STONESOFT

2007

Annual Report

Table of Contents

Year 2007 in Brief

Main business events and key figures

Main business events

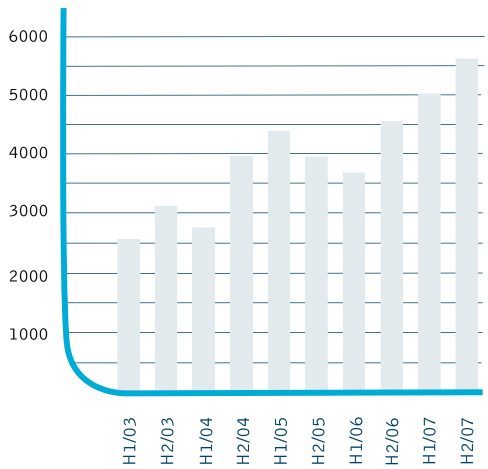
- Swisscom Mobile chose StoneGate firewalls to protect their network infrastructure.
- Stonesoft extended its product offering to mobile users. The company signed a cooperation agreement with Portwise AB, which specializes in a browser-based SSL VPN solution for mobile and remote use. Deliveries of StoneGate SSL VPN solution for mobile users started in June.
- French LPG (gas) distributor Antargaz selected StoneGate firewalls to protect their network architecture.
- Stonesoft launched the first members of the new StoneGate product line, StoneGate IPS-6000 and FW-5100 products for large and demanding network environments.
- Stonesoft launched the new StoneGate firewalls FW-1200, FW-1050 and FW-1020 and StoneGate IPS-2000, to secure flexibly the growing and changing networks.
- Stonesoft complemented its StoneGate secure connectivity solution by new features. StoneGate Management Center 4.0 offers advanced navigation, sophisticated log filters and search tools as well as innovative disaster recovery.
- Stonesoft launched StoneGate IPS 4.0 intrusion detection and prevention system.
- Stonesoft launched StoneGate FW-300 and IPS-400 providing uncompromised security for remote offices.
- Stonesoft extended its StoneGate secure connectivity solution with the new StoneGate Transparent Access Control (TAC) module, which unifies IPS and firewall functionalities. The module allows network segmentation and transparent access control without the need to change existing network configurations.
- Stonesoft was granted two patents: 'Method and device for handling related connections in a firewall' and 'An intrusion detection method and system'.
- Research company Gartner Inc. listed Stonesoft in their renowned Magic Quadrant research report. The report analyzes the market development of enterprise level firewalls and ranks the leading industry vendors according to their competitiveness and the comprehensiveness of their vision.
- The StoneGate SSL VPN for secure mobile and remote use received the international interoperability certification from the Virtual Private Network Consortium (VPNC).
- Stonesoft announced its products will support the new Internet protocol IPv6 by the end of 2008.

Key figures

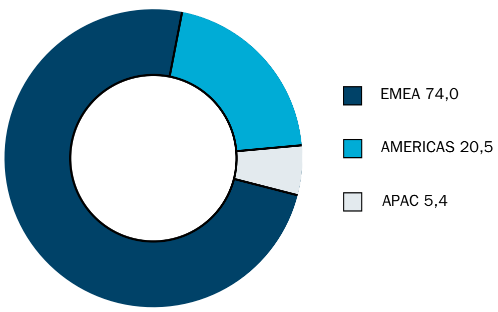
(1000 Euros)	2007	2006
Net sales	19 020	16 479
Operating profit/loss	-6 514	-6 608
% of Net sales	-34	-40
Operating result before taxes	-6 312	-6 226
% of Net sales	-33	-38
Return on equity (ROE) %	-85	-50
Return on investment (ROI) %	-78	-46
Equity ratio %	52	66
Net gearing	-1,46	-1,50
Capital investments	495	381
% of Net sales	3	2
R&D costs	5 285	4 804
% of Net sales	22	22
Number of employees (weighted average)	183	182
Number of employees at the end of the year	187	186
Earnings per share	-0,07	-0,11
Equity per share	0,10	0,17
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

(1000 Euros)

STONEGATE SALES DEVELOPMENT 2003–2007



GEOGRAPHICAL DISTRIBUTION OF NET SALES



CEO’s Review

During the year 2007, Stonesoft’s value proposition, "Secure Information Flow" was further strengthened, and the company established its position as a provider of integrated network security and business continuity. We continued to improve our competitiveness by extending our StoneGate product portfolio and increasing its performance.

Our main target in 2007 was to generate strong growth of sales and thereby improve our profitability. During the last quarter of the year, the sales of StoneGate products were the highest ever in the company’s history and exceeded sales in the corresponding period in the previous year by 59%. All in all, Stonesoft increased its net sales by 15% and the sales of its main product, StoneGate, by 28% during 2007. The sales growth was based on successes in several market areas, rather than on large individual deals.

However, for the whole year, the growth of the net sales remained weaker than expected, and the profitability stayed close to the level of the previous year. The main reasons for this were long sales cycles, especially with IPS (Intrusion Prevention and Detection System) product sales, and the slower than expected development of sales in some geographical areas.

Stonesoft’s management continued to systematically implement the company’s global communications, marketing and sales strategy during the year. According to our sales model, we continued to create demand for our StoneGate products within our target customer groups. The results became visible as growth of our sales pipeline in all market segments during the year. The communications and marketing achievements brought Stonesoft a lot of positive visibility, which has made the company and its products better known among its customers and other stakeholder groups.

Performance and new solutions to changing customer needs

The company’s product offering was further strengthened during 2007. We introduced new software solutions that improved the performance and manageability of the StoneGate product family and met the continuously growing demand for capacity. Launched in the beginning of 2007, the new StoneGate FW-5100 firewall for fast 10 Gbps networks opened up new markets in the most demanding environments for the company.

As a new member of the StoneGate product family, we introduced the SSL VPN solution, which provides secure connections to mobile and remote users. At the end of the year, we launched the small StoneGate FW-100 firewall appliance for remote offices and locations, providing the company with the opportunity to secure larger customer projects in, among others, the retail industry.

During 2007, the performance of the StoneGate IPS (Intrusion Prevention and Detection System) launched earlier in the year was extended by new versions with extended protection capabilities against DoS (Denial of Service) attacks. At the end of 2007, StoneGate IPS product was granted the renowned ICSA certificate.

Networking continues and remote working becomes increasingly common

The convergence of voice, video and data on IP-based networks continues to become stronger, and will create more demand for capacity and drive the adoption of 10 Gbps networks. The growing demand for added bandwidth, together with new protocols in IP networks, will increase demand for monitoring, reporting and analysis tools.

Companies will continue to network with their partners and subcontractors, remote work will become increasingly common, and more and more users will need a reliable and functional connection to network services, regardless of time or place. At the same time, the demand for outsourcing solutions and services will grow. This development creates even higher requirements for network security and high availability.

This development will support Stonesoft in achieving the targets of its growth plan for 2008, since these are the cornerstones of the functionality of StoneGate products. The combination of layered security and high availability, which has been the basis of StoneGate product design from the start, will prove its strength even better in this development.

Pioneer in virtual security

Stonesoft consolidated its market position during 2007, making the transition from a network security provider to a provider of integrated network security and business continuity. Our aim is to further strengthen this position and to improve our competitiveness by launching new StoneGate products for MSPs (Managed Service Provider) and MSSPs (Managed Security Service Provider), whose market position is still growing strongly.

Our target is to win larger individual deals. As part of our growth strategy, we also aim to increase our business operations on the basis of OEM deals.

Stonesoft was also among the first to bring new products to the VMware virtual environment, as an answer to the demand created by the strong growth of virtualization of IT systems. Virtual firewalls were launched during the first quarter of 2008, and the virtual StoneGate IPS solution for internal networks will become available later in 2008.

Stonesoft will continue its decisive and persistent efforts to increase its net sales and improve the profitability of the company. The company's main target for 2008 is to generate improved profitability through strong growth of net sales. By extension of the product portfolio and improved competitiveness, I believe we will reach our targets.

I would like to thank Stonesoft's customers, partners and employees for their good cooperation. I hope our cooperation to develop network security will also continue favorably in the future.

Ilkka Hiidenheimo
CEO

Corporate Governance

Stonesoft Corporation (Stonesoft or company) is a publicly listed company registered in Helsinki, Finland. The company complies with Finnish legislation and the Articles of Association of the company and the supervision and management of the company is divided between the General Meeting, Board of Directors and CEO accordingly.

Stonesoft complies with the Corporate Governance recommendation for listed companies issued by OMX Nordic Exchange Helsinki, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers. Stonesoft prepares its annual and interim financial accounts according to International Financial Reporting Standards (IFRS).

General Meeting

The General Meeting is the highest decision-making body of the company. The General Meeting decides, among others, on amendments to the Articles of Association and distribution of profits, confirms the Financial Statements and elects and decides on the fees of the members of Board of Directors and auditors.

The Annual General Meeting (AGM) is held annually by the end of June. Matters to be decided in the AGM and the shareholders' right to attend the meeting are defined by the law, Articles of Association of the company and in the notice to convene the AGM.

Board of Directors

Duties and responsibilities of the Board

The Board of Directors (Board) has from three to seven members. The AGM elects the members of the Board. All Board members have to be competent and they have to be able to dedicate enough time for the work involved with the Board membership. The Board elects a Chairman amongst its members.

The Board is responsible for the proper management of the company in accordance with the legislation, the articles of association of the company and the instructions issued by General Meetings.

The Board decides upon matters of major importance to the operations of the company. These include, among others, the approval of the main strategies, the approval of action plans, major investments and divestitures of assets. The Board also appoints and dismisses the CEO of the company and decides on his/her service terms.

The Board has a working order, which covers responsibilities of the Board and distribution of work, Board meetings and their preparations. The Board of Directors reviews and confirms the working order annually. The company does not have separate committees, thus the Board is responsible for the duties of the audit and remuneration committees. The summary of the working order is available at the company's website www.stonesoft.com.

The Board meets regularly at least 8 times a year. In 2007 the Board had 19 meetings. The average attendance of the members at the Board meetings was 99 percent.

The AGM of the company decided on 21 March 2007 that the number of the members of the Board is five (5).

