

STONESOFT



2005

Annual Report



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Year 2005 in Brief

Main business events and key figures

Main business events

- In March the company implemented a new sales management system. The system helps to manage sales resources and enables transparent monitoring on a global level with a higher level of granularity.
- In April the company invited M.Soc.Sc, Juha Kivikoski, Vice President, Global Marketing as a new member to the company Management team. Mr. Kivikoski joined Stonesoft in December 2004. In June the company promoted Mr. Mika Rautila to be Chief Technology Officer and to be a member of the company Management Team. Mr. Rautila has been with Stonesoft since 1999 and holds a PhD in Mathematics.
- In June, the company announced new versions of the StoneGate Management Center, StoneGate FW/VPN and StoneGate IPS products. The new versions further unify the security components of StoneGate offering and deliver new solutions to better and more advanced management functionalities to the customers' complex security solutions.
- In June, the company announced the release of SGI-20A IPS appliance that combines sensor and analyzer.
- In July Stonesoft was granted a US patent for "Data Transmission Control Method" (patent number 6,912,200) covering the VPN component of the Multi-Link functionality and the connection selection method when both ends of communication are protected by the Stone Gate platform.
- In August IBM Global Services and Stonesoft renewed and expanded their partnership agreement in EMEA and USA to cover also Canada.
- In August Stonesoft was granted an Europe-wide patent for a fail-safe remote upgrade called "a method of managing a network device, a management system, and a network device" (patent number EP 1259028) that removes the risk that an error in a firewall configuration may lead to a situation making the network management center no longer able to connect to the firewall node in question, which could previously only be solved by making a costly visit to the site where the firewall node is located.
- In September Siemens Business Services and Stonesoft announced partnership agreements covering Sweden, Denmark, Norway, Germany, Belgium and Luxemburg. Siemens Business Services is offering Stonesoft solutions as part of its wide service offering to its customers.
- In September Stonesoft announced its flagship SG-4000, a FW/VPN product for large enterprises and distributed networks, deliveries of which started in the last quarter.
- In October Stonesoft announced four new StoneGate appliances. StoneGate SG- 250e, SG-500e50, SG-500e-100 and SG-570e appliances are targeted for medium sized organizations as well as for corporate remote and branch offices as an answer to the future security requirements.
- In November, Stonesoft provided network security to the UN World Summit on the Information Society in Tunis. The Summit had 20 000 participants and national delegations from 174 nations in attendance. The Summit was organized by ITU.
- In the last fiscal quarter, Stonesoft reinforced its position in France by reorganizing its sales operations and making additional recruitments.

Key Figures

	(1000 Euros)	2005 (IFRS)	2004 (IFRS)
Net sales		22 237	22 490
Operating profit / loss		-6 258	-8 988
% of Net Sales		-28	-40
Operating result before taxes		-5 719	-8 532
% of Net Sales		-26	-38
Return on equity (ROE) %		-31	-46
Return on investment (ROI) %		-29	-27
Equity Ratio %		77	81
Net Gearing		-1,10	-0,98
Capital investments		437	501
% of net sales		2	2
R&D costs		4 612	5 075
% of net sales		21	23
Number of employees (weighted average)		247	258
Number of employees at the end of the year		252	237
Earnings per share		-0,10	-0,23
Equity per share		0,28	0,38
Dividend		0,00	0,00
Dividend per share		0,00	0,00
Dividend / profit %		0	0
Average number of shares adjusted for share issue		57 302 732	57 302 732
Number of shares adjusted for share issue at year end		57 302 732	57 302 732



CEO's Review

During 2005 we continued implementing our renewed strategy. This has led to the improved development of our business operations, though at a slower rate than anticipated. The annual sales growth of our main product StoneGate™ was 24%, while overall market growth was roughly 10%.

Stonesoft's vision is to be the forerunner in network security and business continuity. Our StoneGate security solutions solve customers' security challenges, reduce costs, improve productivity, and ensure our customers' business continuity.

We strive to offer to our customers the most simplified solutions to complex security challenges. We deliver complete solutions that simplify and clarify the management of networks with centralized remote management. Unified and centralized management simplifies complexity by providing better visibility of the network traffic. This enables faster reaction time for administrators, as it empowers them with a clear system status through advanced monitoring and reporting tools.

Positive developments in StoneGate sales during the year and several successes in product tests have proven that Stonesoft is able to create security solutions that meet the requirements of the large and distributed organizations.

Company management continued implementing the renewed long-term global strategy, including company positioning, marketing, and sales strategies. Based on the strategy we have continued demand generation activities in the target customer segments and activated channel partners to have an active role in sales, solution implementation, and support. We continued implementing these activities in EMEA and in the USA. The company reinforced its position also in France by hiring new sales resources and creating new partnerships.

The company's channel strategy was renewed during the year. Our goal is to have a limited number of selected, mainly 1-tier channel partners, that seamlessly support the renewed sales model. The channel strategy is part of our global go-to-market model that has as a fundamental value consistent, long-term partnerships combined to flexible and fast co-operation in order to achieve and maintain highest degree of customer satisfac-

tion. The strategy provides excellent opportunities for our partners to differentiate Stonesoft's role in the enterprise security market, to conduct profitable business, and to provide added value to the customers.

Closer to the customer

In order to reach our target customers fast and effectively Stonesoft sales and marketing activities were focused on large organizations and selected industry verticals including finance, retail, healthcare, and public administration. We also had targeted joint marketing activities with certain strategic partners. Our typical customers are sophisticated organizations with high need for business services availability, high transaction value, compliance requirements, or other reasons for high security levels.

With the change in the go-to-market strategy we are seeking significant growth. We know that our solutions and services represent leading solutions within the industry. By understanding our customers' growing and more challenging security needs, and by developing security solutions that meet these requirements, we can differentiate from our competitors and increase our own business growth.

Product vision

We have worked to develop security solutions and to ensure business continuity since 1994. We have been able to utilize our experience of high-availability, clustering, and business continuity.

In 2005 we delivered the next generation of StoneGate, which includes StoneGate Management Center 3.2.0, which offers an optimized and centralized management for StoneGate FW/VPN and IPS solutions. This is a continuation of the StoneGate IPS project that started in 2000. As a

result of this project we delivered a new intrusion detection and protection solution with higher detection granularity, network traffic analysis, and variable risk definition, combined to provide high performance. This meant evolving of the StoneGate product family from Firewall/VPN solution to a StoneGate Security Platform that combines Firewall, VPN, Intrusion Detection and Prevention, and the centralized and unified management for all of these components.

We also introduced the new flagship Firewall/VPN appliance SG-4000 that was designed to meet the requirements of large and distributed networks. In addition we introduced new StoneGate appliances to support future security requirements.

The feedback from our customers has been very positive and has proven that our product vision and development meets the customer expectations. The layered security and unified management help our customers to reach defence-in-depth when the network structure and the security needs are changing.

Conclusion

I would like to thank Stonesoft employees for the results reached in a challenging period and for the positive company development during 2005. I would also like to thank all our customers and partners for the past year.



Ilkka Hiidenheimo, CEO



Corporate Governance

Throughout year 2004 Stonesoft Corporation complied with the Corporate Governance Recommendation for listed companies issued by Helsinki Stock Exchange (HEX) Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers.

Stonesoft Corp. is a publicly listed company registered in Finland and having its headquarters in Helsinki. Stonesoft's management complies with Finnish legislation and Articles of Association, according to which the monitoring and management of the company are divided between the Annual General Meeting, Board of Directors and CEO.

General Meeting

The General Meeting is the highest decision-making body of Stonesoft Corporation. The General Meeting decides upon matters such as amendments to the Articles of Association, the acceptance of the financial statements, the distribution of profits and the election and fees of Board members and auditors.

The Annual General Meeting (AGM) is held once a year no later than the end of June. Matters to be discussed in the AGM and the shareholders' right to attend the meeting are defined in the Articles of Association and in the invitation to the AGM. The Board of Directors will convene an Extraordinary General Meeting when it considers necessary or when it is required by law.

Board of Directors

Duties and responsibilities of the Board

- The Board is responsible for supervising the management and proper organization of the Group in accordance with legislation, the Articles of Association and the instructions issued by General Meetings.
- The Board decides upon matters of major importance to the operations of the company. These include the acceptance of the main strategies, the approval of action plans, major capital expenditures and divestitures of assets.
- The Board selects the Chairman of the Board and appoints and dismisses the company's CEO and decides on his/her service terms.

The Board of Directors has a Charter of the Board, which covers responsibilities and distribution of work of the Board of Directors as well as board meetings and their preparations. The Board of Di-

rectors reviews and confirms the Charter of the Board annually in a statutory meeting to be held after the Annual General Meeting. The summary of the Charter of the Board is available at the company's website at www.stonesoft.com/company/investors/Board_of_Directors/.

The Board meets regularly at least 8 times a year and additionally when necessary. The Board met 18 times in 2005. The average attendance of the directors at the Board meetings was 97,2 percent.

Election of the Board

The Board of Stonesoft Corporation comprises no fewer than three and no more than six members. The Annual General Meeting elects the members of the Board for a term of one year at a time. The Board elects a Chairman from among its members. The Board currently comprises four members, one of whom is employed by the company.

Composition

Stonesoft Corporation's Board of Directors comprises the following.

- Alex Sozonoff - Member of the Board since 2001, Chairman of the Board since 2003
- Ilkka Hiidenheimo - CEO, Stonesoft Corp., Chairman of the Board between 1990-1998, Member of the Board since 1990
- Pertti Ervi - Member of the Board since 2004
- Jyrki Ritvala - Member of the Board since 2004

For more information on the Board members, see page 14.

Independence

The Board has evaluated the independence of its members in 2005. It was noted that Ilkka Hiidenheimo as the CEO and the biggest shareholder of the company is not independent and that Pertti Ervi is providing consultancy services to the company to the extent that he is not considered independent. The other members were considered to be independent with the following remarks; all external Board members have been granted stock option rights, which have no financial value at the moment.

Board committees

The Board of Directors has not established any Board committees.

Fees, share ownership and options of members of the Board

The fees paid to members of the Board in 2005 are as follows: the Chairman's fee was EUR 4,000 per month and a member's fee was EUR 2,000 per month. In addition, the Chairman of the Board and external Board members were granted each 15.000 stock option-rights in Stock Option-program 2004 (3.750 options in categories A,B,C and D) in the Annual General Meeting held in March 22, 2005.

Board and Management holdings 31.12.2005

	Shares	Option Plan 2000	Option Plan 2001	Option Plan 2004
Ervi Pertti	15 000	0	0	15 000
Hiidenheimo Ilkka	10 417 400	0	0	0
Kivikoski Juha	0	0	0	0
Laine Saara	3 500	10 000	12 000	40 000
Nyberg Mikael	30 000	0	0	50 000
Panula Erkki	0	0	0	50 000
Rautila Mika	400	0	0	0
Ritvala Jyrki	0	0	0	15 000
Sozonoff Alexis	0	0	24 000	15 000

Chief Executive Officer

The Board appoints and discharges the CEO of the company and decides upon his compensation. Starting August 3rd 2004, the President and CEO of Stonesoft Corporation has been Mr. Ilkka Hiidenheimo, the founder of the company. CEO:

- Is responsible for the Company's operative management in accordance with legislation; articles of Association and the instructions provided by the Board
- Is in charge of most important operational decisions of the Company and the Group and supervises their execution with the assistance of the Group's Executive Management
- Is responsible, with the assistance of the Group's Executive Management, for strategic planning and strategy implementation within the framework of the strategic guidelines given by the Board

- Is in charge, together with the Group's Executive Management, of ensuring that the Group's subsidiaries act in the interest of the Company and follow the Company's strategy, approved standards of activity and given guidelines.
- Is in charge of Stonesoft's investor relations

In addition to the members of the Group's Executive Management the Director of Technical Services is in direct subordination to the CEO.

The CEO's compensation and other terms

Stonesoft's President and CEO Ilkka Hiidenheimo has decided not to accept any compensation for his duties until the company is profitable. The CEO's pension is the same Finland's Employee Pension Act (TEL) that is compulsory to all Stonesoft employees and there is no specific retirement age set forth for the CEO. Contract of employment for the CEO provides for notice of six months prior to termination with compensation being six months salary and a further optional six months fixed salary in case the company terminates the contract without essential breach of contract by the CEO. Both the pension right and the right for compensation in case of termination of contract are only theoretical as long as the CEO is not receiving any compensation.

Executive Management

Stonesoft Corp. is a global provider of integrated network security and business continuity. This is Stonesoft's core business run by Stonesoft Corp. in Finland and its subsidiaries in different countries. In addition, Embe Systems Oy, a Finnish subsidiary running independent business operations offering advanced software solutions for embedded systems belong to the Stonesoft Group.

