expenses	1 038	1 745	623	606
Total	27 713	36 537	8 114	9 117
Salaries and fees paid to the Board of Directors and CEO	623	379	511	207
Number of personnel				
Average	403	581	141	167

5. Depreciation

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Goodwill	2 470	2 449	0	0
Tangible assets	1 413	2 116	409	1 006
Intangible assets	560	448	425	377
Extraordinary depreciation of investments and asset	0	0	1 104	0
Total	4 443	5 013	1 938	1 382

6. Financial income and expenses

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Dividend income				
From Group companies	0	0	0	652
From others	3	25	3	35
Interest and other financial income	867	2 174	796	2 037
Financial income, total	870	2 199	799	2 724
Reduction on value on investment	0	0	673	0
Interest and other financial expenses	390	1 150	348	1 109
Financial income and expenses, total	480	1 049	-222	1 615
Financial income and expenses includes exchange rate gains / losses (net)	-154	-1	-154	-14
Gains / losses from securities market	77	-824	77	-824

7. Extraordinary items

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Extraordinary income				
Group contribution	0	0	444	3 662
Profit from sales of Stonesoft e-solutions Oy	10 160	0	8 247	0
Extraordinary income, total	10 160	0	8 691	3 662
Extraordinary expenses				
Closing down the Optiwise business	1 081	304	0	0
Closing down the business of Athena Security Group Inc	87	848	0	184
Correction to intercompany items, year 2000	247	0	247	0
Others	11	84	0	84
Extraordinary expenses, total	1 426	1 236	247	268
Extraordinary items, total	8 734	-1 236	8 444	3 393

8. Appropriations

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Depreciation reserve	0	0	0	140

9. Direct taxes

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Income taxes on extraordinary items	-2 533	358	0	0
Income taxes on actual business	2 020	-494	36	0
Change in deferred tax liability	0	2 715	0	0
Taxes from previous financial periods	-229	0	-229	-209
Direct taxes, total	-742	2 579	266	-209

NOTES TO THE BALANCE SHEET

Fixed assets	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
10. Intangible assets				
Intangible rights				
Acquisition cost 1.1.	1 321	857	933	704
Increases	308	513	347	277
Reductions	-2	-48	-2	-48
Acquisition cost 31.12.	1 627	1 321	1 278	933
Accumulated depreciation 1.1.	-513	-322	-372	-252
Depreciation for financial period	-253	-219	-196	-147
Accumulated depreciation on reductions	0	27	0	27
Accumulated depreciation 31.12.	-766	-513	-568	-372
Balance sheet value 31.12.	861	808	710	561
Consolidated goodwill				
Acquisition cost 1.1.	11 922	12 384	0	0
Increases	0	0	0	0
Reductions	1 801	-462	0	0
Acquisition cost 31.12.	10 121	11 922	0	0
Accumulated depreciation 1.1.	-4 938	-2 488	0	0
Depreciation for financial period	-2 470	-2 449	0	0
Accumulated depreciation 31.12.	-7 408	-4 938	0	0
Balance sheet value 31.12.	2 713	6 985	0	0
Other long-term expense items				
Acquisition cost 1.1.	1 221	1 142	1 145	1 127
Increases	2	80	0	17
Acquisition cost 31.12.	1 223	1 221	1 145	1 145
Accumulated depreciation 1.1.	-302	-74	-302	-73
Depreciation for financial period	-306	-229	-228	-229
Accumulated depreciation 31.12.	-609	-302	-530	-302
Balance sheet value 31.12.	615	919	614	842
Advance payments for intangible rights				
Balance sheet value 31.12.	0	93	0	93