The Board of Directors comprises of the following members

- Pertti Ervi (b. 1957)
  Member of the Board since 2004
  Chairman of the Board since 2006
- Ilkka Hiidenheimo (b. 1960)
  CEO
  Chairman of the Board between 1990–1998
  Member of the Board since 1990
- Hannu Turunen (b. 1957)
  Member of the Board since 2007
  Chairman of the Board between 2000–2002
  Member of the Board between 1992–1999
- Topi Piela (b. 1962)
  Member of the Board since 2006
  Vice Chairman of the Board in 2007
- Matti Viljo (b. 1955)
  Member of the Board since 2006

For more information about Board members, see pages 12-14.

Independence of the Board members

The Board has evaluated the independence of its members in 2007. It was noted that according to the Corporate Governance Recommendation all Board members, with the exception of Ilkka Hiidenheimo (major shareholder and CEO) and Hannu Turunen (major shareholder), are independent with the following remark: all Board members have been granted stock option rights as part of their compensation as Board members. It was further noted that the Chairman of the Board Pertti Ervi occasionally provides consultancy services to the company.

Fees, share ownership and options of members of the Board

The fee for the Chairman of the Board was EUR 4,000 per month and the fee for the external members of the Board was EUR 2,000 per month.

Chief Executive Officer

The Board appoints and discharges the Chief Executive Officer (CEO) of the company and decides upon his/her compensation and benefits. The CEO is the founder of the company Mr. Ilkka Hiidenheimo.

The CEO is responsible for the company's operative management in accordance to the instructions provided by the Board. In addition, the CEO also supervises and guides the performance of the other members of the Executive Management.

The CEO's compensation and other terms

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. The contract for the CEO provides for six (6) months notice period and termination compensation equalling to six months salary and a further optional six (6) months fixed salary in case the company terminates the contract without breach of contract by the CEO. The above compensation is only theoretical as long as the CEO is not receiving any compensation. The same arrangement applies in connection with public take-over bids.

Executive Management

The CEO is in charge of Stonesoft's operative management with the assistance of the Executive Management. The Executive Management convenes regularly and all issues addressed in the meetings and related decisions are recorded in the meeting minutes.

The Executive Management comprises in 2007 of the following:

- Ilkka Hiidenheimo, CEO
- Kim Fagernäs, Vice President, APAC and Emerging Markets
- Juha Kivikoski, Vice President, Europe and Channels
- Saara Laine, Senior Vice President, Legal Affairs and Human Resources
- Mikael Nyberg , Chief Financial Officer
- Mika Rautila, Chief Technology Officer
- Outi Torniainen, Vice President, Marketing and Communications

The responsibilities of the Executive Management 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 approves the salary level of the members of Executive Management and direct subordinates of the CEO, and decides on the granting of stock option rights to the Executive Management. The commissions 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 with 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.

Board and Management holdings at 31.12.2007

	Shares	Stock Option Plan 2004
Ervi Pertti	20 000	30 000
Fagernäs Kim	0	100 000
Hiidenheimo Ilkka	10 417 400	0
Kivikoski Juha	0	150 000
Laine Saara	5 000	80 000
Nyberg Mikael	30 000	100 000
Piela Topi	30 000	15 000
Rautila Mika	400	80 000
Torniainen Outi	0	50 000
Turunen Hannu	7 450 000	0
Viljo Matti	0	15 000

Audit & internal control

Auditors

The task of the auditors is to conduct annual audit in order to examine the Financial Statements and the information of the financial position, results of operations of the company and that the Financial Statements conform with international accounting principles. In addition, the auditors exam that the company's internal control functions are in place and support the company's activities.

According to the Articles of Association of the company, the company's auditor has to be an auditor or an audit firm of public accountants certified by the Central Chamber of Commerce. The auditor is elected until further notice.

According to the working order of the Board, the Board members shall discuss the auditor's report once a year, in a meeting held during the first quarter, and the company's auditor should be present in such a Board meeting.

The auditor of Stonesoft is an authorized public accountant Ernst & Young Oy, with authorized public accountant Pekka Luoma as the main auditor. In 2007 the auditor's fee for auditing service was EUR 49,421 and service fees unrelated to auditing were EUR 18,490.

Internal control

Finance and legal departments and the information security team are responsible for the internal control functions at Stonesoft. The aim of internal control is to supervise and reinforce the adherence of company's policies and set processes and safeguard company's assets.

Insiders

Stonesoft complies with the Guidelines of the OMX Nordic Exchange Helsinki for Insiders, which are complemented by the company's own insider regulations.

The insiders are divided to three groups 1) insiders with the duty to declare are the members of the Board of Directors, CEO and the auditors and the members of Executive Management, 2) the company´s insiders, the individuals who have regular access to insider information in performing their tasks and duties and 3) insiders related to a particular project, the individuals that have access to insider information due to the project.

The company's own insider regulations regulate trading with the company's shares among others, that permanent insiders must schedule their trading within four (4) weeks' time after publication of the company's Financial Statements release or the publication of an interim review (the so-called open window).

In addition, the Board 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

Founder, CEO

Ilkka Hiidenheimo (born 1960) is the founder and has served as the CEO of Stonesoft Corporation since 2004. Before Stonesoft he has worked from 1989 to 1990 as a consultant at Oracle Finland Oy and served as a system designer and product manager at Tekla Oy from 1985 to 1989.

Hiidenheimo is a member of the Board of Directors of Stonesoft Corporation and he has also served as Chairman of the Board from 1990 to 1998. He is a member of the Board of Directors of Teos Oy and Hiidenkivi Investment Oy.

Saara Laine

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

Saara Laine (born 1954) has served as Director of Legal Affairs at Stonesoft Corporation since the beginning of 2000. Previously she was employed by Castrén & Snellman Attorneys at Law (1998–2000) and prior to this she has served as lawyer, director of legal affairs, member of the Executive Board and Board of Directors of IBM Oy in Finland and IBM's EMEA headquarters in Paris, France (1990–1998). Laine holds a Master of Law degree. Her responsibilities at Stonesoft are legal/business support and human resources.

Mika Rautila

CTO

Mika Rautila (b. 1961), Ph.D, has served as Chief Technology Officer at Stonesoft Corporation since 2005 and before that as the StoneGate IPS R&D Manager in 2000–2005. Before joining Stonesoft, Rautila worked in the Department of Mathematics at University of Helsinki, during which time he visited University of California at Berkeley (USA) for the academic year 1997–98 and Institute Mittag-Leffler (Sweden) in 2000. Before his academic career, Rautila worked in Telecom Research Centre at Telecom Finland and in software consultancies. Rautila graduated in computer science at University of Technology in Helsinki in 1994. He received his Ph.D. in Mathematics from University of Helsinki in 2000. Mika Rautila's areas of responsibility at Stonesoft are technology, research and development and quality control.

Mikael Nyberg
CFO

Mikael Nyberg (born 1960) serves as Chief Financial Officer at Stonesoft Corporation since 2004. Before joining Stonesoft he worked seven years for the global IT distributor Tech Data Corporation. Years 1997–2001 he held various positions in Tech Data Finland and in 2001–2003 he served as Managing Director, Back Office in Tech Data International in Switzerland. Years 1985–1997 he worked in Esso Corporation in various positions. Nyberg has a Master of Science degree in Business Administration and Engineering. His areas of responsibility at Stonesoft are Finance, IT and Order Services.

Juha Kivikoski
Vice President, Europe and Channels

Juha Kivikoski (born 1970) serves as Vice President, Europe and channels at Stonesoft Corporation since June 2006. He joined Stonesoft as Vice President, Marketing in 2004. Before joining Stonesoft he worked at Cisco Systems Finland in various sales and marketing management positions and as a member of the executive management in Finland, Estonia, Latvia and Lithuania. Before Cisco Systems he worked as Director, Product Marketing Techdata / Computer 2000 in Finland, Baltic countries and Russia. Kivikoski has a Master of Social Sciences degree in International Economics from Helsinki University.

Kim Fagernäs
Vice President, APAC and Emerging Markets

Kim Fagernäs (born 1954) serves as Vice President, Sales, APAC and Emerging Markets at Stonesoft Corporation since June 2006. Before joining Stonesoft as Vice President, Nordic in 2004, he worked in Teleste for 15 years in various management and sales management positions in Finland and abroad. In 1997–2004 he served as Vice President Sales in Teleste Broadband Cable Access and in 1995–1997 as Sales Director, Nordic in Teleste Access.

Outi Torniainen
Vice President, Marketing and Communications

Outi Torniainen (born 1965) serves as Vice President, Marketing and Communications at Stonesoft Corporation since June 2006. Before joining Stonesoft as Marketing and Communication Manager in 2005, she worked as Senior Consultant in Pohjoisranta Porter-Novelli and as Marketing and Communication Director in the information security company Nixu Oy. Torniainen has a Master of Social Sciences degree in Communication from Helsinki University. Her areas of responsibility at Stonesoft are Marketing and Communications.