The CEO, with the assistance of the Group's Executive Management, is in charge of running Stonesoft's core business. The directors in charge of Embe Systems Oy's business operations are not members of the Group's Executive Management.

The Group's Executive Management comprises the following since June, 2005:

- Ilkka Hiidenheimo, Chief Executive Officer
- Saara Laine, Senior Vice President, General Counsel and Director of Human Resources
- Mika Rautila, Chief Technical Officer
- Mikael Nyberg, Chief Financial Officer
- Erkki Panula, Executive Vice President, Global Sales and Channel
- Juha Kivikoski, Vice President, Global Marketing

For more information about the members, see page 13.

The responsibilities of the Group's Executive Management with the supervision of the CEO include:

- Business operations management and financial performance review globally
- Annual strategic planning and strategy implementation
- Preparation and planning of adjustment plans that are crucial for the Group's business operations
- Preparation of global guidelines and standards of activity as well as supervision of their compliance

The Board of Directors approves the salary level to the members of Executive Management and other direct subordinates of the CEO, including grant of stock option rights. The bonuses paid to the members of the Executive Management on commission scheme are determined quarterly based on the targets achieved. The members of the Executive Management on a fixed salary participate to the

Strategic Bonus Scheme targeted to all employees on fixed salary. The bonuses paid from this Bonus Scheme are determined semi-annually based on the Company's result and team targets achieved by individual teams.

Audits & Internal control

Auditors

Auditors task is to conduct annual statutory audit in order to examine whether the financial statements present fairly the financial position, results of operations and cash flows of the company in conformity with generally accepted accounting principles in Finland, and that company's internal control functions are in place and support company's activities.

At the Annual General Meeting the shareholders appoint one audit firm of public accountants certified by the Central Chamber of Commerce, to operate as company's Auditor, as stated in Articles of Association. Auditor is appointed for the task on temporary basis.

Furthermore the Charter of the board adds that;

(i) the board members shall discuss the auditor's report once a year in a meeting held during the first quarter and

(ii) one of the Company's auditors should be present in the board meeting, where the auditors report is discussed. The board shall review the auditors' performance annually. Prior to Annual General Meeting the board shall discuss who is to be proposed as auditors for the next financial year. The auditor of Stonesoft is an authorized public accountant Ernst & Young Oy, with authorized public accountant Pekka Luoma as responsible auditor. The auditor fees were EUR 53,294,00 in year 2005.

Internal control

Internal control function at Stonesoft is incorporated into the daily activities of finance & controlling and legal departments. Its aim is to supervise and

reinforce the adherence of company's policies and set processes and safeguard company's assets.

Risk Management

Board of Directors is responsible for ensuring that Stonesoft's overall risk management and related policies are in place. Co-ordination of risk management policy is the responsibility of the Chief Financial Officer (CFO). Policy and function aim at ensuring the attainment of company's business objectives and the continuation of its operations.

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

(i) evaluation and management of operational risks

(ii) management of financial risk and

(iii) management and safeguard of critical business related information and assets.

Operational risks

Stonesoft constantly develops its sales processes and related control systems. The product sales and related services sales are made mainly through a global channel partners, using standardized Stonesoft agreements. The sales operations are supported by the company's internal legal unit seeking to reduce the risks related to the global business operations through continuous management and development of contracts. Company also uses insurances to cover the operational risks.

Financial risks

Stonesoft does not provide financing, other than generally accepted terms of payment, to its customers. Company invoices mainly in Euros, US dollar being the other invoicing currency. Company's costs occur mostly in Euros. Exchange rate fluctuations can affect the company's financial results.

Company uses matching as a main tool for offsetting the exchange rate risks.

The task of Stonesoft's Corporate Treasury is to manage financial risks in accordance with the Treasury Policy approved by Stonesoft's Board of Directors. The main principles of the policy are;

(i) to ensure the short-term liquidity of the Company,

(ii) to guarantee efficient circulation and short-term investments of the operational cash flows and

(iii) to follow prudent and transparent investment policy for the cash reserves, aiming at guaranteeing competitive return on selected risk level. Company's reserves are all invested on interest bearing low risk instruments.

The company's operations and related costs are continuously controlled. As a result of its small size the company does not have a separate internal audit organization or a separate audit committee.

Management and safeguard of critical business related information and assets

Stonesoft manages and safeguards its critical business information by stringent internal policies and processes. Company constantly reviews and updates its network infrastructure and guarantees safety of its business critical information. Company has made plans to ensure business continuity during the unexpected.

Insiders

The Stonesoft Group has complied with the Guidelines of the Helsinki Exchanges for Insiders since July 25, 2003, which are complemented by the company's own insider regulations.

Under the Finnish Securities Market Act, the permanent insiders of Stonesoft based on their positions are the members of the Board of Directors, the CEO and the auditors. Under Stonesoft's own insider regulations the individuals in the following position were in 2005 also regarded as permanent insiders: the members of the Group's Executive Management, Regional Directors, Country Managers, Marketing Managers, Communications Manager, Product Managers, attorneys, controllers, the Chief Accountant, the Invoicing Manager, Order Team Manager, assistants of marketing and legal affairs and other positions entitling to global sales pipeline access to company's sales management system.

The Company's own insider regulations regulate trading with the company's shares as follows. Permanent insiders must schedule their trading within two (2) weeks' time after publication of the company's financial statements release or the publication of an interim review (the so-called open window). In addition, the Board has given the following recommendation to all Stonesoft employees:

(1) Stonesoft's shares and/or other securities should be acquired only as long-term investments; and

(2) Acquisitions and disposals of Stonesoft's shares and other securities should be scheduled for times when the markets have as detailed and accurate information as possible on factors affecting the value of the company's securities (e.g. after the disclosure of results).

Executive Management



Ilkka Hiidenheimo

- See page 14.

Saara Laine (b. 1954)

- Stonesoft, Senior Vice President, Legal Affairs, 2000-2004
- Castrén&Snellman Attorneys' Office, Attorney, 1998-2000
- IBM Finland and IBM's EMEA headquarters in France, Legal Counsel, Director of Legal Affairs, Member of the Executive Board and Board of Directors, 1990-1998
- Master of Law (trained on the bench)

Mika Rautila (b. 1961)

- Stonesoft, Chief Technology Officer, 2005-
- Stonesoft, StoneGate IPS R&D Manager, 2000-2005
- University of Helsinki 1997-2000, University of California at Berkeley, USA, 1997-98, Institute Mittag-Leffler, Sweden, 2000
- Before the academic career employed in Telecom Research Centre at Telecom Finland and in software consultancies
- Degree in Computer Science and Ph.D. in Mathematics

Mikael Nyberg (b. 1960)

- Stonesoft, Chief Financial Officer, 2004-
- Tech Data International Sarl, Switzerland, Managing Director, Back Office, 2001-2003

- Tech Data Finland Oy, various positions, 1997-2001
- Esso Corporation, 1985-1997
- Master of Science, Business Administration and Master of Science, Engineering degrees

Juha Kivikoski (b. 1970)

- Stonesoft, Vice President, Global Marketing, 2004-
- Cisco Systems Finland Oy, Sales Director, Finland and Baltic countries, 1999 – 2004
- Tech Data / Computer 2000 Finland Oy, Product Marketing Director, Finland, Baltic countries and Russia, 1998-1999
- Master of Social Sciences degree in International Economics

Erkki Panula (b. 1961)

- Stonesoft, Executive Vice President, Global Sales and Channels, 2004-
- Tech Data International Sarl, Switzerland, Managing Director of Cisco Business for EMEA, 2001-2004
- IIC Partners, Executive Search and Management Audit Senior Consultant, 1999-2001
- Tech Data / Computer 2000, various Business Management and Managing Director positions in Finland, Baltic countries and Russia, 1990-1999
- Bachelor of Science, Electronics degree

Board of Directors



Alexis Sozonoff (b. 1938)

- Stonesoft, Chairman of the Board, 2003-
- Hewlett-Packard, several management positions, 1967-1981 & 1994-2002
- Harris Information Systems, Vice President of International Operations, 1981-1994
- Hewlett-Packard Finland Oy, Chairman of the Board
- European Wholesale Group (EWG), Switzerland, Chairman of the Board
- Global Beach, UK, Chairman of the Board
- Sir Peter Ustinov Foundation, Switzerland, Vice Chairman
- F-Secure Corporation, Member of the Board
- Bachelor's degree in Economics from the US, a degree from the Netherlands and he is also a graduate of the Wharton Advanced Management Program

Ilkka Hiidenheimo (b. 1960)

- Founder of Stonesoft
- Stonesoft, Chief Executive Officer, 2004-
- Stonesoft, Chief Technology Officer, 1990-2004
- Oracle Finland, Consultant, 1989-1990
- Tekla Oy, System Designer and Product Manager, 1985-1989
- Teos Oy, Member of the Board
- Hiidenkivi Investment Oy, Member of the Board

Jyrki Ritvala (b. 1943)

- Ajoneuvohallintokeskus AKE (Finnish Vehicle Administration), Director General
- Oy Sisu Auto Ab / Sisu Corporation, heavy car-truck company, Administration-, Production-, Marketing Director, Vice President and Board Member, 1972-1996
- Palvelutyöntäjain Keskusliitto (Employers' Confederation of Service Industries), Commissioner, 1968-1972
- PED degree from IMD, Switzerland and Master of Law (trained on the bench)

Pertti Ervi (b. 1957)

- Independent Consultant and Investor
- Over 25 years experience in IT-distribution and information technology
- Co-President for Computer 2000 AG international headquarters, Germany, 1995-2000
- Close co-operation at international management level with major IT-vendors like Cisco, IBM, Intel, HP and Microsoft
- Co-founder and Managing Director of Computer 2000 Finland Oy (currently Tech Data Finland Oy) until 1995
- Mentorium Venture Connections Oy, Forte Net services Oy, Instream Oy, Stockway Oy, Holtoron Ventures Oy and F-Secure Corporation, Chairman of the Board
- Bachelor of Science, Electronics degree and several studies in management, marketing and economy

Board of Directors' Report

Net sales and profit

(Previous year's figures in parenthesis).

January - December

Net sales in January-December were EUR 22.2 million (22.5 million). Compared with the previous year's corresponding period EUR -0.3 million or -1%. The earnings before interest, taxes & amortization for the financial year were EUR -6.3 million (-9.0 million). The geographical distribution of net sales was as follows: Europe, Middle East and Africa 72% (74%), North and South America 20% (19%) and Asia-Pacific 8% (7%).

The loss for the year after taxes was EUR 6.0 million. The previous year's loss was EUR 13.0 million.

Finance and investments

At the end of the year under review, total assets were EUR 26.0 million (31.7 million). The equity ratio was 77% (81%) and gearing (the ratio of net debt to shareholders' equity) was -1.10 (-0.98). Consolidated liquid assets at the end of the year totaled 18.1 million (22.2 million). Investments in fixed assets totaled EUR 0.4 million (0.5 million).

Development of business operations

Markets and competitive environment

According to an estimate given by Infonetics, the Firewall/VPN and Intrusion detection and protection market grew by roughly 10 %, being 3 billion euros in 2005.

Main business events in 2005

(The events have been presented on page 4.)

Review of major research and development activities

Stonesoft focuses on innovative research and development and the protection of its inventions. In the financial year, the focus was on developing both new and existing high availability network security solutions.

The investments in research and development during the fiscal year totaled EUR 4.6 million (5.1).

Research and development employed 67 (63) persons at the end of the financial year. In line with the Corporation's accounting principles, R&D expenditure is booked as an expense at the moment it occurs.

Adoption of IFRS

Stonesoft adopted IFRS-compliant reporting in 2005.

Share capital

At the end of the financial year on 31 December 2005, Stonesoft's share capital entered in the Trade Register totaled EUR 1,146,054.64. The number of shares was 57,302,732 and the counter book value of each share was EUR 0.02. The share capital remained unchanged.

Development of share prices and turnover

On January 3, 2005, Stonesoft's shares were valued at EUR 0.58. At the end of the year, the share price was EUR 0.51. The highest share price was EUR 0.69 and the lowest EUR 0.46. During the year, the total turnover of Stonesoft shares amounted to EUR 13.1 million. Stonesoft's share price decreased by 12 % during the fiscal year. Over the same period, the Helsinki Stock Exchange HEX index increased by 35 %, while the telecom & electronics sector index increased by 35 %. Based on the share price on December 30, 2005, Stonesoft's market capitalization was EUR 29.2 million.