11. Tangible assets

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Machinery and equipment				
Acquisition cost 1.1.	6 623	7 908	2 156	4 487
Increases	341	1 482	280	445
Reductions	-206	-2 767	0	-2 776
Acquisition cost 31.12.	6 758	6 623	2 436	2 156
Accumulated depreciation 1.1.	-3 465	-2 701	-1 221	-1 561
Accumulated depreciation on reductions	96	1 305	0	1 346
Depreciation for financial period	-1 351	-2 069	-409	-1 006
Accumulated depreciation 31.12.	-4 720	-3 465	-1 630	-1 221
Balance sheet value 31.12.	2 038	3 159	806	935
Other tangible assets				
Acquisition cost 1.1.	297	256	7	5
Increases	5	41	2	2
Reductions	-64	0	-2	0
Acquisition cost 31.12.	238	297	7	7
Accumulated depreciation 1.1.	-76	-28	0	0
Depreciation for financial period	-62	-47	0	0
Accumulated depreciation 31.12.	-137	-76	0	0
Balance sheet value 31.12.	100	221	7	7

12. Investments

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Stocks and shares				
Acquisition cost 1.1.	342	383	16 979	14 604
Increases	0	0	343	2 375
Reductions	-338	-41	-6 062	0
Loss of value	0	0	-2 041	0
Acquisition cost 31.12.	4	342	9 220	16 979

Group companies			Book value held by the parent company K euro
Stocks and shares held by the Group	Group shareholding %	Parent company shareholding %	
Stonesoft Finland Oy, Helsinki	100	100,00	472
Embe Systems Oy, Oulu	100	100,00	6 614
Embe Systems Inc, USA, Dallas	100	0,00	0
Stonesoft International Oy, Helsinki	100	100,00	8
Stonesoft Inc, USA, Atlanta	100	100,00	43
Stonesoft AB, Ruotsi, Tukholma	100	100,00	11
Stonesoft Networks (UK) Ltd, Reading	100	100,00	2
Stonesoft France S.A.S., Ranska, Sophia Antipolis	100	100,00	40
Stonesoft Germany GmbH, Ismaning	100	100,00	25
Stonesoft Espana S.A. Madrid	100	100,00	60
Stonesoft Japan k.K., Tokio	100	100,00	94
Stonesoft Netherlands B.V., Amsterdam	100	100,00	20
Optiwise Inc, Atlanta	100	100,00	17
Optiwise Oy, Helsinki	100	100,00	83
Stonesoft Italy S.r.l, Milano	100	99,99	18
Unirel Sistemi S.r.l, Firenze	100	99,99	213
Stonegate AG, Sveitsi, Zurich	100	100,00	66
Stonesoft Australia Pty Ltd, Sydney	100	100,00	0
Stonesoft Singapore PTE Ltd	100	100,00	0
Stonesoft Hong Kong	100	100,00	0
Stonesoft LTDA, São Paulo, Brasilia	100	100,00	260
Total			8 045

Financial assets

13. Short-term receivables

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Accounts receivable	5 682	14 016	3 987	8 544
Receivables from the Group companies				
Accounts receivable	0	0	1 671	346
Other receivables	0	0	5 423	7 906
Prepayments and accrued income				
VAT credits	0	0	0	350
Tax credits	0	0	0	332
Rental deposits	0	0	56	70
Other prepayments and accrued income	2 522	3 454	453	319
Other receivables (group)	273	1 447	0	0
Deferred tax credits				
Periodization difference	107	161	107	161
Accum. Losses	12 231	4 308	12 231	4 308
of which booked to tax receivables	4 469	4 469	0	0
Short term receivables, total	12 946	23 386	11 590	17 867

14. Securities included in financial assets

Investments

	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Replacement cost	35 781	37 345	35 698	37 331
Book value	34 955	37 222	34 872	37 208
Difference	826	123	826	123