Board of Directors

Pertti Ervi

Chairman of the Board, Stonesoft Corporation

Born
- 1957

In Board
- Chairman of the Board of Stonesoft since 2006
- Member of the Board of Stonesoft since 2004

Education
- Bachelor of Science, Electronics

Main duties
- Independent consultant and investor

Essential work experience
- Over 25 years of experience in IT distribution and information technology in Europe
- Computer 2000 AG international headquarters, Germany, Co-president 1995–2000
- Computer 2000 Finland (currently Tech Data Finland), Co-founder and Managing Director until 1995

Position of trust
- Mentorium Venture Connections, Forte Netservices, Instream, Stockway, Holtron Tech nology Management, Chairman of the Board
- F-Secure, Vice Chairman of the Board

Ilkka Hiidenheimo

Member of the Board, Stonesoft Corporation

Born
- 1960

In Board
- Member of the Board of Stonesoft since 1990
- Founder of Stonesoft and Chairman of the Board of Stonesoft, 1990–1998

Main duties
- Stonesoft Corporation, CEO

Essential work experience
- Oracle Finland, Consultant 1989–1990
- Tekla, System Designer and Product Manager 1985–1989

Position of trust
- Teos, Member of the Board
- Hiidenkivi Investment, Member of the Board

Matti Viljo

Member of the Board, Stonesoft Corporation

Born
- 1957

In Board
- Member of the Board of Stonesoft since 2006

Education
- MSc. in Economics and Business Administration

Main duties
- TietoEnator, President, Banking & Insurance Business Area

Essential work experience
- Oracle Corporation, Vice President, Application Sales, Central and Northern Europe until 2006
- Oracle Finland, Managing Director 1998–2004
- IBM, several sales, service and marketing executive positions in Europe and the USA 1979–1997

Position of trust
- Master Golf Course, Chairman of the Board
- Forte Netservices, Member of the Board

Hannu Turunen

Member of the Board, Stonesoft Corporation

Born
- 1957

In Board
- Member of the Board of Stonesoft 1992—1999 and since 2007
- Chairman of the Board of Stonesoft 2000–2002

Education
- MSc. in Electrical Engineering, MBA

Main duties
- Magnolia Ventures, Managing Partner

Essential work experience
- Magnolia Ventures, Managing Partner 2001–
- Stonesoft Corp., President 2000–2001
- Stonesoft Corp., CEO 1992–2000
- Oracle Finland, Sales Director 1988–1992

Position of trust
- BLStream Oy, Gamelion Oy and dSign Oy, Chairman of the Board
- Men&Mice, Member of the Board
- Member of Hallitusammattilaiset ry, the Finnish Association of Professional Board Members

Topi Piela

Member of the Board, Stonesoft Corporation

Born
- 1962

In Board
- Member of the Board of Stonesoft since 2006

Education
- MSc. in Economics and Business Administration, CEFA

Main duties
- Managing Director, Balance Capital

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

Positions of trust
- Member of the Board; Amanda Capital Plc, Piela Ventures, CFA-Finland, Balance Capital, Eyemaker´s Finland, QPR Software Plc
- Member of the State Pension Fund Investments Committee

Board of Directors' Report

Summary of the financial period

January – December 2007

The comparable figures from 2006 and 2005 are in parentheses and refer to the figures for continuing operations.

- Net sales EUR 19.0 (16.5 and 16.5) million
- Stonesoft's core business, the sales of the StoneGate product family, EUR 10.6 (8.3 and 8.4) million
- Operating result EUR –6.5 (–6.6 and –6.5) million
- Operating result as percentage of net sales –34% (–40% and –39%)
- Earnings per share EUR –0.11 (–0.11 and –0.11)
- Equity per share 0.10 EUR (0.17 and 0.28)
- Cash flow EUR –6.2 (–7.4 and –4,1) million
- Liquid assets at the end of the period EUR 8.2 (14.4 and 18.1) million

Reporting is done according to the International Financial Reporting Standards (IFRS).

The calculation indicators for the key figures are described in the annexed information of the consolidated Financial Statements, item 32. Definitions for key indications.

Net sales

The Group's net sales totaled EUR 19.0 (16.5 and 16.5) million. Growth compared to the corresponding period in the previous year was EUR 2.5 million or 15%. The operating result (EBIT) was EUR –6.5 (–6.6 and –6.5) million.

The sales of the StoneGate product family, the Group's core business, including Firewall, VPN, SSL VPN and IPS (Intrusion Prevention and Detection System), were EUR 10.6 (8.3 and 8.4) million. In 2007 the growth of the sales compared to the previous year was 28%.

The net sales were distributed geographically as follows: EMEA (Europe, Middle East and Africa) 74% (70% and 64%), Americas (North and South America) 21% (22% and 25%) and APAC (Asia-Pacific) 5% (8% and 11%).

Result

Stonesoft's operating result (EBIT) was EUR –6.5 (–6.6 and –6.5) million, 0.1 million better compared to the previous year. The operating result as percentage of net sales was –34% (–40% and –39%). The operating result after taxes was EUR –4.2 (-6.4 and –6.0) million. The earnings per share were EUR –0.11 (-0.11 and –0.11). The dividend per share was EUR 0 (0 and 0).

Finance and investments

At the end of the financial period, Stonesoft's total assets were EUR 17.7 (24.5 and 26.8) million. The equity ratio was 52% (66% and 74%) and gearing (the ratio of net debt to shareholders' equity) was EUR –1.46 (–1.50 and –1.14).

Consolidated liquid assets at the end of the financial period totaled EUR 8.2 (14.4 and 18.1) million. The comparable cash flow was EUR –6.2 (–7.4 and –4.1) million. The cash flow developed positively during the last quarter and the positive development is estimated to continue during the first quarter of 2008.

In order to strengthen the company´s capital structure and to ensure the positive development of the company's strategy and growth plan in the future as well, the main shareholders of the company announced in October 2007 their willingness to invest at least EUR 3 million in the company in the form of a convertible bond. Based on this information, the Board of Directors started to prepare a convertible bond to be addressed to a limited number of investors. The target of the arrangement is to ensure additional funding of 3–5 million Euros to the company, if needed. The intention is to introduce a proposal related thereto at the Annual General Meeting of the shareholders in the spring of 2008.

Investments in tangible and intangible assets totaled EUR 0.5 (0.4 and 0.4) million.

Discontinuing operations

To be able to fully focus on its strategy of integrated network security and business continuity, Stonesoft signed a sales contract in December to sell Embe Systems Oy. The transfer of ownership took place on January 1, 2007. The company booked a sales profit of EUR 2.3 million in 2007 based on this deal.

Development of business operations

The company's main target in 2007 was to generate improved profitability through strong growth of sales. The company increased its net sales by 15% and the sales of its main product, StoneGate, by 28% during 2007. During the last quarter of the year, StoneGate sales were the highest ever in the company´s history and exceeded sales in the corresponding period in the previous year by 59%. However, for the whole year the growth of the net sales remained clearly weaker than expected and the profitability stayed close to the level of the previous year. The main reasons for not reaching the targets were slower than expected realization of the sales pipeline to actual sales, especially with IPS (Intrusion Prevention and Detection System) product sales, the slower than expected development of sales in certain geographical areas and the slow progress in the budget discussions in the United States affecting the sales of StoneGate products in the public sector.

In order to further improve the profitability of the company through increased sales the company made strong investments in extending its product portfolio and increasing its competitiveness by, among other things, launching SSL VPN solutions and a cost-effective FW-100 product suitable for remote offices and locations.

Enhanced efficiency of sales management and increased communications resulted in a steady growth of the sales pipeline. The company increased its visibility in its main market areas and the awareness of the company and its products among the customers grew.

During 2007, the transition of the company's position from a network security provider to a provider of integrated network security and business continuity was confirmed. The company aims to further strengthen this position by launching new StoneGate products to MSPs (managed service providers) and MSSPs (managed security service providers), among others, whose market position is still growing strongly.

The main business events in 2007 were:

- Swisscom Mobile chose StoneGate firewalls to protect their network infrastructure.
- Stonesoft extended its product offering to mobile users. The company signed a cooperation agreement with Portwise AB, which specializes in a browser-based SSL VPN solution for mobile and remote use. Deliveries of StoneGate SSL VPN solution for mobile users started in June.
- French LPG (gas) distributor Antargaz selected StoneGate firewalls to protect their network architecture.
- Stonesoft launched the first members of the new StoneGate product line, StoneGate IPS-6000 and FW-5100 products for large and demanding network environments.
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- Stonesoft launched the StoneGate IPS 4.0 intrusion detection and prevention system.
- Stonesoft launched StoneGate FW-300 and IPS-400, providing uncompromised security for remote offices.

- Stonesoft extended its StoneGate secure connectivity solution with the new StoneGate Transparent Access Control (TAC) module, which unifies IPS and firewall functionalities. The module allows network segmentation and transparent access control without the need to change existing network configurations.
- Stonesoft was granted six new patents, of which the most significant were the 'Method and device for handling related connections in a firewall' and 'An intrusion detection method and system'.
- Research company Gartner Inc. listed Stonesoft in their renowned Magic Quadrant research report. The report analyzes the market development of enterprise-level firewalls and ranks the leading industry vendors according to their competitiveness and the comprehensiveness of their vision.
- The StoneGate SSL VPN for secure mobile and remote use received the international interoperability certification from the Virtual Private Network Consortium (VPNC).
- Stonesoft announced that its products will support the new Internet protocol, IPv6, by the end of 2008.

Strategy

The company´s focus in the past few years has been in rebuilding the business after a substantial decrease in net sales in 2002–2003. During these two years the comparable net sales to current operations decreased from nearly EUR 50 million to below EUR 17 million and further in 2004 to slightly below EUR 16 million. The comparable result had decreased in two years by approximately EUR 30 million from the highest level that was reached in 2000, ending at the lowest in EUR –23 million in 2002.

Due to a strong decrease in business activities, the company implemented a number of significant structural and functional changes and reorganized its entire business, while carrying out a significant cost-cutting program. The challenge of the cost-cutting program was to maintain long term competitive operational conditions, which required sufficient geographical presence and maintaining the research and development functions at a level that ensures the company's competitiveness.

As a result of these actions, the company achieved the first clear turning point during 2005–2006. After the adjustments, internal operations and company structure were made functional and the decrease in net sales was stopped. Business activities were focused on the selected main markets and internal consolidation was completed. The operational focus of the company was further sharpened by concentrating on the company's core business, global sales of its own technology, by selling Embe Systems Oy, which was not part of the core business. The value proposition of the company to its customers was sharpened and company's market position was changed through new product launches. The company's business operations were still unprofitable, but the decrease of the comparable net result was stopped during 2006. In the earlier years, a strong decrease in the sales of the company's former main product, StoneBeat, concealed the growth of the sales of the StoneGate product family, which was becoming the new core business of Stonesoft. Now the company had reached the point where the decrease of the sales of this end-of-life product (StoneBeat) no longer materially affected the development of the net sales. A true positive turning point in the sales of the StoneGate product family was reached in the third quarter of 2006, when a rolling average of three quarters used in the internal monitoring turned back to growth after five decreasing quarters.