Proposal by the board of directors for distribution of profit

The parent company's operating loss before amortization of goodwill (EBITA) was EUR 10.5 million. 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 2005 and that the loss be debited to the retained earnings account.

Personnel

At the end of the fiscal period, Stonesoft's personnel numbered 252 (237). During the financial year the company increased mainly the number of people engaged in sales duties.

The company's board of directors and executive management

In the financial year, Ilkka Hiidenheimo was the CEO of the company. The Chairman of the Board of Directors was Alexis Sozonoff and other members were Ilkka Hiidenheimo, Pertti Ervi and Jyrki Ritvala. In the beginning of the financial year, the members of the company's Management Team were Ilkka Hiidenheimo, Mikael Nyberg, Erkki Panula, Saara Laine and Tobias Christen. Juha Kivikoski started as a new member of the company's Management Team on April 12, 2005. Mika Rautila started as a new member of the company's Management Team on June 13, 2005 replacing Tobias Christen.

Major events after the financial year

In February Finnish Defence Forces announced that after a competitive bidding process they have chosen Stonesoft's firewall solution to their systems management network. Product deliveries are anticipated to begin in February. This project is strategically significant to Stonesoft.

In February Stonesoft Corp. received information that a prosecutor has decided to press charges in the Helsinki District Court in a suspected securities market information offence related to the ongoing disclosure requirements for public companies and regarding the alleged delay of Stonesoft's

profit warning issued in February 2001. The charges are pressed against Stonesoft Corp. and the Board members and CEO of the company in 2000. Stonesoft denies all charges and claims made.

Future outlook

According to an estimate given by Infonetics, the Firewall/VPN and Intrusion detection and protection market is estimated to achieve an average growth of roughly 10% during 2006.

Stonesoft continues decisive work to increase turnover and to improve financial result. The structural changes, restructuring measures and added sales resources, the new products and the strategic partnerships concluded during the years 2004 and 2005, will create a lasting foundation for a positive development. With these changes, turnover, operating result and market position of the company, on the long term, is aimed to be equal to the competitiveness of the product offering.

The main goal for 2006 is to achieve faster growth than the market growth in the sales of StoneGate products, by utilizing the past investments. The company believes that as a result of this growth the right balance between the expenses and the sales will be achieved over time. The company will enforce the focus to the selected key markets, develop further the partner community to support sales efforts and to further sharpen the marketing and communications actions to the key interest groups.

Stonesoft anticipates the growth in the sales of StoneGate products to continue on a year-to-year basis. However, the development of the sales may fluctuate during the fiscal quarters.

List of Stock Exchange Releases

18.02.2005	Stonesoft corporation's financial statements release for January-December 2004
18.02.2005	Correction to Stonesoft corporation stock exchange release February 18, 2005
01.03.2005	Invitation to the Annual General Shareholders' meeting
22.03.2005	Decisions made by the Annual General Meeting on 22 March 2005
11.04.2005	Preliminary information on Stonesoft Group's sales and result for the period 1.1.-31.3.2005
29.04.2005	Expiry of Stonesoft's year 1999 option plan
20.05.2005	Stonesoft Corp.'s interim report for January-March 2005 and conversion to the IFRS
26.07.2005	Stonesoft Corp.'s issues profit warning
29.07.2005	Stonesoft Corp.'s interim report for January-June 2005
15.09.2005	Stonesoft Corp.'s information about StoneGate sales development
04.10.2005	Stonesoft Corp. decreases its sales estimate for the last quarter
28.10.2005	Stonesoft Corp.'s interim report for January-September 2005

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Stonesoft Financial Statements 2005

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Income Statement (IFRS)

Stonesoft Group

	(1000 Euros)	note	1.1. - 31.12.2005	1.1. - 31.12.2004
Net Sales		1	22 237	22 490
Other operating income		2	585	545
Material and services			-1 937	-1 859
Personnel expenses		5	-16 620	-17 214
Depreciation		4	-1 113	-1 603
Other operating expenses		3	-9 410	-11 348
Operating profit/loss			-6 258	-8 988
Financial income and expenses		6	539	456
Profit/loss before taxes			-5 719	-8 532
Taxes		7	-288	-4 448
Profit/loss for the accounting period			-6 008	-12 981
Basic earnings per share (EUR)		8	-0,10	-0,23
Diluted earnings per share (EUR)		8	-0,10	-0,23

Balance Sheet (IFRS)

Stonesoft Group

	(1000 Euros)	note	31.12.2005	31.12.2004
Assets				
Non-current assets				
Tangible assets		9	840	1 340
Goodwill		10	1 507	1 507
Intangible assets		10	228	404
Other investments		11	4	9
Receivables		12	18	38
Deferred tax assets		13	2	0
Total			2 599	3 299
Current assets				
Inventories		14	519	194
Trade and other receivables		15	4 697	5 992
Prepayments			106	0
Market securities		11	17 378	20 815
Cash and cash equivalents		16	729	1 372
Total			23 428	28 373
Total assets			26 027	31 671
Equity and liabilities				
Equity attributable to equity holders of the parent company		17		
Share capital			1 146	1 146
Share premium account			76 845	76 821
Conversion differences			-849	-892
Retained earnings			-60 961	-55 012
Total			16 181	22 063
Long-term liabilities				
Deferred tax liabilities		13	0	59
Provisions		19	124	0
Interest bearing liabilities		20	152	268
Other long-term liabilities		21	789	762
Total			1 065	1 089
Short-term liabilities				
Trade and other payables		21	8 504	8 172
Tax liabilities			55	109
Provisions		19	38	23
Short-term interest bearing liabilities		20	184	217
Total			8 780	8 520
Total Liabilities			9 846	9 609
Total equity and liabilities			26 027	31 671

Cash Flow Statement (IFRS)

Stonesoft Group

	(1000 Euros)	note	1.1.- 31.12.2005	1.1.- 31.12.2004
Cash flow from operating activities				
Profit / Loss for the period			-6 258	-8 988
Adjustments:		24		
Operations without money transfers			1 137	1 603
Financial expenses			-59	-834
Financial incomes			732	1 100
Change in net working capital				
Change of trade and other receivables			1 209	1 544
Change of inventory			-325	-98
Change of trade and other liabilities			156	302
Change of provisions			139	-93
Taxes paid			-290	-292
Total cash flow from operating activities			-3 558	-5 757
Cash flow from investing activities				
Investments in tangible assets			-185	-177
Investments in intangible assets			-22	-33
Investments in subsidiary			48	0
Investments in other shares			5	-3
Received dividends			0	3
Total cash flow from investing activities			-154	-210
Cash flow from financing activities				
Payments of financial leasing liabilities			-230	-290
Total cash flow from financing activities				
Change in cash and cash equivalents				
Cash and cash equivalents at beginning of period			22 187	28 169
Conversion differences			44	88
Changes in the market value of investments			-183	188
Total cash and cash equivalents at end of period			18 107	22 187

Statement of Changes in Equity

Stonesoft Group

(1000 Euros)	Share capital	Share premium	Conversion differences	Retained earnings	Total
Shareholders' equity at 31.12.2003	1 146	76 821	-1 078	-41 768	35 121
Change in IFRS conversion			98	-264	-166
Adjusted shareholders' equity at 1.1.2004	1 146	76 821	-980	-42 032	34 955
Conversion differences			88		88
Net income recognised directly in equity			88		88
Profit / Loss for the period				-12 981	-12 981
Total recognised income and expense for the period			88	-12 981	-12 892
Shareholders' equity at 31.12.2004	1 146	76 821	-892	-55 012	22 063
Shareholders' equity at 31.12.2004	1 146	76 821	-892	-55 012	22 063
Change to equity				59	59
Conversion differences			44		44
Net income recognised directly in equity			44	59	102
Profit / Loss for the period				-6 008	-6 008
Total recognised income and expense for the period			44	-5 949	-5 905
Stock options exercised		24			24
Shareholders' equity at 31.12.2005	1 146	76 845	-849	-60 961	16 181

Notes to the consolidated financial statements

Stonesoft Group

Company background

Stonesoft Corporation is an innovative provider of integrated network security and business continuity. Stonesoft is a global company focused on enterprise level customers requiring advanced network security and always-on business connectivity with low TCO, best price-to-performance ratio, and highest ROI. StoneGate™ Security Platform unifies firewall, VPN and IPS into a unified and centrally managed system for distributed enterprises. Founded in 1990, Stonesoft Corporation has corporate headquarters in Helsinki, Finland.

The parent company of the group is Stonesoft Corp. It's domicile is Helsinki and the registered address is Itälahdenkatu 22 A, 00210 Helsinki.

A copy of the group's annual report is available at the internet address www.stonesoft.com or from the group's headquarters at Itälahdenkatu 22 A, 00210 Helsinki.

Principles and accounting policies applied in preparing the financial statements

This is the first financial statement of the group prepared in accordance with the international reporting standard IFRS (International Financial Reporting Standards). It has been prepared in accordance with the IAS and IFRS standards as well as SIC and IFRIC interpretations in force on 31.12.2005.

The notes to the financial statements are also compliant with Finnish accounting and company legislation.

The group has adapted IFRS-compliant reporting during 2005 and has in this process applied the IFRS 1 "First-time adoption of International Financial Reporting Standards" standard. The transition day was 1.1.2004.

The group's financial statements has been prepared based on original acquisition values with the exception of investments, which are valued at their

fair values. Share based payment plans have been booked at fair values on their grant date.

For acquisitions prior to 2004 the goodwill is equal to the book value according to previously applied accounting standards. This value has been used as acquisition value in IFRS. Neither the classifications nor the booking principles of these acquisitions have been corrected in the group's opening IFRS balance statement. The financial statements are expressed in thousands of Euros.

Preparing the group's financial statements in accordance with IFRS requires managerial judgement when applying the standards. Information on the judgement used by the management when applying the standards which has had the greatest impact on the figures presented in the report are presented in "Principles requiring management judgement and main uncertainties related to the estimates".

Principles applied in preparing the group's financial statements

Group companies

The group's financial statements includes the parent company Stonesoft Corp. and all of its subsidiary entities. A specification of ownership within the group can be found in the notes, item 28.

Internal business transactions, receivables, liabilities and unrealised profits, as well as internal profit sharing are eliminated in the group report.

During this reporting period (2005) Stonesoft International Oy was merged into the parent company Stonesoft Corp. and Stonesoft Japan KK, Stonesoft Australia Pty Ltd and Stonesoft Hong Kong Limited were closed.

Handling of foreign currency

The profit/loss and financial situation of group entities are measured in the currency primarily used in its operating environment ("operating currency"). The group's financial statements is presented in Euros, the group's operating and reporting currency.

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

Non-monetary values, if foreign currencies, are valued at fair values and have been translated into the operating currency using the exchange rates effective on the valuation date. Otherwise, non-monetary values are translated using the transaction day exchange rates. Profit and losses arising from business transactions in foreign currencies and from translating monetary items are booked in the income statement. Exchange rate profit and losses related to business transactions are included in the corresponding lines above operating profit/loss.

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

Tangible assets

Tangible assets are valued at original acquisition prices less cumulated planned depreciation and depreciation based on impairment testing. Repair and maintenance related to tangible assets is booked through the income statement when completed. Depreciations of assets are booked using flat rates based on their economic life expectancy. The estimated useful lives are:

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

The remaining value and economic life of assets is evaluated at each closing and if needed corrected to comply with the changes in the expectations of economic benefit. Trade profits or losses arising from selling or scrapping tangible assets are included in either other operating income or costs.

Costs related to liabilities

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

Intangible assets

Goodwill

Goodwill related to companies acquired before 1.1.2004 are valued at values corresponding to the previously used accounting principles. The classification or booking of these acquisitions have not been altered in the opening IFRS balance sheet.

Goodwill (and other intangible assets with unlimited economic life) are not depreciated according to the plan but are tested for possible impairment on a yearly basis. For this purpose goodwill has been attributed to units generating a cash flow. Goodwill is valued at original acquisition value less depreciation based on impairment.

Research and development costs

The group's products require continuous research and development in order to meet the changing security risks. Costs related to the development of new products are not activated due to, e.g. only that the future cash flows related to them can be properly estimated when the products are introduced into the market. Research and development costs are booked as costs during the reporting period they are generated. No R&D costs have been activated at the closing date.

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

Other intangible assets

Intangible assets are activated only if the acquisition value can be defined reliably and it is reasonable to assume that the expected economical benefit will benefit the company. Patents, trademark and licenses which have a limited economic life are activated at their original acquisition value and depreciated through flat depreciations based on their known or estimated economic life. Intangible assets with indefinite economic life are not depreciated, but instead tested for impairment on a yearly basis.