15. Shareholders' equity	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Share capital				
Share capital 1.1.	1 146	1 145	1 146	1 145
Increase in share capital 16.8.2001	0	1	0	1
Share capital 31.12.	1 146	1 146	1 146	1 146
Other restricted shareholders' equity				
Share premium account 1.1.	76 818	76 764	76 818	76 764
Issue premium, 16.8.2001	0	54	0	54
Option subscriptions	3	0	3	0
Share premium account 31.12.	76 821	76 818	76 821	76 818
Emission				
Non-registered portion of option subscriptions	0	3	0	3
Translation difference, restricted	-544	131	0	0
Other restricted shareholders' equity total	76 277	76 952	76 821	76 821
Profit / loss from previous years				
Profit / loss from previous financial periods 1.1.	-11 462	-1 020	-11 670	-521
Translation difference, free	606	-180	0	0
Profit / loss from previous financial periods 31.12.	-10 856	-1 200	-11 670	-521
Profit / loss for financial period	-16 707	-10 263	-17 962	-11 149
Shareholders's equity, total	49 860	66 636	48 336	66 297
Calculation on distributable funds	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Profit / loss from previous financial periods	-10 856	-1 200	-11 670	-521
Profit / loss for financial period	-16 707	-10 263	-17 962	-11 149
Other reserves				
Portion of accumulated depreciation difference entered in shareholders' equity	-2	0	0	0
Translation difference	606	-180	0	0
Total	-26 959	-11 643	-29 632	-11 670

16. Liabilities	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Long-term liabilities				
Hire purchase liability	2	26	0	0
Short-term liabilities				
Advances received	164	1 551	164	0
Accounts payable	1 159	1 696	564	550
Debts to the Group companies				
Other debts	0	0	5 653	4 882
Substantial items included in deferred liabilities				
Matched maintenance cost	4 516	5 136	3 995	4 554
Other deferred liabilities	2 927	4 765	1 397	1 517
Other debts	1 258	2 229	368	183
Short-term liabilities total	10 024	15 377	12 141	11 686
Liabilities total	10 026	15 403	12 141	11 686
17. Pledges	Stonesoft Group		Stonesoft Oyj	
	2002	2001	2002	2001
Leasing liabilities				
Payable in year 2003	1 400	2 151	1 183	1 366
Payable later	664	3 064	534	1 161
Rental liabilities and pledges				
Rental liabilities	10 841	11 397	9 445	10 492
Rental pledges	192	268	92	86
Pledges issued for companies in the same Group				
Other pledges	0	0	100	140
Pledges issued for others	0	37	0	37
Other pledges	18	268	0	0
Pledges total	13 115	17 185	11 354	13 282

Stonesoft Group Key Ratios

	2002	2001	2000	1999	1998
Net Sales	30 173	57 703	59 568	27 683	10 423
Net Sales Change-%	-48 %	-3 %	115 %	166 %	54 %
Operating Profit/Loss Before Goodwill					
Depreciations (EBITA)	-22 708	-10 417	-1 511	3 073	1 617
% of Net Sales	-75 %	-18 %	-3 %	11 %	16 %
Operating Profit/Loss After Goodwill					
Depreciations (EBIT)	-25 178	-12 866	-3 623	2 698	1 615
% of Net Sales	-83 %	-22 %	-6 %	10 %	15 %
Profit/Loss before Extraordinary Items	-24 699	-11 858	-2 822	3 080	1 636
% of Net Sales	-82 %	-21 %	-5 %	11 %	16 %
Profit/Loss before taxes and minority Interest	-15 965	-13 094	-6 104	2 239	1 636
% of Net Sales	-53 %	-23 %	-10 %	8 %	16 %
ROE - %	-44 %	-13 %	-4 %	20 %	48 %
ROI - %	-42 %	-15 %	-4 %	29 %	64 %
Equity Ratio-%	90 %	88 %	87 %	73 %	55 %
Net Gearing	-0,81	-0,68	-0,67	-0,50	-0,60
Total Asset	59 916	82 039	93 388	27 600	6 906
Capital Investments	699	727	5 944	2 071	335
% of Net Sales	2 %	1 %	10 %	7 %	3 %
R&D Costs	7 436	9 086	6 270	2 261	1 011
% of Net Sales	25 %	16 %	11 %	8 %	10 %
Number of Employees (Weighted Average)	403	581	450	168	74
Number of Employees at the End of the Year	336	571	574	340	122
Share Specific Ratios					
Earnings per Share (eur)	-0,49	-0,15	-0,01	0,06	0,04
Equity per Share (eur)	0,87	1,16	1,34	0,37	0,11
Divident per Share (eur)	0	0	0	0	0
Dividend / Profit-%	0 %	0 %	0 %	0 %	10 %
Weighted Amount of Shares (Option dillution effect included)	57302088	57643083	55499114	42926752	32188240
Amount of Shares at the End of period	57302732	57301132	57267532	52536140	42352960