In 2007, the company's overall net sales grew by 15%, while the sales of StoneGate grew by 28%. As a result of a 59% growth in the sales of StoneGate, the last quarter of the year became the strongest ever in the history. Even though the growth during the last quarter was significant, the company did not reach the expected level of net sales for the year as a whole. As a consequence, the development of the annual result remained modest. The company's cost structure has not changed significantly since 2006. The company's target is to reach profitability by continuing growth while primarily making only inflation adjustments to the cost structure. The annual net sales in 2008 are expected to increase by 26% to EUR 24 million (+/– 10%), which is expected to bring the company an improvement of EUR 2.5 – 4.5 million to the operating result (EBIT). With the current cost structure, the zero level of the operative result will be achieved by net sales of roughly EUR 30 million.

According to the company's present calculations, the cash assets will be sufficient to accomplish the turn, but in order to ensure an adequate cash reserve, the Board of Directors have started preparations for organizing extra cash funding of at least EUR 3 million in the form of a convertible bond, if needed.

The company's position is stable both in Europe and in America, where the organization and the sales process have reached the level required by the growth expectations. Personnel turnover has been low during the past years, offering stability and continuity in the development of the company. In the last years, the company has invested in three emerging markets: Africa, Russia and China, of which the first two ones have already shown good progress. In 2007, the company closed down a small Indian office to ensure sufficient focus on the above-mentioned growth areas.

The company's value promise was sharpened in 2007 from a network security provider to a provider of integrated network security and business continuity. The company aims to further strengthen this position by launching new StoneGate products intended for MSPs (managed service providers) and MSSPs (managed security service providers), among others, whose market position is still growing strongly. The company is also among the first to launch new products for VMware virtual environment to respond to the rapidly increasing demand for virtualization of IT infrastructure. Launching an SSL VPN solution and a cost-effective FW-100 appliance suitable for remote offices and locations will further enlarge the potential customer base for the company's products. With the enlarged product family and improved profitability, the company aims to win larger single deals in the future. As part of its growth strategy, the company also aims to increase its business operations on the basis of OEM deals. Accordingly, the company has already started discussions with different entities in order to map out potential cooperation.

Channel partners

The sales of the StoneGate product family as Stonesoft's core business are mainly conducted through its international resales channel. In 2007 the partner network was further developed and, according to the company's strategy, more focus was placed on the partners offering virtual environments (WMware) and service providers offering information security (MSPs and MSSPs).

Markets in 2007

According to the Research Institute Infonetics, the markets for Firewall/VPN and Intrusion Prevention Systems are estimated to have grown globally around 19%, totaling roughly EUR 5.2 billion in 2007.

Review of major research and development activities

The company's R&D departments are located in Finland and France. R&D employed 69 (67 and 67) persons at the end of 2007.

The company's R&D investments during the fiscal period concerning continuing operations totaled EUR 5.3 million (4.8 and 4.6).

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

In 2007, the performance and manageability of the StoneGate product line was enhanced by new versions. New, faster firewall and IPS products that meet the continuously growing capacity demands, were launched. In addition to the new appliance generation with increased capacity, support for 10 Gbit/s network connections was added to the firewall. The performance of the fastest product in the IPS product family reached 4 Gbit/s. The new version added high availability capabilities to the StoneGate management and log servers as well as further improved usability features and enhanced monitoring. Together, these enable fault-tolerant management and even more efficient monitoring of the network infrastructure. The StoneGate IPS 4.0, introduced in the spring, brought extended protection against DoS (Denial of Service) attacks and new protocol inspections for VoIP traffic, among others. A small firewall appliance suitable for remote offices as well as a new version of the SSL VPN product with extended features were introduced at the end of the year. The IPS product was granted the renowned ICSA certificate. At the end of the year, focus was directed on the new firewall generation and adapting the products for virtual server environments.

Stonesoft was granted six new patents during the accounting period, of which the most significant were the 'Method and device for handling related connections in a firewall' and 'An intrusion detection method and system'.

Development of share prices and turnover

Stonesoft's share value at the beginning of the financial period on January 2, 2007 was EUR 0.47 (0.49 and 0.58). At the end of the financial period on the 28th of December 2007, the share price was EUR 0.29 (0.49 and 0.51). The highest share price was EUR 0.56 (0.61 and 0.69), and the lowest EUR 0.22 (0.41 and 0.46). During 2007, the total turnover of Stonesoft shares amounted to EUR 8.4 (10.9 and 13.1) million, which is 14.7% (19.0% and 22.8%) of the total amount of the shares. Stonesoft's share price decreased by 38.3% during the year 2007. Based on the share price on December 28, 2007, Stonesoft's market capitalization was EUR 16.6 (26.9 and 29.2) million.

Share capital and stock option programs

At the end of the financial period on December 31, 2007, Stonesoft's share capital recorded in the Trade Register totaled EUR 1,146,054.64. The weighted average value of the numbers of shares corrected by share issue was 57,302,732 (57,302,732 and 57,302,732). The share capital remained unchanged. There is one class of shares and every share has one vote. The shares have no limitations on voting rights. The shares have no nominal value and no bookkeeping equivalent value. There are no redemption or approval clauses related to the shares, or securities entitling to the shares, and no other limitations of transfer. Furthermore, the shares and securities entitling to the shares have no special rights related to the decision making of the company.

The shares of the company have been connected to the book-entry securities system maintained by the Finnish Security Center Oy (APK). APK maintains the official shareholder register of the company.

The shares of the company are rated in the small company list under the information technology classification with the trade identification SFT1VY in the OMX Nordic Stock Exchange in Helsinki.

The company currently has one valid stock option program, Stock Option program 2004–2010, the subscription price of which is EUR 0.56. The total number of shares to be distributed based on this program is a maximum of 1,500,000. At the end of 2007, there were 1,087,500 stock option rights granted. The subscription period of the shares is graded and will end for all stock options on December 31, 2010. At the end of the fiscal period, 557,500 shares could be subscribed based on this program, which represents 1% of the present number of shares. During 2007, no subscriptions were made on the basis of the stock option program for key persons in the company.

Division of shareholdings by classes:

The amount of shares 31.12.2007	Shareholders Number	Shares Voting rights %	Shares Voting rights Number
1 – 100	1 393	0.2 %	109 647
101 – 500	2 018	1.1 %	630 699
501 – 1.000	830	1.2 %	705 080
1.001 – 5.000	1 199	5.3 %	3 064 599
5.001 – 10.000	263	3.6 %	2 056 852
10.001 – 50.000	241	9.3 %	5 306 301
50.001 – 100.000	42	5.3 %	3 008 846
100.001 – 500.000	36	15.2 %	8 698 525
500.001 –	12	58.8 %	33 722 183
Total	**6 034**	**100.0 %**	**57 302 732**

Division of shareholders by sector:

Division of shareholders by sector 31.12.2007	Shareholders	Shares Voting rights %	Shares Voting rights
Corporations	285	17.8 %	10 181 357
Financial institutions	11	13.3 %	7 636 808
Governmental institutions	3	1.3 %	736 500
Households	5 678	63.9 %	36 634 278
Non-profit institutions	8	0.9 %	497 122
Foreign registered	49	2.8 %	1 616 667
Total	**6 034**	**100.0 %**	**57 302 732**
*Incl. administrative registrations	11	8.4 %	4 823 037

Largest shareholders:

Largest shareholders 31.12.2007	Number	%
Hiidenheimo Ilkka	10 417 400	18.2 %
Turunen Hannu	7 450 000	13.0 %
Nordea Pankki Suomi Oyj *	3 055 930	5.3 %
Ulkomarkkinat Oy	2 499 900	4.4 %
Nordea Pankki Suomi Oyj	2 373 900	4.1 %
Veikko Laine Oy	1 562 650	2.7 %
Syrjälä Timo	1 524 000	2.7 %
Evli Pankki Oyj *	1 288 970	2.3 %
Majos Oy	1 221 833	2.1 %
Syrjälä&Co Oy	1 035 700	1.8 %
Others *	24 872 449	43.4 %
Total	**57 302 732**	**100.0 %**
* Incl. administrative registrations	4 823 037	8.4 %

Shareholders

At the end of 2007, the company had 6,034 (6,935 and 7,955) shareholders. Nominee-registered holdings represented 8.4% of the share capital. The company gave five notices of change of ownership during the fiscal period.

Shareholdings of the Board of Directors and the CEO

On December 31, 2007, the members of the Board of Directors, the CEO and the entities under their control held a total of 18,007,400 shares of the company, which represented 31% of the shares and the voting rights.

The stock option rights held by the members of the Board of Directors on December 31, 2007 entitled them to a subscription of 60,000 shares.

Proposal by the Board of Directors for distribution of profit

The operating result (EBIT) of the parent company was EUR –7.2 million. At the end of the financial period, the parent company had no distributable equity in its shareholders' equity. The Board of Directors proposes that the company pay no dividend and that the loss be debited to the Profit/Loss account.

Authorizations currently in force

The Annual General Meeting held on March 21, 2007 authorized the Board of Directors to issue new shares in one or several issues, and to grant options and other special rights. The total number of shares or rights to the shares issued may be 11,450,000 at the maximum.

The new shares to be issued in a new issue and/or the stock options or special rights may be offered for subscription either according to the shareholders´ pre-emptive subscription rights, or in deviation from the shareholders´ pre-emptive subscription right, if the deviation is justified by a weighty financial reason for the company, such as financing an acquisition, enabling a joint venture transaction, providing additional financial alternatives, and/or an arrangement for an incentive program directed to the company's personnel.

The Board of Directors was authorized to decide other terms and conditions related to the share issues and to the issuance of options or other special rights. The authorization is in force until the end of the 2009 Annual General Meeting.

The granted authorization was not used during the financial period.

The company does not own its shares, and the Board of Directors does not have an authorization to acquire its own shares.

The company's Board of Directors, Executive Management and auditors

According to the Articles of Association of the company the Board of Directors is comprised of 3–7 ordinary members. The term of the member of the Board of Directors starts at the end of the Annual General Meeting that elects him/her and continues until the end of the next Annual General Meeting. The Annual General Meeting held on March 21, 2007 elected five members to the Board of Directors. Pertti Ervi, Ilkka Hiidenheimo, Topi Piela and Matti Viljo were re-elected to the Board, and Hannu Turunen was elected as a new member to the Board. In its statutory meeting held on April 24, 2007, the Board elected Pertti Ervi as Chairman of the Board and Topi Piela as Vice Chairman. Furthermore, the Board decided that there will be no separate Board committees; due to the size of the company's business operations and the size of the Board, there is no need to prepare issues in smaller units than the entire Board.