The estimated useful lives are:

- Computer software: 5 years
- Other intangible assets: 5 years

Inventories

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

Leases

Leases of tangible assets where the group carries a substantial part of the risks and benefits normally associated with owning are classified as financial leases. Assets obtained through financial leases are booked into the balance sheet at the beginning of the lease at the fair value of the leased asset or a lower net present value of the minimum lease payments. Assets obtained through financial leasing are depreciated during the economic life of the asset or if shorter the lease time. Lease payments are split into financial costs and debt amortizations. Part of the IT equipment used in Finland is rented using contracts classified as financial leases. A more detailed specification of financial leases can be found in item 20.

Leases where risks and benefits associated with owning are with the lessor are treated as other rental agreements. Rents paid based on other rental agreements are booked as costs during the rental period. A more detailed specification of financial leases can be found in item 26.

Impairment

The group estimates on each closing date whether there are signs indicating that the value of some assets would have been impaired. If such signs are seen, the potential cash flow that this asset can generate is assessed. The cash flow that can be generated through the following assets are tested on a yearly basis, independent on whether there are signs of impairment: Goodwill, Intangible assets with limited economic life and intangible assets under work.

The impairment is tested on the level of units generating cash flow, i.e. on the lowest unit level which is mainly independent and which cash flow can be separated from other cash flows.

The cash flow that an asset can generate is its fair value, reduced by the cost of handing it over or a value in use, whichever ever, is higher. The value in use of an asset or a cash generating unit is the estimated future cash flows, discounted to their net present value. For financial assets the cash flow that can be generated is either the fair value or the estimated future cash flows, discounted using the effective interest rate for discounting the net present value.

Losses due to impairment are booked when the book value is greater than the value of the cash flow that can be generated by the asset. Losses through impairment are booked into the Income statement. If the loss generated by impairment is linked to a cash flow generating unit, it is firstly deducted from this unit's Goodwill and after this on an even basis from other assets of this unit. An impairment loss is reversed if changes in the environment occur and the cash flow that the asset can generate has changed since the impairment loss booking date. Impairment losses are not reversed with a larger amount than the originally booked impairment loss. Impairment losses on Goodwill are not reversed under any conditions.

The impairment test of Goodwill required by the adoption standard has been made in accordance with IAS 36. The transition date was 1.1.2004.

Employee benefits

Pensions:

The pension arrangements of the group in different countries abide with local regulations and practices.

The pension liability as defined by law is fully covered by the yearly pension insurance payments. The pension arrangements are classified as payment based and booked into the Income Statement during the period in which the payment is related to.

Share-based payment plans:

The group has applied the IFRS 2 Share Based Payment standard on all its option plans where option was granted after 7.11.2002 but vesting was not possible before 1.1.2005. Prior option plans have not generated costs in the Income statement.

Options are valued at market prices on the granting date and booked as costs evenly during the period of earning. The cost of the options at the granting date is based on the group's estimate of the number of options which will be vestable by the end of the earning period. The fair value is calculated using the Black-Scholes -pricing model.

Impacts of non market based conditions (e.g., profitability and or a given profit growth target) are not included in the fair price of the option but, are taken into consideration when estimating the number of options that will be vestable at the end of the earning period.

The group updates the assumptions on the final number of options at each closing date. These changes are booked into the Income statement. When an option is exercised the received funds (corrected for possible transaction costs) are booked into share premiums in equity.

Provisions:

A provision is booked if the group has based an earlier transaction that has a legal or factual liability, a payment liability is probable and the magnitude of the liability can be assessed reliably. The existing provisions are related to contracts resulting in losses and court cases. If it is possible to receive compensation from a third party for part of a liability, the compensation is booked as an asset. This is only done when receiving the compensation has been secured in practice. The provisions are valued at the net present value of the costs required to cover the liability. A more detailed specification of the provisions is presented in item 19.

Income taxes:

The taxes in the income statement consist of the tax based on the income of the reporting period and deferred taxes. The taxes based on the income of the reporting period is calculated for each country using their tax rate in force. Taxes are corrected for

possible taxes related to previous periods. Deferred taxes are calculated using tax rates valid at the closing date. Tax receivables based on losses will be booked when the parent company's result turns positive with certainty.

Revenue recognition

Products sold and services provided

Income from products sold are booked when the risks and benefits related to owning the products are transferred to the buyer. Income from services are booked when they have been delivered. Income from support and maintenance contracts are periodized in accordance with the length of the contracts.

Interest and dividends

Interest income has been booked in accordance with the effective interest method. The group received no dividends during 2005.

Financial assets and financial liabilities

The group has applied the IAS 39 Financial instruments: Booking and valuating standard since 1.1.2004. Since the beginning of 2004 the financial assets have been classified as tradable. The classification is done based on the purpose of obtaining the financial assets, and they are classified in conjunction with the original acquisition. All purchases or sales are booked on the transaction date.

Tradable financial assets and financial assets due within 12 months are included in short term assets. Items in this class are valued at fair value. Fair values of all items in this class are defined as published prices on functioning markets, i.e., based on purchasing prices on the closing date. Both realized and unrealized profits and losses originating from changes in fair values are booked through the income statement in the period during which they occur. Cash and cash equivalents consists of cash, a vista bank account and other short term, highly liquid investments. Assets classified as financial assets have a maximum maturity of three months calculated from their acquisition date.

Derivative contracts and hedge accounting

The group had derivatives in financial year 2005 and 2004.

Operating profit/loss

The IAS 1 "Presentation of Financial Statements" standard does not define Operating profit/loss. The group has defined it as follows: Operating profit/loss is the net amount arising from adding other income to revenue, deducting cost of sales corrected for changes in inventories and cost of products taken into own use, deducting costs related to employee benefits depreciation and possible impairments as well as other operating expenses. Foreign exchange differences are included in operating profit/loss in case they originate from operating items, otherwise they are booked in financial income and expenses.

Preparing principles requiring judgement by the management and main uncertainties related to estimates done

In preparing the financial statements, one is forced to make estimates and assumptions related to the future, which may deviate from the final outcome. On top of this one has to make judgements related to principles to apply in preparation of the report. Judgements are primarily related to the valuation of assets and utilization of deferred tax receivables against future taxable income.

Testing for impairment

The group test Goodwill and Intangible assets with indefinite lifespan for impairment on a yearly basis. Signs of impairment are estimated in accordance with the basis of preparation described earlier. The cash flow generated by units producing cash flow has been estimated as calculations of value in use. These calculations require judgement.

Applying new or changed IFRS standards

The following standards are applied in the group starting 1.1.2004:

- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors
- IAS 10 Events after the Balance sheet day
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 24 Related Party Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 32 Financial Instruments: Disclosures and Presentation
- IAS 33 Earnings Per Share
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 1 First-time Adoption of IFRS
- IFRS 2 Share Based Payment
- IFRS 4 Insurance Contracts

1. Segment information

The primary segmentation reporting used by the group is geographical. The segments are based on internal organizational structures and reporting practices.

Pricing between the segments is based on fair values. The operating profit/loss of a segment consists of geographical sales, local costs of group companies and cost allocations from headquarters. The business practices of different geographical areas differ from each other. Due to this the risks and profitability of the segments may differ from each other.

The assets and liabilities of a segment are items which the segment uses in its business and which reasonably can be attributed to the segment.

Unattributed items consist of items common to the whole group as well as tax and financial assets. Investments consist of additions of tangible assets to be used during multiple reporting periods. The geographical segments of the group are:

- EMEA: Europe, Middle-East and Africa
- APAC: Asia and the Pacific
- AMERICAS: North and South America

The turnover of the geographical segments is based on where the customers are situated. The assets of the geographical segments are based on where the assets are.

Geographical segments 1.1. - 31.12.2004

	(1000 Euros)	EMEA	AMERICAS	APAC	Elimination	Total
External sales						
Software's		3 206	751	435		4 392
Services		10 713	2 850	910		14 472
Other sales		2 745	698	182		3 625
External sales total		16 664	4 299	1 527		22 490
Internal sales		0	0	0		0
Net sales		16 664	4 299	1 527		22 490
Operating profit		-5 793	-2 403	-792		-8 988
Unallocated						-3 992
Profit / Loss for the accounting period						-12 981
Assets		8 207	1 659	411		10 277
Unallocated						21 395
Total assets						31 671
Liabilities		7 796	1 288	466		9 550
Unallocated						59
Total Liabilities						9 609
Investments		493	2	6		501
Depreciation		1 287	296	19		1 603

Geographical segments 1.1. - 31.12.2005

(1000 Euros)	EMEA	AMERICAS	APAC	Elimination	Total
External sales					
Software's	2 146	658	349		3 153
Services	10 098	2 451	795		13 344
Other sales	3 827	1 217	696		5 740
External sales total	16 072	4 325	1 839		22 237
Internal sales	0	50	0	-50	0
Net sales	16 072	4 376	1 839	-50	22 237
Operating profit	-3 605	-2 117	-538	2	-6 258
Unallocated					250
Profit / Loss for the accounting period					-6 008
Assets	6 686	1 165	413		8 264
Unallocated					17 763
Total assets					26 027
Liabilities	7 914	1 362	570		9 846
Unallocated					0
Total Liabilities					9 846
Investments	532	-97	2		437
Depreciation	1 015	89	9		1 113

2. Other operating income

(1000 Euros)	2005	2004
Gain on disposal of fixed assets	103	7
Leasing income	348	345
Lunch sold to employees	82	95
Others	52	98
Total	585	545

3. Other operating expenses

(1000 Euros)	2005	2004
Optional personnel expenses	436	686
Leasing and other building expenses	2 412	2 734
Office expenses	250	259
EDP-expenses	630	602
Travel expenses	907	1 500
Car expenses	355	451
Entertainment expenses	139	181
Marketing expenses	633	1 534
Telephone expenses	486	664
External services	2 545	2 090
Other expenses	617	645
Total	9 410	11 348

4. Depreciation, amortization and impairment

(1000 Euros)	2005	2004
Depreciation and amortization by asset type		
Intangible assets		
Other Intangible assets	199	268
Tangible assets		
Machinery and equipment	648	1 097
Other tangible assets	172	238
Impairment loss by asset type		
Shares of subsidiaries	94	0
Total	1 113	1 603

The group has booked depreciation linked to impairment of values related to closed subsidiary entities' shares for a total of 94 thousand Euros during 2005. No depreciation on goodwill was made in 2004.

5. Personnel expenses

(1000 Euros)	2005	2004
Wages and salaries	13 525	14 192
Pensions - defined contribution plans	1 744	1 734
Other personnel costs	1 351	1 287
Total	16 620	17 214
Average number of personnel in Group		
EMEA	213	230
APAC	9	8
AMER	25	20
Total	247	258

Information on benefits offered to the management are presented in the notes, 28 Related party transactions.

6. Financial income

(1000 Euros)	2005	2004
Interest income	35	31
Dividend income	0	3
Exchanges gains	60	752
Sales profit of securities held for trading	422	472
Other financial income	98	32
Total	615	1 290

Exchange gains are included in operating profit / loss total 289 thousand euros at financial year 2005 (148 thousand euros at financial year 2004).

6. Financial expenses

	(1000 Euros)	2005	2004
Interest expenses		34	51
Exchange expenses		28	784
Other financial expenses		15	0
Total		77	834

Exchange losses are included in operating profit / loss total 166 thousand euros at financial year 2005 (251 thousand euros at financial year 2004).

Other financial expenses include 27 thousand Euros of interest booked during the period related to financial leases (36 thousand Euros in 2004).

7. Income taxes

	(1000 Euros)	2005	2004
Current tax		268	323
Current income tax of previous years		22	-31
Deferred tax		-2	4 156
Total		288	4 448

The reconciliation of taxes booked in the income statement in Finland and the taxes calculated using tax rates (26% in 2005 and 29% in 2004):

	(1000 Euros)	2005	2004
Profit before tax		-5 719	-8 532
Tax calculated at the domestic corporation tax rate		-1 487	-2 474
Unrecognised tax receivables of losses		1 573	2 703
Effect of different tax rates in foreign subsidiaries		25	35
Income not subject to tax		-27	-33
Expenses not deductible for tax purposes		170	31
Current income tax of previous years		22	-31
Other		13	62
Deferred tax receivables and liabilities reversal		0	4 156
Tax charge		288	4 448

8. Earnings Per Share

The non-diluted earnings per share is calculated by dividing the profit of the reporting period belonging to the owners of the parent company by the weighted average of outstanding shares.

When calculating the diluted earnings per share the weighted number of outstanding shares includes the full impact of all potential shares causing dilution. The diluting instruments of the group adding the number of shares are share options.