Calculation of business ratios

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

Information on shareholders

Number of shareholders 31.12.2002	Shareholders		Shares and voting rights
	Number	%	Number
1-100	2 245	21,4 %	182 875
101 - 1.000	5 504	52,4 %	2 625 045
1.001 - 10.000	2 425	23,1 %	7 635 699
10.001 - 50.000	245	2,3 %	5 217 237
50.001 - 100.000	32	0,3 %	2 073 103
100.001 - 1.000.000	48	0,5 %	14 811 855
1.000.001 -	6	0,1 %	24 756 918
	10 505	100 %	57 302 732

Distribution of ownership by sector 31.12.2002	Holdings		Shares and voting rights
	Number	%	Number
Companies	615	5,9 %	2 987 038
Financial and insurance institutions	31	0,3 %	3 879 548
Public-sector organisations	18	0,2 %	2 372 860
Non-profit organisations	55	0,5 %	1 702 526
Households	9 700	92,4 %	40 403 770
Foreign and nominee-registered owners	86	0,7 %	5 956 990
	10 505	100,0 %	57 302 732

Major shareholders 31.12.2002	Number		%
Hiidenheimo Ilkka	10 417 400		18,2 %
Turunen Hannu	7 550 000		13,2 %
Suoniemi Antti	1 668 200		2,9 %
FIM Forte Sijoitusrahasto	1 184 200		2,1 %
Silventola Anssi	950 000		1,7 %
Mäki-Kullas Jukka	880 000		1,5 %
Westersträhle Karl	878 700		1,5 %
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	814 900		1,4 %
Kosonen Jukka	770 000		1,3 %
FIM Tekno Sijoitusrahasto	721 500		1,3 %
Others	31 467 832		54,9 %
	57 302 732		100,0 %
Incl. nominee-registered, total	4 570 281		8,0 %

**Shares and share options held by the Members
of the Board of Directors 31.12.2002**

	Shares	Options
Karttunen Kai	0	74 000
Sozonoff Alexis	0	44 100
Yates John	0	74 000
Hiidenheimo Ilkka	10 417 400	0
Turunen Hannu	7 550 000	0
	17 967 400	192 100

AUDITORS' REPORT

To the shareholders of Stonesoft Oyj

We have audited the accounting, the financial statements, the consolidated financial statements and the administration of **Stonesoft Oyj** for the accounting period 1.1.-31.12.2002. The financial statements, which include the report of the Board of Directors, the income statements and the balance sheets and notes to the financial statements of the consolidated closing and of the closing of the parent company, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on the administration.

We have conducted our audit in accordance with Finnish Standards on Auditing. Those standards require, that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management as well as evaluating the overall

financial statement presentation. The purpose of our audit of the administration is to examine that the members of the Board of Directors and the Managing Director have legally complied with the rules of the Companies Act.

In our opinion, the financial statements, showing a loss for the parent company of 17.961.517,58 € have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of the consolidated and parent company's results of operations and financial position. The financial statements can be adopted and the members of the Board of Directors and the Managing Director can be discharged from liability for the period examined by us. The proposal by the Board of Directors regarding the handling of the result is in compliance with the Companies Act.

Helsinki, February 26, 2003

Ernst & Young Oy
Authorized Public Accountant Firm

Pekka Luoma
Authorized Public Accountant