According to the Articles of Association, the company has a Chief Executive Officer (CEO), who is appointed and discharged by the Board of Directors. In 2007, Ilkka Hiidenheimo was the CEO of the company. The CEO is in charge of the day-to-day management of the company in accordance with the instructions and orders given by the Board of Directors, as well as by the Companies Act.

The members of the company's Executive Management were Ilkka Hiidenheimo, Kim Fagernäs, Juha Kivikoski, Saara Laine, Mikael Nyberg, Mika Rautila and Outi Torniainen.

In 2007, authorized public accountants Ernst & Young Oy, acted as Stonesoft's auditor, and authorized public accountant Pekka Luoma as the main auditor.

The compensation of the CEO

CEO Ilkka Hiidenheimo has decided not to accept any compensation for his duties until the company is profitable. There is no specific retirement age set forth for the CEO. The CEO's pension is the same as Finland's Employee Pension Act (TEL) that is compulsory for all Stonesoft employees. 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 if the company terminates the contract without essential breach of contract by the CEO. Both the pension right and the right to compensation in case of termination of contract are only theoretical as long as the CEO is not receiving any compensation. The same arrangement applies in connection with public take-over bids.

Acquisitions and changes in the structure of the Group

In January, Stonesoft Corporation's subsidiary Embe Systems Oy was sold.

Stonesoft Corporation's Swiss subsidiary Stone-Gate AG was closed down in August 2007. There were no other changes in the Group structure.

Foreign branches and representative office

The company has no foreign branches. In 2007, the company established a representative office in China, registration number 37745120-000-02-07-6, address: Level 8 Cambridge House, Taikoo Place Island East, 979 King's Road, Quarry Bay, Hong Kong.

Personnel

At the end of the financial period, the Group's personnel totaled 187 (186 and 189) people, of which 171 were employees and 16 had contractual relationships as full-time sales representatives or consultants.

In the tables below, the discontinuing operations refer to the employees of Embe Systems Oy, which was divested at the end of 2006.

The salaries and other remuneration paid to the employees, including social security payments (EUR million):

	2007	2006	2005
Continuing operations	13.9	13.1	12.7
Discontinuing operations	–	3.9	4.0
Total	13.9	17.0	16.7

The average number of personnel during the fiscal period:

	2007	2006	2005
Continuing operations	181	182	178
Discontinuing operations	–	69	69
Total	181	251	247

The geographical distribution of Stonesoft personnel, continuing operations, was the following:

	2007	2006	2005
EMEA	159	155	157
AMERICAS	23	23	21
APAC	5	8	11
Total	187	186	189

Environment

Due to the nature of the company's business, the direct environmental impacts of its business operations are fairly limited. The activities include internal software development and purchasing of external hardware assembly services and related installation services from a subcontractor. Stonesoft is a member of PYR (The International Register of Packaging PYR ltd). Stonesoft's products are compliant with RoHS and WEEE directives (directives for restrictions of hazardous substances in electric appliances and recycling of electric appliances).

Corporate Governance

Stonesoft complies with the Corporate Governance Recommendation for listed companies issued by the OMX Nordic Stock Exchange Helsinki, as described on the web pages of the company.

Major events after the financial year

- Stonesoft's StoneGate IPS (intrusion detection and prevention system) received the Network IPS certification from the US-based ICSA Labs. Stonesoft is one of the few vendors whose product has passed the ICSA Labs tests.
- Stonesoft launched StoneGate FW-5100 appliances with 10 Gbps interfaces, and IPS-6100 appliances, which have been designed especially for the needs of high-capacity networks.
- Stonesoft became a member of the Technology Alliance Partner (TAP) Program at VMware, the leading provider of virtualization solutions, and announced that it will introduce a virtual StoneGate firewall/VPN appliance that protects corporate networks and ensures business continuity in virtual and physical network environments.
- Mika Jalava was nominated as the new CTO and member of the Executive Management at the year-end to replace Mika Rautila, who left the company to join the Technical Research Centre of Finland as Professor of Information Security Technology.

Short-term risks and risk management

Stonesoft's main risks and business uncertainties in the financial year 2008 are related to the realization timetable of the sales projects and possible production disruption of the company's subcontractors and suppliers. In addition, general economic uncertainty has increased. In other respects there have been no significant changes in Stonesoft's risks and business uncertainties compared to the previous year.

The target of risk management is to identify and acknowledge the risks that may prevent the company from achieving its business targets and to ensure proper management of these risks. The company's risk management policy includes the Group's risk management principles and processes. The CEO is responsible for organizing risk management for the Group, and the CFO (Chief Financial Officer), as the coordinator of risk management, develops risk management tools and reporting systems, and establishes global insurance policies. The directors of the business units are responsible for identifying and managing risks in their units.

With respect to operational risks, Stonesoft constantly develops its sales processes and related control systems. Product sales and the sales of related services are made mainly through a global channel. The sales are supported by the legal department, which seeks to reduce the legal risks related to business operations through continuously developing, managing and giving guidance related to Stonesoft agreements, and by making legal risk assessments for business plans before their implementation. The company has worldwide insurances to cover operational risks. Stonesoft manages and safeguards its critical business information by stringent internal policies and processes as well as by having efficient network security in place. The company widely uses its own network security technology to ensure continuing operation of its networks for its customers and personnel. All critical components are duplicated and, in addition, the company has a continuously updated back-up system in another physical location.

The goal of the management of financial risks is to identify and evaluate these risks and actively seek to prevent them. The most significant currency in addition to the Euro is the US dollar. The company's costs occur mostly in Euros. The company operates actively to minimize exchange rate risks.

The main principles of the treasury policy of the company are (i) to ensure the short-term liquidity of the company, (ii) to guarantee efficient management of cash flow and (iii) to follow prudent and transparent investment policy for the cash reserves, with the goal of guaranteeing competitive return at the selected risk level. The company's reserves are all invested in interest-bearing low-risk instruments.

The company's operations and related costs are continuously controlled. The company does not have a separate internal audit organization or a separate audit committee.

Issues impacting the result of the year 2008

In January 2007 Stonesoft booked a sales profit of EUR 2.3 million from the sale of the shares of Embe Systems Oy put into effect on January 1, 2007. The final purchase price of the shares will be higher than expected. According to the company's understanding the difference will increase the operating result of the first quarter of 2008 by EUR 0.2 million.

Future outlook

According to the Research Institute Infonetics, the Firewall/VPN and IPS Intrusion detection and prevention market will grow globally by roughly 8% in 2008. The market will continue to be dynamic.

Companies will continue to network with their partners and subcontractors, and this development will create even higher requirements for network security and availability. At the same time, the demand for outsourcing solutions and services will grow. Managed service providers (MSPs) have a growing need to provide their customers with the possibility to track the status of their network security while maintaining an overview of their own data network. According to the company's view, combining security and high availability, which is the cornerstone of StoneGate product design, will prove its strength even better in this development.

The convergence of voice, video and data in IP-based networks will create more demand for capacity and drive the adoption of 10 Gbps networks. The growing demand for added bandwidth, together with new protocols in IP networks, is expected to increase the general demand for better reporting, monitoring and analysis tools. This development will support Stonesoft in achieving its year 2008 growth plan, since these are the cornerstones of StoneGate Management Center's functionality.

The strong growth of virtualization has created a demand for ensuring network security and business continuity also in virtual environments. StoneGate products are better suited for virtual environments than the competitors' products because they are based on software solutions.

Stonesoft will continue its decisive and persistent efforts to increase its net sales and to improve the profitability of the company. The company's main target in 2008 is to have a strong growth of net sales, generating improved profitability. By extension of the product portfolio and improved competitiveness, the company aims to win even larger individual deals.

Based on the extension of the product portfolio, intensification of sales efforts and the present sales pipeline, the company expects to have annual overall net sales of roughly EUR 24 million (+/– 10%), while the comparable net sales figure during the previous financial year was EUR 19.0 million. Through increased sales and cost control, the annual operating result (EBIT) is expected to improve by EUR 2.5 – 4.5 million compared to the previous year. Also the cash flow is expected to develop favorably.

With regard to the development of the turnover and the operating result, we expect a significant variation between the quarters in comparison to the corresponding quarter during the previous year as well as to the previous quarter as a consequence of, among other things, long sales cycles, the relatively large impact of individual deals, and the variation between the quarters in the previous year.

Stock Exchange Releases in 2007

30.1.2007	Stonesoft´s Financial Reports in 2007
16.2.2007	Stonesoft Corporation's Financial Statements Release for January–December 2006
19.2.2007	Notice pursuant to the Securities Market Act, Chapter 2, Section 10: Change of the ownership in Stonesoft Corporation
1.3.2007	Notice to convene Annual General Meeting
7.3.2007	Stonesoft Corp's Year 2006 releases
7.3.2007	Proposal for the composition of the Board Of Directors
14.3.2007	Notice pursuant to the Securities Market Act, Chapter 2, Section 10: Change of the ownership in Stonesoft Corporation
20.3.2007	Stonesoft's Annual Report 2006
21.3.2007	Decisions made by the Annual General Meeting
26.4.2007	Stonesoft Corporation Interim Report January–March 2007
3.7.2007	Stonesoft's Stonegate™ sales into record net sales during the second quarter with an annual growth of 65%, the annual costs and overall net sales are downgraded
31.7.2007	Stonesoft Corporation Interim Report January–June 2007
21.8.2007	Notice pursuant to the Securities Market Act, Chapter 2, Section 10: Change of the ownership in Stonesoft Corporation
26.9.2007	The growth of sales during the second half year will be emphasized to the last quarter – the annual overall net sales are downgraded
25.10.2006	Stonesoft Corporation Interim Report for January–September 2007
25.10.2007	Stonesoft strengthens its capital structure
22.11.2007	Notice pursuant to the Securities Market Act, Chapter 2, Section 10.
23.11.2007	Notice pursuant to the Securities Market Act, Chapter 2, Section 10.
20.12.2007	Stonesoft's Financial Reports in 2008