The share options have a diluting impact when the vesting price is lower than the fair price of the share. The dilution effect is the number of shares that need to be issued at no cost since the company could not issue the same amount of shares against fair value with the funds received for exercising the options. The fair value of shares is based on the average price of the share during the reporting period.

	(1000 Euros)	2005	2004
Profit attributable to equity holders of the parent company		-6 008	-12 981
Weighted average number of shares outstanding		57 302 732	57 302 732
Effect of issued share options		4 211	0
Diluted weighted average number of shares outstanding		57 306 943	57 302 732
Diluted earnings per share (1 EUR)		-0,10	-0,23

9. Tangible assets

(1000 Euros)	Machinery and equipment	Other tangible assets	Total
Acquisition cost at 1.1.2005	5 478	1 427	6 905
Correction to the acquisition costs	58	-165	-107
Additions	335	27	362
Disposals	-1 706	-60	-1 766
Acquisition cost at 31.12.2005	4 166	1 228	5 394
Accumulated depreciation at 1.1.2005	4 336	1 229	5 565
Correction to the accumulated depreciation	49	-177	-128
Depreciation during the financial year	648	172	821
Depreciation on disposals	-1 653	-58	-1 711
Change in exchange rates	7	0	7
Accumulated depreciation at 31.12.2005	3 387	1 167	4 553
Book value at 1.1.2005	1 142	198	1 340
Book value at 31.12.2005	779	62	840
Acquisition cost at 1.1.2004	5 655	1 404	7 059
Additions	462	82	544
Disposals	-639	-58	-697
Change in exchange rates	0	-1	-1
Acquisition cost at 31.12.2004	5 478	1 427	6 905
Accumulated depreciation at 1.1.2004	3 860	991	4 851
Depreciation during the financial year	1 097	238	1 335
Depreciation on disposals	-621	0	-621
Accumulated depreciation at 31.12.2004	4 336	1 229	5 565
Book value at 1.1.2004	1 795	413	2 208
Book value at 31.12.2004	1 142	198	1 340

The tangible assets include assets rented through financial leasing contracts for 739 thousand Euros in 2005 (775 thousand Euros in 2004). The acquisition value remaining after depreciation for machinery and equipment in tangible assets is

450 thousand Euros 31.12.2005 (657 thousand Euros 31.12.2004).

Additions to acquisition costs of tangible assets include assets acquired through financial leases for 81 thousand Euros in 2005 (242 thousand Euros in 2004).

Tangible assets include assets rented by financial leases as follows:

	(1000 Euros)	Machinery and equipment
Acquisition cost at 1.1.2005		775
Additions		81
Disposals		-116
Acquisition cost at 31.12.2005		739
Accumulated depreciation at 1.1.2005		290
Depreciation during the financial year		-116
Depreciation on disposals		237
Accumulated depreciation at 31.12.2005		410
Book value at 1.1.2005		485
Book value at 31.12.2005		329
Acquisition cost at 1.1.2004		840
Additions		242
Disposals		-307
Acquisition cost at 31.12.2004		775
Accumulated depreciation at 1.1.2004		296
Depreciation during the financial year		-307
Depreciation on disposals		301
Accumulated depreciation at 31.12.2004		290
Book value at 1.1.2004		544
Book value at 31.12.2004		485

10. Intangible assets

	(1000 Euros)	Other intangible assets	Goodwill	Total
Acquisition cost at 1.1.2005		1 711	6 029	7 741
Correction to the acquisition cost		-103	0	-103
Additions		21	0	21
Acquisition cost at 31.12.2005		1 630	6 029	7 659
Accumulated depreciation at 1.1.2005		1 308	4 522	5 830
Correction to the accumulated depreciation		-104	0	-104
Depreciation during the financial year		199	0	199
Accumulated depreciation at 31.12.2005		1 402	4 522	5 924
Book value at 1.1.2005		404	1 507	1 911
Book value at 31.12.2005		228	1 507	1 735
Acquisition cost at 1.1.2004		1 711	6 029	7 740
Additions		35	0	35
Disposals		-34	0	-34
Acquisition cost at 31.12.2004		1 711	6 029	7 741
Accumulated depreciation at 1.1.2004		1 073	4 522	5 595
Depreciation during the financial year		268	0	268
Depreciation on disposals		-33	0	-33
Accumulated depreciation at 31.12.2004		1 308	4 522	5 830
Book value at 1.1.2004		638	1 507	2 145
Book value at 31.12.2004		404	1 507	1 911

Goodwill has not been depreciated since 1.1.2004.

The EMEA-segment was attributed 1,507 thousand Euros of Goodwill on 31.12.2005. For impairment testing purposes this Goodwill has been attributed to a separate cash flow generating unit within the segment. The cash flow estimates are based on forecasts approved by the management, covering a five year period. The interest rate used for discounting is 10%.

According to the management the most sensitive parameter is the length of the period. The

management also estimates that no reasonable change in any of the main parameters would lead to a situation where the discounted cash flow of the segment would be less than the book value.

The main parameters used in calculating the value in use are:

Budgeted operating income - Based on existing contracts, actual cost level and foreseeable/estimated future development. The estimate is based on a five year period.

11. Other investments and marketable securities

	(1000 Euros)	2005	2004
Non-quoted investments		4	9
Available-for-sales investments at end of the financial year		4	9
Securities held for trading		17 378	20 815
Securities held for trading to be booked at fair values at closure		17 378	20 815
Total		17 382	20 824

The group has during the reporting period sold non-quoted shares for 5 thousand Euros. In conjunction with this sale a loss of 4 thousand Euros has been booked in the income statement. During 2004 no sales of non-quoted shares took place.

The group has decided to book investments in interest bearing instruments made during the reporting period at fair values impacting the income statement on original booking date. Securities held for trading consist primarily of mutual money market funds.

12. Receivables

	(1000 Euros)	2005	2004
Loan receivables		18	38
Total		18	38

The balance values of loan receivables equal the amount of funds, which is the maximum of the credit risk, in case the other contractual partner

can not fulfil his obligations related to the financial instrument. No major risk is linked to the receivable.

13. Deferred tax receivables and liabilities

Change in the deferred taxes

(1000 Euros)	31.12.2004	Changed to statement of earnings	Changed to shareholders' equity	31.12.2005
Deferred tax receivables:				
Tax losses carried forward	0	0	0	0
Other	0	2	0	2
Total	0	2	0	2
Deferred tax liabilities:				
Fair value gains/loss	59	0	-59	0
Other	0	0	0	0
Total	59	0	-59	0
(1000 Euros)	31.12.2003	Changed to statement of earnings	Changed to shareholders' equity	31.12.2004
Deferred tax receivables:				
Tax losses carried forward	4 310	-4 310	0	0
Other	1	-1	0	0
Total	4 311	-4 310	0	0
Deferred tax liabilities.				
Fair value gains/loss	210	-151	0	59
Other	3	-3	0	0
Total	213	-154	0	59

No deferred tax income has been booked related to the cumulated losses of 70,156 thousand Euros on 31.12.2005 of the group (losses confirmed in the 2004 taxation equal 63,405 thousand Euros). The deferred tax has not been booked since

there is no certainty about the parent company generating taxable income, against which the losses could be utilized. The losses expire during 2011-2014.

14. Inventories

(1000 Euros)	2005	2004
Finished goods	519	194
Total	519	194

The value of the Inventories has not been lowered during 2005 or 2004.

15. Trade and other receivables

(1000 Euros)	2005	2004
Trade receivables	3 945	5 159
Prepayments	106	0
Accrued incomes	493	702
Other receivables	259	130
Total	4 803	5 992

The main items in Accrued incomes are related to fixing of costs to the correct reporting period. The group has booked reversed credit losses on its receivables, 32 thousand Euros. (46 thousand Euros booked credit losses in 2004). The Balance Sheet

values equal the amount of money, which is the maximum credit risk, in case the other contractual parties are unable to fulfil their obligations related to the financial instruments. No major concentration of credit risk is linked to the receivables.

16. Cash and cash equivalents

According to cash flow statement:

(1000 Euros)	2005	2004
Cash and cash equivalents and bank deposits	728	1 372
Total	728	1 372

17. Share capital of the parent company

(1000 Euros)	Number of shares	Share capital	Share premium	Total
1.1.2004	57 302 732	1 146	76 821	77 967
31.12.2004	57 302 732	1 146	76 821	77 967
Stock options exercised			24	24
31.12.2005	57 302 732	1 146	76 845	77 991

Total number of shares is 168,000,000. The counter value of a share is 0.02 EUR and the maximum share capital amount to 3,360,000 euro. All issued shares are fully paid. A description of the equity reserves is presented below:

Foreign currency translation

The foreign currency translation reserve consists of translation differences arising from translating foreign units' annual reports.

Dividends

After the closing date the board has proposed that no dividends will be paid.

18. Share-based payment plans

The group has had option arrangements since 1999. The options granted after 7.11.2002 to which rights has not commenced before 1.1.2005 have been booked in accordance IFRS 2 Share Based Payment. Options granted before 7.11.2002 have not been booked as costs in the annual report. Share based options expire unless they are vested before or on the vesting date defined in the option plan. Options are lost if the person leaves the company before he/she has the right to exercise the options. During the reporting period the group has had four separate option programs in place for its employees. A total of 24 thousand Euros has been booked against equity base on option benefit of employments during the reporting period 2005.

The Group has following share-option plans:

Option plan 1 / 1999

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

A total of 625,000 options with warrants were issued. Some of the options with warrants are granted to 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 / 2000

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

A total of 2,500,000 options with warrants were issued. Some of the options with warrants are granted to Stonesoft's wholly owned subsidiary to be issued for the company's current or future employees. The subscription 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, 2006. The subscription price of each share under the options with warrants is 14.16.

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 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 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 / 2001

Closed

Option plan 4 / 2001

The Extraordinary 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.

Option plan 5 / 2004

The Extraordinary General Meeting of shareholders of the Stonesoft Corporation held on November 24, 2004, 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: January 1, 2006, January 1, 2007, January 1, 2008 and January 1, 2009. The subscription period for all the shares shall end on December 31, 2010. The subscription price of each share shall be 0.56.

The Group has not exercised options for financial year 2005 and 2004.

The terms of the option plans are the following:

Option Right	Subscription price for one share	Subscription period	Number of options
Option plan 2 / 2000 II A	14.16	1.9.01 - 30.4.06	270 900
Option plan 2 / 2000 II B	14.16	1.9.02 - 30.4.06	207 900
Option plan 2 / 2000 II C	14.16	1.9.03 - 30.4.06	127 680
Option plan 2 / 2000 II D	14.16	1.9.04 - 30.4.06	91 880
Option plan 2 / 2000 II E	14.16	1.9.05 - 30.4.06	69 480
Option plan 4 / 2001 A	2.43	1.5.02 - 31.10.06	272 000
Option plan 4 / 2001 B	2.43	1.11.03 - 31.10.06	198 000
Option plan 4 / 2001 C	2.43	1.11.04 - 31.10.06	128 000
Option plan 5 / 2004 A	0.56	1.1.06 - 31.12.10	56 250
Option plan 5 / 2004 B	0.56	1.1.07 - 31.12.10	56 250
Option plan 5 / 2004 C	0.56	1.1.08 - 31.12.10	56 250
Option plan 5 / 2004 D	0.56	1.1.09 - 31.12.10	56 250

The group uses the Black-Scholes-model for option plans for which there are no special conditions. The expected volatility has been defined as the historic volatility of the group's shares. The historic

volatility is calculated as the weighted average for the vesting period of the options. The changes in options and weighted average exercise prices during the reporting period are:

Amount of option rights issued

	2005		2004	
	Weighted average exercise price euro / share	Number of options	Weighted average exercise price euro / share	Number of options
At the beginning of the financial year	4.72	1 894 420	4.73	2 105 270
Allocated new options	0.56	225 000		0
Forfeited options	12.11	-34 400	4.77	-210 850
Expired options	6.50	-494 180		0
At the end of the financial year	7.83	1 590 840	4.72	1 894 420
Vested options outstanding at end of the financial year	9.02	1 365 840	8.14	1 806 140
Vested options during the financial year		0		0

Outstanding options at end of the financial year

Ending of exercised	Subscription price (euro)	Number of shares 2005	Number of shares 2004
2005	1.625		1 976 720
2006	2.43 - 14.16	1 365 840	1 400 240
2010	0.56	225 000	
Total		1 590 840	3 376 960

The fair value of the shares in the option programmes, based on which shares are granted, have been based on actual share prices. Payments of

dividends are not foreseen and therefore the calculation of the fair value of the options also excludes dividends.

19. Provisions

(1000 Euros)	Losses on projects	Other provisions	Total
1.1.2005	0	23	23
Additional provisions	159	0	159
Utilized during year	0	-20	-20
31.12.2005	159	3	162

(1000 Euros)	2005	2004
Short-term	38	23
Long-term	124	0
Total	162	23

Losses on contracts

The group has a fixed lease contract on its head-quarter offices, which the group does not fully utilize in its own business. The group has sublet the non-used parts. The rental income related to this does not fully cover the rents paid by the group. The provision related to losses on contracts covers the net loss of these contracts in full. The interest rate used when calculating the net present value is 5%.

Other provisions

Other provisions are related to rearrangements done in one group company before 2004. A local court case is still ongoing. The provision on 31.12.2005 is 3 thousand Euros.

20. Interest bearing liabilities

(1000 Euros)	2005		2004 Carrying Amount	Fair value
	Fair value	Carrying amount		
Long-term				
Finance lease liabilities	152	152	268	268
Short-term				
Finance lease liabilities	184	184	217	217

Fair values are based on discounted cash flows. The interest rate used in discounting equals the rate at which the leasing debt at the end of the contract is fully amortized. The future cost for long term contracts are as following:

(1000 Euros)	2006	2007	2008	2009	Thereafter
2005					
Finance lease liabilities	0	101	51	0	0

(1000 Euros)	2005	2006	2007	2008	Thereafter
2004					
Finance lease liabilities	0	113	112	43	0

Currency split of long-term interest bearing liabilities

	(1000 Euros)	2005	2004
EUR		152	268

The weighted averages of effective interest rates on long term, interest bearing debt 31.12.2005 and 31.12.2004 were:

		2005	2004
Finance lease liabilities %		7,10	9,22

Currency split of short-term interest bearing liabilities

	(1000 Euros)	2005	2004
EUR		184	217

The weighted averages of effective interest rates on short term, interest bearing debt 31.12.2005 and 31.12.2004 were:

		2005	2004
Finance lease liabilities %		9,24	11,69

Finance lease liabilities are payable

Finance lease liabilities - Minimum lease payments

	(1000 Euros)	2005	2004
In less than one year		184	217
Between one and five years		152	268
Total minimum lease payments		335	485

Finance lease liabilities - Present value of minimum lease payments

	(1000 Euros)	2005	2004
In less than one year		156	191
Between one and five years		131	243
Total present value of minimum lease payments		287	435
Future finance changes		48	50
Finance lease liabilities total		335	485

21. Trade and other payables

	(1000 Euros)	2005	2004
Trade payables		1 114	856
Accrued expenses		7 365	7 164
Other		813	914
Total		9 293	8 934

The material items in accrued expenses consist of periodizations of sold maintenance contracts, prepaid by customers.

22. Management of financial risks

The group is exposed to financial risks in its normal business. The aim of the group's risk management is to minimize negative impacts of changes on financial markets to the group's income. The group's largest financial risk is the currency risk.

Currency risk

The group operates on four continents but uses as its main invoicing currency Euros and to a lesser extent US dollars. The cost structure consists also mainly of Euros, to a lesser extent US dollars and of currencies linked to both of these. Transaction risks are managed based on the net position using, when required, forward contracts or options. During 2005 neither of these instruments were used. The subsidiary entities do not carry major balance items and the translation risk is therefore not substantial.

Interest rate risk

The group does not have any larger amounts of interest bearing debt and therefore no need for protection.

The market risk related to investments

The board has defined a policy for investing liquid funds. As per this policy funds are invested in low risk, short term interest bearing papers.

Credit risk

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

Liquidity risk

There is no liquidity risk related to the group, since the invested funds are available on a next day basis.

23. Fair value of financing asset and liabilities

The principles for defining the value of financial instruments are presented below. In the table there is also presented in detail the fair value and book value corresponding to the group balance sheet values for each asset type.

	(1000 Euros)	note	2005 Carrying amount	2005 Fair value	2004 Carrying amount	2004 Fair value
Financing assets						
Other investments		11	4	4	9	9
Investments booked at fair value through the Income statement		11	17 378	17 378	20 815	20 815
Trade and other receivables		12, 15	4 715	4 715	6 030	6 030
Cash and cash equivalents		16	729	729	1 372	1 372
Financing liabilities						
Finance lease liabilities		20	335	335	485	485
Trade and other payables		21	9 293	9 293	8 934	8 934

In defining the fair values of the financial assets and liabilities presented in the table, the following prices, assumptions and valuation models have been used:

Investments in shares, in mutual funds and other investments

Investments in unlisted shares are booked at acquisition cost, since there are no methods available for valuing them at fair value. The value of the unlisted share investments in the annual report

31.12.2005 is 4 thousand Euros. The financial assets booked at fair values are either tradable, or the value used by the counterparts purchasing price on the closing date has been used. This value has also been tested using commonly used valuation methods, using available market bids.

Debts related to financial leases

The fair value is determined using the future cash flows with an interest rate corresponding the interest rates used in similar financial leases.

Payables and other liabilities and receivables

The original book value of receivables corresponds to their fair value as discounting has not significant value, taking the maturity of the receivables into account.

24. Adjustments for cash flow from operating activities

	(1000 Euros)	2005	2004
Adjustments			
Depreciations		1 019	1 603
Amortizations		94	0
Employee benefits		24	0
Financial expenses		-59	-834
Financial incomes		550	1 288
Fair value gains/loss of financial instruments hold for trading		183	-188
Total		1 810	1 868

25. Subsidiaries

The information is presented in item 28. Related Party Transactions.

26. Operating lease commitments

Group at leaseholder

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

	(1000 Euros)	2005	2004
In less than one year		1 815	1 659
Between one and five years		5 490	5 307
In over five years		0	1 197
Total		7 305	8 163

The group rents the offices it utilizes. The remaining duration of the rental contracts are 1-5 years. Normally the contracts include prolongation options past the original ending date. The index, renewal and other terms and conditions differ from contract to contract.

The income statement for year 2005 contains rents paid based on rental agreements for a total of 2,098 thousand Euros (2,438 thousand Euros

in 2004). The group has sublet part of it's offices. The minimum rental costs related to the offices is 336 thousand Euros (263 thousand Euros in 2004). The minimum rental income related to the subleases is 348 thousand Euros in 2005 (345 thousand Euros in 2004). The group has made a provision of 159 thousand Euros linked to the subleases (item 19).

Group at landlord

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

	(1000 Euros)	2005	2004
In less than one year		618	207
Between one and five years		833	214
Total		1 451	421

The group has sublet the parts of the it's headquarters which it does not need. The duration of the rental agreements are 2-3 years.

27. Commitments and contingencies

(1000 Euros)	2005	2004
Collateral for own commitments		
Customs guarantee	0	15
Rent security	131	131

28. Related party transactions

Related parties include group companies, board members, Chief Executive officers and members of the management team. The parent and the group companies are:

Company	Home country	Size of holding %	Size of voting right %
Parent company Stonesoft Corp.	Finland, Helsinki		
Stonesoft Finland Oy	Finland, Helsinki	100,00	100,00
Embe Systems Oy	Finland, Oulu	100,00	100,00
Embe Systems Inc	USA, Dallas		
Stonesoft Inc	USA, Atlanta	100,00	100,00
Stonesoft AB	Sweden, Stockholm	100,00	100,00
Stonesoft Networks (UK) Ltd	UK, Surrey	100,00	100,00
Stonesoft France S.A.S.	France, Sophia Antipolis	100,00	100,00
Stonesoft Germany GmbH	Germany, Frankfurt	100,00	100,00
Stonesoft Espana S.A.	Spain, Madrid	100,00	100,00
Stonesoft Netherlands B.V.	Netherlands, Amsterdam	100,00	100,00
Optiwise Inc	USA, Atlanta	100,00	100,00
Stonesoft Italy S.r.l	Italy, Milan	99,99	99,99
Stonegate AG	Switzerland, Zurich	100,00	100,00
Stonesoft Singapore PTE Ltd	Singapore	100,00	100,00
Stonesoft LTDA	Brazil, São Paulo	99,99	99,99
Stonesoft Tunis SARL	Tunis, Ariana	99,99	99,99
BVBA Stonesoft Belgium	Belgium, Diegem	99,00	99,99

(1000 Euros)	2005	2004
Goods and services sold to subsidiaries	50	0

Transactions related to products and services done with related parties are based on group price lists in force.

(1000 Euros)	2005	2004
Benefits of Directors and executive officers		
Salaries and other short-term employee benefits	1 989	1 053
Benefits paid on termination	175	95
Benefits paid after employment relationship finished	44	0
Total	2 208	1 148
Remuneration for Board of Directors and Managing Director		
CEO	85	452
Board of Directors		
Ervi Pertti	24	18
Ritvala Jyrki	24	18
Sozonoff Alexis	48	45
Karttunen Kai, previous member of Board		5
Turunen Hannu, previous member of Board		5

Members of the board have received consultation fees amounting to 51 thousand Euros during the reporting period 2005. The company management and board were given 225,000 share options in 2005 (0 in 2004). The options of the management and the board have similar terms and conditions. The management and the board had on the 31.12.2005 a total of 445,000 granted options out of which 220,000 were vestable (220,000 in 2004 out of which 208,000 vestable).

29. Events after the Balance Sheet Date

In February Finnish Defence Forces announced that after a bidding process they have chosen Stonesoft's firewall solution to their systems management network. Product deliveries are anticipated to begin in February. This project is strategically significant to Stonesoft.

In February Stonesoft Corp. received information that a prosecutor has decided to press charges in the Helsinki District Court in a suspected securities market information offence related to the ongoing disclosure requirements for public companies and regarding the alleged delay of Stonesoft's profit warning issued in February 2001. The charges are pressed against Stonesoft Corp. and the Board members and CEO of the company in 2000. Stonesoft denies all charges and claims made.

30. The transition to an IFRS based financial statements

As mentioned in the notes in item "principles and accounting policies applied in preparing the financial statements", this is the first financial statements by the Stonesoft group prepared in accordance with the IFRS standards. Before taking the IFRS standards into use the Stonesoft group prepared its financial statements based on Finnish accounting standards.

The transition to an IFRS based financial statements has changed the statements, the notes related to these and the principles used for preparing them compared to previous financial statements. The principles presented in item "principles and accounting policies applied in preparing the financial statements" in the notes have been applied in preparing the principles and accounting ending 31.12.2005, comparing figures for 31.12.2004 and the opening IFRS balance 1.1.2004.

The reconciliations presented below and the descriptions highlight the differences between the IFRS based financial statements and the financial statements based on Finnish accounting standards (FAS) for the year 2004 and for the transition day to IFRS, 1.1.2004.

Reconciliation of equity

at 1.1.2004 and 31.12.2004

(1000 Euros)	note	FAS 1.12.2003	Changes in IFRS conversion	IFRS 1.1.2004	FAS 1.12.2004	Changes in IFRS conversion	IFRS 31.12.2004
ASSETS							
Non-current assets							
Tangible assets	(A)	1 267	941	2 208	673	667	1 340
Goodwill	(B)	1 507	0	1 507	301	1 206	1 507
Intangible assets	(C)	1 038	-400	638	587	-183	404
Other investments		6	0	6	9	0	9
Receivables		60	0	60	38	0	38
Deferred tax assets	(D)	0	4 311	4 311	0	0	0
		3 878	4 852	8 731	1 608	1 690	3 299
Current assets							
Inventories	(E)	91	4	96	188	6	194
Trade and other receivables	(D, E)	11 880	-4 366	7 514	6 023	-31	5 992
Prepayments		0	0	0	0	0	0
Marketable securities	(F)	24 126	723	24 849	20 590	226	20 815
Cash and cash equivalents	(E)	3 315	5	3 320	1 372	0	1 372
		39 412	-3 634	35 779	28 173	200	28 373
Total assets		43 291	1 218	44 509	29 781	1 891	31 671

(1000 Euros)	note	FAS 1.12.2003	Changes in IFRS conversion	IFRS 1.1.2004	FAS 1.12.2004	Changes in IFRS conversion	IFRS 31.12.2004
EQUITY AND LIABILITIES							
Equity attributable to equity holders of the parent							
Share capital		1 146	0	1 146	1 146	0	1 146
Share premium account		76 821	0	76 821	76 821	0	76 821
Conversion difference	(G)	0	-980	-980	0	-892	-892
Retained earnings	(H, G)	-42 846	815	-42 032	-57 277	2 265	-55 012
Equity total		35 121	-166	34 955	20 690	1 373	22 063
Long-term liabilities							
Deferred tax liabilities	(D)	0	213	213	0	59	59
Interest bearing liabilities	(I)	0	301	301	0	268	268
Other long-term liabilities	(J)	0	718	718	0	762	762
		0	1 231	1 231	0	1 089	1 089
Short-term liabilities							
Trade and other payables	(J)	8 011	-37	7 974	9 043	-871	8 172
Tax liabilities	(J)	0	0	0	0	109	109
Provisions	(E)	159	-43	116	49	-26	23
Short-term interest bearing liabilities	(I)	0	233	233	0	217	217
		8 170	153	8 323	9 091	-571	8 520
Total Liabilities		8 170	1 384	9 554	9 091	517	9 609
Total equity and liabilities		43 291	1 218	44 509	29 781	1 891	31 671