2007

Financial Statements

Income Statement (IFRS)

Stonesoft Group

(1000 Euros)			
Continuing operations	Note	1.1.- 31.12.2007	1.1.- 31.12.2006
Net sales	1	**19 020**	**16 479**
Other operating income	3	1 144	766
Materials and services		-3 064	-1 915
Personnel expenses	6	-13 930	-13 135
Depreciation	5	-449	-512
Other operating expenses	4	-9 234	-8 292
Operating result		**-6 514**	**-6 608**
Financial income and expenses	7,8	202	382
Result before taxes		**-6 312**	**-6 226**
Taxes	9	-213	-262
Result from continuing operations		**-6 525**	**-6 488**
Profit from discontinued operations	2	2 312	40
Result for the accounting period		**-4 212**	**-6 448**
Earnings per share from continuing operations			
Basic earnings per share (EUR)	10	-0,11	-0,11
Diluted earnings per share (EUR)		-0,11	-0,11
Earnings per share from discontinued operations			
Basic earnings per share (EUR)	10	0,04	0,00
Diluted earnings per share (EUR)		0,04	0,00

Balance Sheet (IFRS)

Stonesoft Group

(1000 Euros)	Note	31.12.2007	31.12.2006
Assets			
Non-current assets			
Tangible assets	11	709	608
Intangible assets	12	82	137
Deferred tax assets	14	1	2
Total		**793**	**747**
Current assets			
Inventories	15	1 069	912
Trade and other receivables	16	7 498	5 522
Prepayments	16	97	98
Marketable securities	13	7 571	13 755
Cash in hand and in bank	17	640	616
Total		**16 874**	**20 902**
Assets held for sale	2	0	2 859
Total assets		**17 666**	**24 507**
Equity and liabilities			
Equity attributable to equity holders of the parent	18		
Share capital		1 146	1 146
Share premium account		76 981	76 897
Conversion differences		-927	-867
Retained earnings		-71 622	-67 410
Total		**5 579**	**9 767**
Long-term liabilities			
Provisions	20	56	112
Interest bearing liabilities	21	0	62
Other long-term liabilities	22	1 722	1 296
Total		**1 779**	**1 470**
Short-term liabilities			
Trade and other payables	22	10 018	12 041
Tax liabilities		85	116
Provisions	20	131	84
Short-term interest bearing liabilities	21	75	107
Total		**10 309**	**12 348**
Liabilities held for sale	2	0	922
Total liabilities		**12 088**	**14 740**
Total equity and liabilities		**17 666**	**24 507**

Cash Flow Statement (IFRS)

Stonesoft Group

(1000 Euros)	Note	1.1.-31.12.2007	1.1.-31.12.2006
Cash flow from operating activities			
Operating result for the period		-6 514	-6 608
Adjustments	26		
Operations without money transfer		284	642
Financial expenses		-83	-58
Financial income		216	477
Change in net working capital			
Change of trade and other receivables		-1 113	-1 523
Change of inventory		-203	-393
Change of trade and other liabilities		2 003	598
Change of provisions		0	0
Taxes paid		-212	-261
Net cash flow from operating activities, continuing operations		**-5 622**	**-7 125**
Net cash flow, discontinued operations	2	0	114
Total cash flow from operating activities		**-5 622**	**-7 011**
Cash flow from investing activities			
Investments in tangible assets		-463	-216
Investments in intangible assets		-32	-50
Investments in affiliated company shares		-1	3 631
Net cash flow investing activities, continuing operations		**-496**	**3 365**
Net cash flow investing activities, discontinued operations	2	-448	-131
Total cash flow investing activities		**-944**	**3 233**
Cash flow from financing activities			
Payments of financial leasing liabilities		-95	-166
Total cash flow from financing activities		**-95**	**-166**
Change in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		14 370	18 097
Conversion differences		-60	-18
Changes in the market value of investments		69	-39
Discontinued operations	2	492	274
Total cash and cash equivalents at the end of the period *)	13,17	**8 210**	**14 370**
***) Total cash and cash equivalents at the end of the period contains pledged securities**		281	3

Statement of Changes in Equity (IFRS)

Stonesoft Group

(1000) Euros

Equity attributable to equity holders of the parent	Share capital	Share premium	Conversion differences	Retained earnings	Total
Shareholders' equity at 1.1.2006	**1 146**	**76 845**	**-849**	**-60 961**	**16 181**
Conversion differences			-18		-18
Net income recognised directly in equity			**-18**		**-18**
Result for the period				-6 448	-6 448
Total recognised income and expenses for the period			**-18**	**-6 448**	**-6 467**
Stock options exercised		52			52
Shareholders' equity at 31.12.2006	**1 146**	**76 897**	**-867**	**-67 410**	**9 767**

Equity attributable to equity holders of the parent	Share capital	Share premium	Conversion differences	Retained earnings	Total
Shareholders' equity at 1.1.2007	**1 146**	**76 897**	**-867**	**-67 410**	**9 767**
Conversion differences			-60		-60
Net income recognised directly in equity			**-60**		**-60**
Result for the period				-4 212	-4 212
Total recognised income and expenses for the period			**-60**	**-4 212**	**-4 272**
Stock options exercised		84			84
Shareholders' equity at 31.12.2007	**1 146**	**76 981**	**-927**	**-71 622**	**5 579**

Notes to the Consolidated Financial Statements

Stonesoft Group

Corporate information

Stonesoft Corporation (OMX: SFT1V) is an innovative provider of integrated network security solutions to secure the information flow of distributed organizations. Stonesoft customers include enterprises with growing business needs requiring advanced network security and always-on business connectivity.

The StoneGate™ secure connectivity solution unifies firewall, VPN, IPS and SSL VPN blending network security, end-to-end availability and award-winning load balancing into a unified and centrally managed system. The key benefits of StoneGate secure connectivity solution include low TCO, excellent price-performance ratio and high ROI.

StoneGate Management Center provides unified management for StoneGate Firewall with VPN, IPS and SSL VPN. StoneGate Firewall and IPS work together to provide intelligent defense throughout the enterprise network while StoneGate SSL VPN provides enhanced security for mobile and remote use.

Founded in 1990, Stonesoft Corporation is a global company with corporate headquarters in Helsinki, Finland and Americas headquarters in Atlanta, Georgia. For more information, visit www.stonesoft.com.

The parent company of the Group is Stonesoft Corporation. Its domicile is Helsinki and the registered address is Itälahdenkatu 22 A, 00210 Helsinki. Stonesoft Corporation's shares are quoted on the OMX Nordic Stock Exchange Helsinki.

A copy of the consolidated Financial Statements is available at the internet address www.stonesoft.com or from the Group headquarters at Itälahdenkatu 22 A, 00210 Helsinki.

The Board of Stonesoft Corporation has in its meeting on March 25th, 2008 approved the publication of these Financial Statements. According to the Finnish Companies act the shareholders can approve or dismiss the Financial Statements in the Annual General Meeting held after the publication. The Annual General Meeting can also decide on changing the Financial Statements.

Principles and accounting policies applied preparing the Annual Report

Basis for preparing the Financial Statements

The consolidated Financial Statements have been prepared in accordance with IFRS (International Financial Reporting Standards). IAS and IFRS standards in force 31.12.2007 as well as SIC and IFRIC interpretations have been applied. The notes to the Financial Statements are also compliant with Finnish accounting and company legislation.

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

The Group has starting 1.1.2007 applied the following new and renewed standards and interpretations:

• IFRS 7 *Financial instruments: disclosures.* IFRS 7 requires presentation of both the impact of financial instruments on the companies' economical position and result as well as the nature and extentet of risk related to the instruments. The standard has added the number of the notes to the Financial Statements, the new items being primarily sensitivity analyses.

• The amendment of the IAS 1 standard: IAS 1 *Presentation of Financial Statements – Capital disclosures.* The amended IAS 1 requires presentation of the company's capital level and its management during the reporting period. The amendment has added the number of the notes to the Financial Statements.

• IFRIC 8 *Scope of IFRS 2.* IFRIC 8 is applied to share-based transactions where the value of the received items/services are below the fair value of the equity instruments granted. The Group has not had this type of transactions during this or the preceeding reporting period.

• IFRIC 10 *Interim Financial Reporting and impairment.* The interpretation prohibits reversing of impairment losses booked in interim reports linked to goodwill, assets held for sale, share-based instruments etc. This interpretation has no impact on the consolidated Financial Statements.

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

Principles applied in preparing the consolidated Financial Statements

Group companies

The Group's consolidated Financial Statements include the parent company Stonesoft Corporation and all its daughter companies. A specification of the ownership within the Group can be found in the notes, item 29. Related party transactions.

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

During the financial period 2007, Stonesoft AG (Switzerland) was closed down and Embe Systems Oy sold.

Conversion of currency items

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

Business transactions in foreign currency are booked in the operating currency using the exchange rate of the transaction date. Currency based monetary values are translated into the operating currency using the exchange rates of the closing day. Non-monetary values in foreign currency, if valued at fair values, have been translated into the operating currency using the exchange rates of the valuation days. Otherwise non-monetary values are translated using the transaction day exchange rates. Profits and losses arising from business transactions in foreign currency and from translating monetary items are booked in the income statement. Exchange rate profits and losses related to business transactions are included in the corresponding lines above operating result.

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

Tangible assets

Tangible assets are valued at original acquisition prices less cumulated planned depreciation and write-offs based on impairment testing. Repair and maintenance related to tangible assets is booked through the income statement when completed.

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

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

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

Depreciation of tangible assets is stopped when the asset is classified as being for sale in accordance with the IFRS 5 standard: *Non-current Assets Held For Sale and Discontinued Operations.*

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.

Having sold Embe Systems Oy 1.1.2007 the Group has no goodwill in its balance sheet 31.12.2007.

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. that the future cash flows related to them can only be properly estimated when the products hit the market. Research and development costs are booked as costs during the reporting period they are generated. No R&D costs have been activated at the closing date.

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

Tekes has granted Stonesoft Corporation financing for a development project called ''Protecting the internal networks of the future''. The project lasts from 1.3.2007 to 15.12.2008.