Reconciliation of profit / loss

1.1.- 31.12.2004

	(1000 Euros)	note	FAS 1.12.2003	Changes in IFRS conversion	IFRS 1.1.2004
Net Sales			22 490	0	22 490
Other operating income			545	0	545
Material and services			-1 859	0	-1 859
Personnel expenses			-17 214	0	-17 214
Depreciation		(K)	-2 510	907	-1 603
Other operating expenses		(L)	-11 674	327	-11 348
Operating Profit / Loss			-10 221	1 233	-8 988
Financial income		(M)	1 102	188	1 290
Financial expenses		(M)	-798	-36	-834
Profit / Loss before taxes			-9 918	1 385	-8 532
Taxes		(N)	-4 602	153	-4 448
Profit / Loss for the accounting period			-14 519	1 539	-12 981
Earnings per share attributable to equity holders of the parent company					
Basic earnings per share (EUR) for the shareholders of parent company			-0,25		-0,23
Diluted earnings per share (EUR) for the shareholders of parent company			-0,25		-0,23

Notes related to reconciliations

Equity reconciliation 1.1.2004 and 31.12.2004, Profit reconciliation 1.1.-31.12.2004

A) Tangible assets

When applying FAS improvements done to rented offices have been classified as other longterm items. When transitioning to IFRS based reporting these items have been classified as intangible assets. The values of these assets on closing date 1.1.2004 were 397 thousand Euros and on 31.12.2004 182 thousand Euros.

Financial leasing

When applying FAS leases have been treated as other rental contracts. When transitioning to IFRS based reporting several leases have been classified as financial leasing contracts. Assets acquired through financial leasing, less accrued depreciation, at values of 544 thousands Euros on 1.1.2004 and 485 thousand Euros on 31.12.2004, have been activated into the Balance sheet as tangible assets. These assets are depreciated in accordance with the depreciation plans regarding tangible assets during their economic life. The liabilities arising from the contrasts are booked as interesting bearing debt.

B) Goodwill

The group has applied the IFRS 3 standard on all combinations of businesses occurring after 1.1.2004. Due to the reversal of depreciation the value of tangible assets in the balance sheet grew by 1 206 thousand Euros on 31.12.2004.

In accordance with FAS value of assets have been calculated as the difference between the acquisition cost and the daughter company's equity at the date of acquisition. It has been attributed to those assets of the company which have been deemed sources of the differences. In IFRS reporting the values of the assets and the liabilities the acquired company are set at the fair value on the acquisition. This usually results in a smaller Goodwill. As per IFRS 1 requirements the full Goodwill has been tested for impairment on the transition date. The testing did not result in impairment in the opening IFRS Balance sheet.

C) Other Intangible assets

As per FAS some items were activated into Other Intangible Assets which do not fulfil the booking requirements of IAS 38. These items, at a total value of 3 thousand Euros on 1.1.2004 have been booked as a correction of profit/loss. Related to long term items Improvements done to rented offices have in accordance with FAS been classified as Intangible assets, from where they in accordance with IFRS have been transferred to tangible assets.

D) Deferred tax receivables and liabilities

The changes in principles for preparing the report in conjunction with the transition to IFRS standards increased the deferred tax (net) liabilities 1.1.2004 by a total of 213 thousand Euros. The main change is a result of booking tradable financial assets at fair value through the Income statement. The total deferred tax liability on 31.12.2004 was 59 thousand Euros. When applying FAS deferred tax receivables amounting to 4311 thousand Euros on 1.1.2004 have been booked into short term receivables. In accordance with IFRS standards this item has been transferred into deferred tax receivables. During the reporting period 2004 a total of 4311 thousand Euros were booked as costs out of deferred tax receivables.

E) Inventories

In accordance with FAS return provisions attributed to certain customer contracts have been classified as voluntary provisions whereas the corresponding items in IFRS are classified as reductions of accounts receivables. The impact of these items on 1.1.2004 on the inventory value is 14 thousand Euros, on accounts receivables -57 thousand on provisions 43 thousand Euros. On 31.12.2004 the impact on inventories was 5 thousand Euros, on accounts receivable -31 thousand Euros and on provisions 26 thousand Euros. In accordance with FAS some items has been booked into Inventories on 1.1.2004. In the IFRS report they have been booked as investments, 4 thousand Euros, and other financial assets, 5 thousand Euros.

F) Investments

According to IFRS tradable financial assets are booked at fair values. The difference arising from a change in the fair value is booked through the Income statement in financial items. The change in value 1.1.2004 was 723 thousand Euros and 31.12.2004 226 thousand Euros.

G) Foreign currency translation differences

In accordance with FAS translation differences arising from foreign units have been presented

among Retained earnings. When transitioning to IFRS based reporting these items are presented as a separate item in equity in the Balance sheet. The impact of foreign currency translation on 1.1.2004 is -980 thousand Euros and on 31.12.2004 -892 thousand Euros.

H) Equity

A summary of impacts of applying different IFRS standards on the group's cumulated losses/profit is presented in the table below.

	(1000 Euros)	1.1.2004	31.12.2004
Equity according to FAS		35 121	20 690
Changes in IFRS conversion:			
IAS 12 Income taxes		-212	-59
IAS 17 Lease agreements		11	0
IAS 21 The Effects of Changes in Foreign Exchange Rates		-681	0
IAS 38 Intangible assets		-3	0
IAS 39 Financial Instruments		719	226
IFRS 3 Goodwill amortization		0	1 206
Equity according to IFRS		34 955	22 063

I) Interest bearing debts

In the IFRS annual report assets obtained through financial leases have been activated into the balance sheet. A corresponding value addition is booked into interest bearing debts. 1.1.2004 such bookings into long term debts were 301 thousand Euros and 31.12.2004 268 thousand Euros. The corresponding bookings into short term debts were 1.1.2004 233 thousand Euros and 31.12.2004 total 217 thousand Euros.

J) Other debts

In the IFRS annual report debts related to maintenance invoicing with duration longer than 12 months has been classified as long term debt whereas they were classified as short term in the Finnish report. In the report dated 1.1.2004 the impact of this change was 718 thousand Euros and in the report dated 31.12.2004 total 762 thousand Euros.

Foreign exchange rate based bookings in accordance with the IFRS 21 standard amounted to 681 thousand Euros in the report dated 1.1.2004.

In accordance with FAS tax liabilities have been included to other payables. In the IFRS report tax liabilities have been transferred to tax liabilities. The impact of this change is 109 thousand Euros in the report dated 31.12.2004.

K) Depreciation

In accordance with IFRS 3 group goodwill is not depreciated according to a plan. Instead a yearly test of a possible impairment is performed in accordance with IAS 36. Reversing of depreciation related to these items improve the operating profit of the reporting period 2004 based on IFRS standards by 1.206 thousand Euros.

Depreciation on assets obtained through financial leasing amount to 301 thousand Euros in the period ending 31.12.2004. Depreciation on founding costs amounting to 2 thousand Euros booked in the Finnish report are not included in the IFRS report.

L) Other costs

In accordance with Finnish accounting standards rental agreements have been treated as rental agreements. When transforming into IFRS reporting part of the rental agreements have been classified as financial leasing contracts. The impact of these items on other costs in the report dated 31.12.2004 is 327 thousand Euros.

M) Financial income and expenses

In the IFRS report assets classified as tradable are valued at fair value impacting the profit/loss. The impact of the change in the report dated

31.12.2004 is 188 thousand Euros. Interest costs related to contracts classified as financial leasing in IFRS reporting are booked as financial expenses. The impact of this change is -36 thousand Euros in the period ending 31.12.2004.

N) Taxes

Deferred tax receivables and liabilities are only booked in the IFRS reporting. The impact of the change is 153 thousand Euros on 31.12.2004.

31. Key Ratios

	(1000 Euros)	IFRS 2005	IFRS 2004	FAS 2003	FAS 2002	FAS 2001
Net sales		22 237	22 490	23 197	30 173	57 703
Operating profit / loss		-6 258	-8 988	-15 067	-25 178	-12 866
% of Net Sales		-28	-40	-65	-83	-22
Operating result before taxes		-5 719	-8 532	-14 214	-15 965	-13 094
% of Net Sales		-26	-38	-61	-53	-23
Return on equity (ROE) %		-31	-46	-35	-44	-13
Return on investment (ROI) %		-29	-27	-33	-42	-15
Equity Ratio %		77	81	90	90	88
Net Gearing		-1,10	-0,98	-0,78	-0,81	-0,68
Capital investments		437	501	197	699	727
% of net sales		2	2	1	2	1
R&D costs		4 612	5 075	6 541	7 436	9 086
% of net sales		21	23	28	25	16
Number of employees (weighted average)		247	258	298	403	581
Number of employees at the end of the year		252	237	264	336	571
Earnings per share		-0,10	-0,23	-0,26	-0,49	-0,15
Equity per share		0,28	0,38	0,61	0,87	1,16
Dividend		0,00	0,00	0,00	0,00	0,00
Dividend per share		0,00	0,00	0,00	0,00	0,00
Dividend / profit %		0	0	0	0	0

Average number of shares adjusted for share issue	IFRS 2005 57 302 732	IFRS 2004 57 302 732	FAS 2003 57 643 083	FAS 2002 55 499 114	FAS 2001 42 926 752
Number of shares adjusted for share issue at year end	57 302 732	57 302 732	57 301 132	57 267 532	52 536 140

Definitions for key indications

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

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

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

$$\text{Net Gearing} = \frac{\text{Interest bearing net debt} - \text{cash and cash equivalents} - \text{marketable securities}}{\text{Equity} + \text{minority interest}}$$

$$\text{Earnings per share (EPS)} = \frac{\text{Profit before taxes} - \text{minority interest} - \text{taxes}}{\text{Share issue-adjusted number of shares}}$$

$$\text{Equity per share} = \frac{\text{Equity}}{\text{Share issue-adjusted number of shares}}$$

$$\text{Dividend per share} = \frac{\text{Total dividend}}{\text{Share issue-adjusted number of shares}}$$

$$\text{Dividend / profit \%} = \frac{\text{Total dividend}}{\text{Earnings per share}}$$

32. Breakdown of share ownership

Number of shareholders 31.12.2005

	Number of shareholders	Shares and voting rights	Number of shares and voting rights
1-100	1 743	21,9	137 979
101 - 500	2 712	34,1	854 762
501 - 1.000	1 182	14,9	1 005 017
1.001 - 5.000	1 619	20,4	4 074 234
5.001 - 10.000	350	4,4	2 691 554
10.001 - 50.000	261	3,3	5 591 894
50.001 - 100.000	41	0,5	2 990 615
100.001 - 500.000	31	0,4	6 972 364
500.001 -	16	0,2	32 984 313
Total	7 955	100,0	57 302 732

Distribution of ownership by sector 31.12.2005

	Number of shareholders	Shares and voting rights	Number of shares and voting rights
Companies	387	5,0	8 813 989
Financial and insurance institutions	15	0,2	6 965 674
Public-sector organisations	2	0,1	729 500
Households	7 477	93,7	38 799 408
Non-profit organisations	16	0,3	671 625
Foreign and nominee-registered owners	58	0,7	1 322 536
Total*	7 955	100,0	57 302 732
*Incl. nominee-registered, total	10	0,1	4 784 555

Major shareholders 31.12.2005

	Number of shares	%
Hiidenheimo Ilkka	10 417 400	18,2
Turunen Hannu	7 450 000	13,0
Evli Pankki Oyj *	2 995 670	5,2
Ulkomarkkinat Oy	2 021 100	3,5
Nordea Pankki Suomi Oyj	1 403 900	2,4
Nordea Pankki Suomi Oyj *	1 191 893	2,1
Syrjälä&Co	1 100 000	1,9
Syrjälä Timo	1 000 000	1,7
Oy Q & A Consulting Ab	818 700	1,4
FIM Forte Sijoitusrahasto	784 600	1,4
Other*	28 119 469	49,1
Total	57 302 732	100,0
*Incl. nominee-registered, total	4 784 555	8,3