Other intangible assets

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

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

The estimated useful lives of intangible assets are:

Computer software	5 years
Other intangible assets	5 years

Inventories

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

Leases

Leases of tangible assets where the Group carries a substantial part of the risks and benefits normally associated with ownership are classified as financial leases. Assets obtained through financial leases are booked into the balance sheet at the beginning of the lease at the fair value of the leased asset or a lower net present value of the minimum lease payments.

Assets obtained through financial leasing are depreciated during the economical 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 classified as financial leases. A more detailed specification of financial leases can be found in the notes, item 21. Interest bearing liabilities.

Leases where risks and benefits associated with ownership are with the lessor are treated as other rental agreements. Rents paid based on other rental agreements are booked as costs during the rental period. A more detailed specification of other rental agreements can be found in the notes, item 28. Operating lease commitments.

Impairment

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

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

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

Employee benefits

Pensions

The pension arrangements of the Group in different countries abide with local regulations and practises.

The pension arrangements are classified as payment based and booked through the income statement during the period the chargeis related to.

Share-based payment plans

The Group has stock option based incentive programs which are paid with equity based instruments. Stock options are valued at market prices on the granting date and booked as costs evenly during the period of earning.

The cost defined at the moment of the option grant is based on the Group’s estimate on the amount of options to which the right to subscribe is expected to be born at the end of the subscription period.

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

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

Provisions

A provision is booked if the Group, based on earlier transaction, has a legal or factual liability, a payment liability is probable and the magnitude of the liability can be assessed reliably. The existing provisions are related to contracts resulting in losses and restructuring cases. If it is possible to receive compensation from a third party for part of a liability, the compensation is booked as an asset. This is only done when receiving the compensation in practise is definite. The provisions are valued at net present value of the costs required to cover the liability. A more detailed specification of the provisions is presented in the notes, item 20. Provisions.

A guarantee provision is booked when a product linked to a guarantee is sold. The size of the provision is based on experience of previous levels of guarantee related costs.

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.

Deferred tax receivables have been booked up to a value against which it is likely that future taxable income will be generated and against which the difference can be applied.

Revenue recognition – sold products and services rendered

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

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

Income from support and maintenance contracts are uniformly distributed in accordance with the length of the contract period.

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

Interest and dividends

Interest income has been booked in accordance with the effective interest method.

The Group booked no dividend income during financial years 2007 and 2006.

Assets Held for Sale and discontinued operations

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

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

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

The Profit/Loss of the discontinued operations is presented separately in the profit/loss statement. Assets Held for sale, groups of assets, bookings made into equity related to assets Held for Sale and liabilities linked to discontinued assets are shown separately from other assets in the Balance Sheet.

Embe Systems Oy, which in the previous Financial Statements was classified as Held for Sale, was sold on January 1st, 2007.

In the Balance Sheet of 31.12.2007 there are no assets classified as Held for sale.

Financial assets and financial liabilities

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

Tradeable financial assets and financial assets due within 12 months are included in short term assets. Items in this class are valued at fair value. Fair values of all items in this class are defined as published prices on functioning markets, i.e. based on purchasing prices on the closing date. Both realized and unrealized profits and losses originating from changes in fair values are booked through the income statement in the period during which they occur.

Cash in hand and in bank consists of cash, vista bank accounts and other short term, very liquid investments.

Assets classified as financial assets have a maximum maturity of three months calculated from their acquisition date.

Financial liabilities are originally booked at fair value. Financial liabilities are included in short term liabilities and the may or may not be interest bearing.

The principles for defining the fair value of all financial assets and liabilities are presented in the notes, item 25. Fair value of financial assets and liabilities.

The Group estimates on each closing date if there is objective proof of impairment of individual financial assets or groups of assets.

The Group books impairment losses on Accounts receivable if there is objective proof that the receivable can not be collected in full. Significant economical problems, likelyhood of bankrupcy, non-payment or payment delays in excess of 60 days are proof of impairment of receivables. In case the impairment loss in a later reporting period diminishes and the deduction can objectively be linked to a transaction taking place later than the impairment booking, the loss is reversed into a profit.

Derivative contracts and hedge accounting

The Group used no derivatives in the financial years 2007 or 2006.

Equity

The common shares issued are presented as equity.

Operating result

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

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

In preparing the Financial Statements one is forced to make estimates and assumptions related to the future, which may deviate from the final outcome.

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

Testing for impairment

The Group tests intangible assets with indefinite economical life 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

IASB has published the following new or renewed standards and interpretations, which are not yet in force and which the Group has not applied. The Group will apply them starting from the date of validity for each of the standards and interpretations, or in case the validity date is not the first day of the reporting period, starting from the beginning of the following report period.

- IFRIC 11 IFRS 2 - Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRS 8 Operating Segments
- IAS 23 Borrowing Costs – change of the standard
- IAS 1 Presentation of Financial Statements – change of the standard

1. Segment information

The primary segment reporting used by the Group is geographical. The segments are based on the internal organizational structures and reporting.

The net sales, assets and liabilities of the segments are presented based on where the customers are geographically situated.

The operating result of a segment consists of geographical sales, local costs of Group companies and cost allocations from headquarters. In allocating costs, the Group uses net sales as basis. This may impact comparability between periods.

The business practises of different geographical areas differ from each other. Due to this the risks and profitability of the segments may differ from each other.

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

Geographical segments

The geographical segments of the Group are:

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

Geographical segments 1.1. - 31.12.2007 (1000 Euros)

	EMEA	AMERICAS	APAC	Elimination	Total
External sales					
Software	1 107	233	180		1 520
Services	5 802	1 979	622		8 403
Other sales	7 170	1 693	234		9 097
External sales total	**14 078**	**3 906**	**1 036**		**19 020**
Internal sales	0	0	0		0
Net sales	**14 078**	**3 906**	**1 036**		**19 020**
Operating result	-4 350	-2 038	-126		-6 514
Result from continuing operations	-4 350	-2 038	-126		-6 514
Result from discontinued operations	2 312	0	0		2 312
Unallocated					-11
Result for the accounting period					**-4 212**
Assets	8 442	1 563	116		10 121
Unallocated					7 546
Total assets					**17 666**
Liabilities	9 935	1 956	196		12 088
Unallocated					0
Total liabilities					**12 088**
Investments	450	45	0		495
Depreciation	425	24	0		449

Geographical segments 1.1. - 31.12.2006
(1000 Euros)

	EMEA	AMERICAS	APAC	Elimination	Total
External sales					
Software	1 619	303	238		2 159
Services	5 174	2 119	774		8 068
Other sales	4 755	1 143	355		6 252
External sales total	**11 548**	**3 564**	**1 367**		**16 479**
Internal sales	0	0	0		0
Net sales	**11 548**	**3 564**	**1 367**		**16 479**
Operating result	-3 334	-2 670	-604		-6 608
Result from continuing operations	-3 334	-2 670	-604		-6 608
Result from discontinued operations	33	6	0		40
Unallocated					120
Result for the accounting period					**-6 448**
Assets	9 433	1 103	214		10 751
Unallocated					13 756
Total assets					**24 507**
Liabilities	13 042	1 407	291		14 740
Unallocated					0
Total liabilities					**14 740**
Investments	399	-11	-6		381
Depreciation	542	35	3		581

2. Assets held for sale and discontinued operations

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

The Stonesoft Group booked a profit of 2 312 thousand Euros in the reporting period 2007. Stonesoft does not pay taxes on the profit of the sale. The ownership and the control of the company was transferred to the buyer on 1.1.2007.

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

(1000 Euros)	1.1.-31.12.2007	1.1.-31.12.2006
EMBE Systems Oy		
Net sales	0	5 400
Other income	0	41
Employment benefits	0	-3 878
Depreciation	0	-69
Other costs	0	-1 422
Operational result	**0**	**72**
Financial income and costs	0	-15
Result before taxes	**0**	**57**
Taxes	0	-17
Result for the reporting period	**0**	**40**
Income	2 312	5 443
Costs	0	-5 386
Result before taxes	**2 312**	**57**
Taxes	0	-17
Profit from discontinued operations	**2 312**	**40**
Cash flow of EMBE Systems Oy:		
Operational cash flow	0	90
Cash flow from investments	0	-105
Cash flow from financial transactions	0	-259
Total cash flow	**0**	**-274**

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

	2007	2006
Tangible assets	0	98
Goodwill	0	1 507
Other intangibles	0	25
Other financial assets	0	4
Receivables	0	733
Cash and equivalents	0	492
Accounts payable and other liabilities	0	-922
Total assets and liabilities	**0**	**1 936**
Received as cash	44	3 630
Cash of the discontinued operations	-492	0
Impact on cash flow	**-448**	**3 630**

The sold unit was not attributed any goodwill on 31.12.2007 (1 507 thousand Euros on 31.12.2006).

3. Other operating income

(1000 Euros)	2007	2006
Gain on disposal of fixed assets	3	8
Rental income	670	659
Lunch sold to employees	61	57
Allowance TEKES	258	0
Others	151	43
Total	**1 144**	**766**

4. Other operating expenses

	2007	2006
Optional personnel expenses	283	267
Leasing and other building expenses	2 406	2 351
Office expenses	415	381
IT expenses	642	557
Travel expenses	736	735
Car expenses	219	231
Representation expenses	156	126
Marketing expenses	1 360	1 112
Telephone expenses	425	422
External services	2 160	1 573
Other expenses	432	537
Total	**9 234**	**8 292**

5. Depreciation, amortization and impairment

(1000 Euros)	2007	2006
Depreciation by asset type		
Intangible assets		
Other intangible assets	87	131
Tangible assets		
Machinery and equipment	348	369
Other tangible assets	13	11
Total	**449**	**512**

6. Personnel expenses

(1000 Euros)	2007	2006
Wages and salaries	11 339	10 618
Pensions – defined contribution plans	1 209	1 197
Share based payment plans	84	52
Other personnel costs	1 299	1 268
Total	**13 930**	**13 135**

Average number of personnel in Group	2007	2006
EMEA	155	151
AMERICAS	23	21
APAC	5	10
Total	**183**	**182**

Information on benefits offered to the management is presented in the notes, item 30. Related party transactions.

Information on granted options are presented in the notes, item 19. Share based payment plans.