Shares and share options held by the members of the Board of Directors 31.12.2005

	Number of shares	Number of options
Ervi Pertti	15 000	15 000
Hiidenheimo Ilkka	10 417 400	0
Sozonoff Alexis	0	39 000
Ritvala Jyrki	0	15 000
Total	10 432 400	69 000

Income statement (FAS)

Stonesoft Oyj (parent company)

	(1000 Euros)	note	1.1.- 31.12.2005	1.1.- 31.12.2004
Net sales		1	16 378	15 530
Other operating income		2	1 347	1 340
Materials and services		3	-1 934	-1 856
Personnel costs		4	-6 582	-6 925
Depreciations and reduction in value		5	-3 938	-795
Other operating expenses			-15 777	-16 868
Operating profit / loss			-10 506	-9 574
Financial income and expenses		6	2 838	-874
Profit / loss before extraordinary items			-7 669	-10 447
Extraordinary items +/-		7	-235	947
Profit / loss before appropriations and taxes			-7 904	-9 500
Direct taxes		8	17	0
Profit / loss for financial year			-7 887	-9 500

Balance sheet (FAS)

Stonesoft Oyj (parent company)

	(1000 Euros)	note	31.12.2005	31.12.2004
ASSETS				
Non-current assets				
Intangible assets		9	281	611
Tangible assets		10	154	271
Investments		11	4 738	8 118
Non-current assets total			5 173	9 000
Current assets				
Inventories			519	188
Short-term receivables		12	3 779	5 242
Investments		13	17 223	20 514
Cash and cash equivalent			497	712
Current assets total			22 018	26 656
Total			27 191	35 656
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital		14	1 146	1 146
Share premium account		14	76 821	76 821
Retained earnings / loss		14	-53 564	-44 064
Profit / loss for the financial year		14	-7 887	-9 500
Shareholders' equity total			16 516	24 403
Provisions				
			159	26
Liabilities				
Short-term liabilities		15	10 515	11 227
Liabilities total			10 515	11 227
Total			27 191	35 656

Cash Flow statement (FAS)

Stonesoft Oyj (parent company)

	(1000 Euros)	note	1.1.- 31.12.2005	1.1.- 31.12.2004
Cash flow from operating activities				
Operating profit / loss			-10 506	-9 574
Adjustments to operating profit / loss			4 042	781
Financial income and expenses			692	301
Change in net working capital			311	4 152
Taxes paid			17	0
Total			-5 445	-4 340
Cash flow from investing activities				
Investments to intangible and tangible assets			-202	-129
Investments to (-) / sales of (+) shares in subsidiaries			112	-110
Dividends			2 030	0
Total			1 940	-239
Cash flow from financial activities			0	0
Change in cash and cash equivalents			-3 505	-4 579
Cash and cash equivalents at the beginning of the period			21 226	25 804
Cash and cash equivalents at the end of the period			17 720	21 226

Notes to the financial statements

Stonesoft Oyj (parent company)

Accounting principles

The scope of the financial statements

The financial statements have been prepared in euros. Receivables and payables in foreign currency have been converted to euros using average rates of the closing date. Exchange rate differences from accounts receivable have been recorded to sales adjustments and from accounts payable to exchange rate adjustments of purchases. Other exchange rate differences have been entered to exchange rate adjustments in financial income and expenses.

The profit and loss accounts of foreign subsidiaries have been converted using the average exchange rate of the period and the balance sheets have been converted using the exchange rate of the closing date. Translation differences from the shareholders' equity and other restricted capital are included in other restricted capital. Translation differences from retained earnings and profit/loss for the financial year are included in retained earnings.

Pension expenses

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

Research and development

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

Rents

Rental expenses are recorded as expenditure for the financial period they incurred. The rental liabilities (note 16) include future rental payments according to current contract terms.

Valuation of capital assets

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

Depreciation period of capital assets

	(years)	2005	2004
Machinery		3-5	3-5
Equipment		5	5
Other tangible assets		5	5
Other long-term expense items		5	5
Consolidated goodwill		-	-

Securities included in financial assets

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

Notes to the income statement

Stonesoft Oyj (parent company)

1a. Net sales by market area

(1000 Euros)	2005	2004
EMEA	10 525	10 468
AMERICAS	4 014	3 534
APAC	1 839	1 527
Total	16 378	15 530

1b. Net sales by business functions

(1000 Euros)	2005	2004
Software and appliance revenue		
Own licenses and appliances	8 639	7 662
Other licenses	0	130
Software and appliance revenue total	8 639	7 792
Service revenue		
Consultation and training	346	407
Support, own	6 917	6 739
Support, other	259	461
Service revenue total	7 522	7 607
Other revenue		
Hardware	19	201
Other revenue	198	-70
Total	16 378	15 530

2. Other income from business operations

(1000 Euros)	2005	2004
Sales of fixed assets	88	1
Rental income	313	263
Income from personnel canteen	53	60
Compensation paid by an insurance company	25	32
Others	0	29
Group internal administration fee	868	955
Total	1 347	1 340

3. Materials and services

(1000 Euros)	2005	2004
Materials and goods	2 244	1 875
Purchases during the financial period	-330	-107
Change in stocks	1 914	1 768
External services	20	88
Total	1 934	1 856

4. Wages, salaries and indirect employee expenses

(1000 Euros)	2005	2004
Wages and salaries	5 347	5 706
Pension expenses	919	890
Other indirect employee expenses	316	329
Total	6 582	6 925

	(1000 Euros)	2005	2004
Salaries and fees paid to the Board of Directors and CEO		96	454
Consultation fees paid to Members of the Board		51	0
Number of personnel, average		100	108

5. Depreciation

	(1000 Euros)	2005	2004
Goodwill		20	20
Tangible assets		204	332
Intangible assets		338	443
Extraordinary depreciation of investments and assets		3 376	0
Total		3 938	795

6. Financial income and expenses

	(1000 Euros)	2005	2004
Dividend income			
from Group companies		2 030	0
from others		0	3
Interest and other financial income		850	1 087
Financial Income total		2 880	1 090
Reduction on value of investment		0	1 175
Interest and other financial expenses		42	789
Financial income and expenses, total		2 838	-874
Financial income and expenses includes:			
exchange rate gains / losses (net)		30	-714
gains / losses from securities market		605	965

7. Extraordinary items

	(1000 Euros)	2005	2004
Extraordinary income			
Group contribution		330	947
Extraordinary income, total		330	947
Extraordinary expenses			
Stonesoft International Oy, loss due to the merger		565	0
Extraordinary expenses, total		565	0
Extraordinary items, total		-235	947

8. Income taxes

	(1000 Euros)	2005	2004
Income taxes on actual business		8	0
Taxes from previous financial periods		9	0
Direct taxes, total		17	0

Notes to the balance sheet

Stonesoft Oyj (parent company)

9. Intangible assets

(1000 Euroa)	2005	2004
Intangible rights		
Acquisition cost 1.1.	1 385	1 359
Additions	19	26
Acquisition cost 31.12.	1 404	1 385
Accumulated depreciation 1.1.	-1 015	-801
Depreciation for financial period	-177	-214
Accumulated depreciation 31.12.	-1 192	-1 015
Balance sheet value 31.12.	212	370
Goodwill		
Acquisition cost 1.1.	100	100
Additions	0	0
Acquisition cost 31.12.	100	100
Accumulated depreciation 1.1.	-38	-18
Depreciation for financial period	-20	-20
Accumulated depreciation 31.12.	-58	-38
Balance sheet value 31.12.	42	62
Other long-term expense items		
Acquisition cost 1.1.	1 169	1 145
Additions	9	24
Acquisition cost 31.12.	1 178	1 169
Accumulated depreciation 1.1.	-990	-760
Depreciation for financial period	-161	-230
Accumulated depreciation on transfers	-1 151	-990
Balance sheet value 31.12.	27	179

10. Tangible assets

(1000 Euros)	2005	2004
Machinery and equipment		
Acquisition cost 1.1.	696	665
Correction to acquisition cost	1 417	0
Additions	88	86
Reductions	-1 008	-55
Acquisition cost 31.12.	1 193	696
Accumulated depreciation 1.1.	-431	-148
Accumulated depreciation on reductions	-409	49
Depreciation for financial period	-204	-332
Accumulated depreciation 31.12.	-1 044	-431
Balance sheet value 31.12.	149	265

	(1000 Euros)	2005	2004
Other tangible assets			
Acquisition cost 1.1.		6	7
Additions		40	57
Reductions		-41	-58
Acquisition cost 31.12.		5	6
Accumulated depreciation 1.1.		0	0
Accumulated depreciation on reductions and transfers		0	0
Accumulated depreciation 31.12.		0	0
Balance sheet value 31.12.		5	6

11. Investments

	(1000 Euros)	2005	2004
Stocks and shares			
Acquisition cost 1.1.		8 118	8 008
Additions		6	110
Reductions		-3 386	0
Acquisition cost 31.12.		4 738	8 118
Capital loans to Group companies			
Balance sheet value 1.1.		0	1 175
Impairment		0	-1 175
Balance sheet value 31.12.		0	0

12. Short-term receivables

	(1000 Euros)	2005	2004
Accounts receivable		3 319	4 239
Receivables from Group companies			
Other receivables		135	661
Other receivables			
VAT receivables		33	0
Prepayments and accrued income			
Rental deposits		28	49
Other prepayments and accrued income		264	294
Deferred tax credits			
Due to accumulated losses		18 240	14 243
of which booked to tax receivables		0	0
Short term receivables, total		3 779	5 242

13. Securities included in financial assets

	(1000 Euros)	2005	2004
Investments			
Replacement value		17 266	20 740
Book value		17 223	20 514
Difference		43	226

14. Shareholders' equity

	(1000 Euros)	2005	2004
Share capital			
Share capital 1.1		1 146	1 146
Share capital 31.12		1 146	1 146
Other restricted shareholders' equity			
Share premium account 1.1.		76 821	76 821
Share premium account 31.12		76 821	76 821
Other restricted shareholders' equity total			
Retained earnings / loss 1.1.		-53 564	-44 064
Retained earnings / loss 31.12.		-53 564	-44 064
Profit / loss for the financial period		-7 887	-9 500
Shareholders' equity, total		16 516	24 403

Calculation on distributable funds

	(1000 Euros)	2005	2004
Retained earnings / loss		-53 564	-44 064
Profit / loss for the financial period		-7 887	-9 500
Total		-61 451	-53 564

15. Liabilities

	(1000 Euros)	2005	2004
Short term liabilities			
Accounts payable		925	601
Debts to the Group companies			
Other debts		3 371	4 587
Substantial items included in deferred liabilities			
Matched maintenance cost		4 932	4 247
Other deferred liabilities		1 123	1 497
Other debts		164	295
Short term liabilities total		10 515	11 227
Liabilities total		10 515	11 227

16. Pledges

	(1000 Euros)	2005	2004
Leasing liabilities			
Payable in year 2004		258	521
Payable later		221	563
Rental liabilities and pledges			
Rental liabilities		5 998	7 066
Rental pledges		31	56
Pledges issued for companies in the same Group		100	100
Pledges total		6 608	8 306

Auditors' Report

To the shareholders of Stonesoft Oyj

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Stonesoft Oyj for the period 1.1. – 31.12.2005. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We 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 report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies Act.

Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

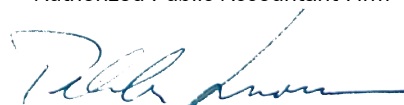
In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Managing Directors of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies Act.

Helsinki, March 2, 2006

Ernst & Young Oy
Authorized Public Accountant Firm



Pekka Luoma

KHT, Authorized Public Accountant

Forward-looking Statements

This report contains statements concerning among others Stonesoft's financial condition and results of operations that are forward-looking in nature. Such statements are not historical facts but, rather, represent Stonesoft's future expectations. The company believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions. However, these forward-looking statements involve inherent risks and uncertainties, which could cause actual results or outcomes to differ materially from those anticipated in the statements herein. These risks and uncertainties may include among others

(1) changes in our market position or in the Firewall/VPN and Intrusion detection and protection market in general;

(2) the effects of competition;

(3) the success, financial condition, and performance of our collaboration partners, suppliers and customers;

(4) our ability to source quality components without interruption and at acceptable prices;

(5) our ability to recruit, retain and develop appropriately skilled employees;

(6) exchange rate fluctuations, including, in particular, fluctuations between the euro, which is our reporting currency, and the US dollar;

(7) other factors related to sale of products, economic situation, business, competition or legislation affecting the business of Stonesoft or the industry in general and

(8) our ability to control the variety of factors affecting our ability to reach our targets and give accurate forecasts.

STONESOFT

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