7. Financial income

(1000 Euros)	2007	2006
Interest income	45	27
Exchange gains	11	17
Fair value gains and losses on financial instruments	69	-39
Sales profit on securities held for trading	160	434
Other financial income	0	1
Total	**285**	**439**

Exchange gains included in operating result total 141 thousand Euros in 2007 (205 thousand Euros in 2006).

8. Financial expenses

(1000 Euros)	2007	2006
Interest expenses	10	23
Exchange expenses	69	35
Other financial expenses	5	0
Total	**84**	**58**

Exchange losses included in operating result total 148 thousand Euros in 2007 (308 thousand Euros in 2006). Other financial expenses include 10 thousand Euros in 2007 of interest booked during the period related to financial leases (18 thousand Euros Euros in 2006).

9. Income taxes

(1000 Euros)	2007	2006
Income tax for the year	225	253
Income tax of previous years	-13	9
Deferred tax	0	0
Total	**213**	**262**

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

(1000 Euros)	2007	2006
Profit before tax	-6 312	-6 226
Tax calculated at Finnish statutory tax rate	-1 641	-1 619
Unrecognised tax receivables of losses	1 956	1 801
Effect of different tax rates in foreign subsidiaries	62	46
Income not subject to tax	-149	-15
Expenses not deductible for tax purposes	26	32
Previously unbooked usage of tax losses	-46	-20
Current income tax of previous years	-13	9
Other	17	28
Tax charge	**213**	**262**

Taxes related to discontinued operations are presented in the notes, item 2. Assets Held for Sale.

10. 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 nil cost since the company could not issue the same amount of shares against fair value with the funds received for exercising the options. The fair value of shares is based on the average price of the share during the reporting period.

(1000 Euros)	2007	2006
Profit attributable to equity holders of the parent company, continuing operations	-6 525	-6 488
Profit attributable to equity holders of the parent company, discontinued operations	2 312	40
Weighted average number of shares outstanding (1000 pcs)	57 303	57 303
Effect of issued share options (1000 pcs)	0	0
Diluted weighted average number of shares outstanding (1000 pcs)	57 303	57 303
Diluted earnings per share (1 EUR), continuing operations	-0,11	-0,11
Diluted earnings per share (1 EUR), discontinued operations	0,04	0,00

11. Tangible assets

(1000 Euros)	Machinery and equipment	Other tangible assets	Total
Acquisition cost at 1.1.2007	3 077	1 203	4 280
Correction to the acquisition cost	-95	2	-93
Additions	444	22	467
Transferred to long term assets held for sale	0	0	0
Disposals	-160	0	-160
Change in exchange rate differences	0	-8	-8
Acquisition cost at 31.12.2007	**3 265**	**1 220**	**4 485**
Accumulated depreciation at 1.1.2007	2 506	1 166	3 672
Correction to the accumulated depreciation	-93	1	-93
Depreciation during the financial year	348	13	362
Transferred to long term assets held for sale	0	0	0
Disposals	-159	0	-159
Change in exchange rate differences	0	-6	-6
Accumulated depreciation at 31.12.2007	**2 601**	**1 175**	**3 776**
Book value at 1.1.2007	571	37	608
Book value at 31.12.2007	664	45	709

(1000 Euros)	Machinery and equipment	Other tangible assets	Total
Acquisition cost at 1.1.2006	3 500	1 228	4 728
Correction for the acquisition cost	-39	0	-39
Additions	338	0	338
Transferred to long term assets held for sale	-83	0	-83
Disposals	-640	-24	-664
Acquisition cost at 31.12.2006	**3 077**	**1 203**	**4 280**
Accumulated depreciation at 1.1.2006	2 789	1 167	3 956
Correction to the accumulated depreciation	-30	0	-30
Depreciation during the financial year	369	11	381
Transferred to long term assets held for sale	5	0	5
Disposals	-627	-12	-639
Change in exchange rate differences	0	0	0
Accumulated depreciation at 31.12.2006	**2 506**	**1 166**	**3 672**
Book value at 1.1.2006	771	61	773
Book value at 31.12.2006	571	37	608

The tangible assets include assets rented through financial leasing contracts for a value of 325 thousand Euros in 2007 (472 thousand Euros in 2006).

The acquisition value remaining after depreciation of machinery and equipment in tangible assets is 595 thousand Euros 31.12.2007 (408 thousand Euros 31.12.2006).

Tangible assets include assets rented through financial leases as follows:

(1000 Euros)	1.1. - 31.12.2007 Machinery and equipment
Acquisition cost at 1.1.2007	472
Additions	14
Disposals	-160
Acquisition cost at 31.12.2007	**325**
Accumulated depreciation at 1.1.2007	309
Depreciation on disposals	-160
Depreciation during the financial year	108
Accumulated depreciation at 31.12.2007	**256**
Book value at 1.1.2007	163
Book value at 31.12.2007	69

(1000 Euros)	1.1.-31.12.2006 Machinery and equipment
Acquisition cost at 1.1.2006	739
Additions	22
Disposals	-290
Acquisition cost at 31.12.2006	**472**
Accumulated depreciation at 1.1.2006	410
Depreciation on disposals	-290
Depreciation during the financial year	188
Accumulated depreciation at 31.12.2006	**309**
Book value at 1.1.2006	329
Book value at 31.12.2006	163

Additions to acquisition costs of tangible assets include assets acquired through financial leases for 14 thousand Euros in 2007 (22 thousand Euros in 2006).

12. Intangible assets

(1000 Euros)	Other intangible assets
Acquisition cost at 1.1.2007	1 575
Additions	32
Transferred to long term assets held for sale	0
Disposals	-6
Change in exchange rate differences	-6
Acquisition cost at 31.12.2007	**1 595**
Accumulated depreciation at 1.1.2007	1 438
Depreciation during the financial year	87
Transferred to long term assets held for sale	0
Disposals	-6
Change in exchange rate differences	-6
Accumulated depreciation at 31.12.2007	**1 513**
Book value at 1.1.2007	137
Book value at 31.12.2007	82

(1000 Euros)	Other intangible assets
Acquisition cost at 1.1.2006	1 527
Additions	79
Transferred to long term assets held for sale	-27
Disposals	-4
Acquisition cost at 31.12.2006	**1 575**
Accumulated depreciation at 1.1.2006	1 309
Depreciation during the financial year	131
Transferred to long term assets held for sale	0
Disposals	-2
Accumulated depreciation at 31.12.2006	**1 438**
Book value at 1.1.2006	218
Book value at 31.12.2006	137

13. Other investments and marketable securities

(1000 Euros)	2007	2006
Securities held for trading	7 571	13 755
Total	**7 571**	**13 755**

The Group has decided to book investments in interest bearing instruments made during the reporting period at fair values as securities held for trading.

Securities held for trading consist primarily of mutual money market funds and all are in Euros. The principles for defining fair values is defined in the notes, item 25. Fair value of financial assets and liabilities.

Profits from securities held for trading are presented in the notes, item 7. Financial income, and losses in the notes, item 8. Financial expenses.

14. Deferred tax receivables and liabilities

Change in the deferred taxes

(1000 Euros)	31.12.2006	Booked through Income Statement	Booked against equity	31.12.2007
Deferred tax receivables				
Other	2	0	0	1
Total	**2**	**0**	**0**	**1**
Deferred tax liabilities	0	0	0	0
Total	**0**	**0**	**0**	**0**

(1000 Euros)	31.12.2005	Booked through Income Statement	Booked against equity	31.12.2006
Deferred tax receivables				
Other	2	0	0	2
Total	**2**	**0**	**0**	**2**
Deferred tax liabilities	0	0	0	0
Total	**0**	**0**	**0**	**0**

The Group has cumulated, taxable losses for a total of 83 475 thousand Euros at the closing on the 31.12.2007. Losses confirmed in the 2006 taxation equal 76 330 thousand Euros, expiring in the years 2011-2016. There is no certainty about the parent company generating taxable income within the time frame against which the losses could be utilized. No deferred tax income has been booked related to the cumulated losses.

15. Inventories

(1000 Euros)	2007	2006
Finished goods	738	912
Goods in transit	331	0
Total	**1 069**	**912**

Impairment costs have been booked related to inventories for a total of 46 thousand Euros in 2007 (0 thousand in 2006).

16. Trade and other receivables

(1000 Euros)	2007	2006
Trade receivables	5 227	4 745
Prepayments	97	98
Accrued incomes	1 932	540
Other receivables	339	238
Total	**7 595**	**5 620**

Writedowns on unsure receivables have been reversed in 2007 for a total value of 29 thousand Euros (writedowns in 2006 booked for a value of 45 thousand Euros).

The Group has booked credit losses on its receivables for a total of 80 thousand Euros in 2007 (5 thousand Euros gain in 2006). The Balance Sheet values equal the amount of money, which are estimated to be received. No major concentration of credit risk is linked to the receivables.

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

The ageing analysis of trade receivables is as follows:

(1000 Euros)	2007	Provision for bad debts	Net 2007
Non-overdue	4 203	0	4 203
Past due			
Less than 30 days	619	0	619
30-60 days	261	0	261
61-90 days	102	7	95
Over 90 days	98	49	49
Total	**5 283**	**56**	**5 227**

(1000 Euros)	2006	Provision for bad debts	Net 2006
Non-overdue	3 902	0	3 902
Past due			
Less than 30 days	544	0	544
30-60 days	216	10	206
61-90 days	123	49	74
Over 90 days	44	26	19
Total	**4 829**	**85**	**4 745**

The currency split of short-term receivables is following:

(1000 Euros)	2007	2006
Euro	5 850	4 358
USD	1 668	1 198
GBP	25	31
HKD	28	5
BRL	10	9
TND	3	2
CAD	1	13
SEK	1	0
DZD	4	0
SGD	4	4
Total	**7 595**	**5 620**

17. Cash in hand and in bank

(1000 Euros)	2007	2006
Cash in hand and in bank	640	616
Total	**640**	**616**

According to cash flow statement:

	2007	2006
Cash in hand and in bank	640	616
Securities held for trading	7 571	13 755
Total	**8 210**	**14 370**

Total cash and cash equivalents contains pledged securities for a total of 281 thousand Euros in 2007 (3 thousand Euros in 2006).

18. Share capital of the parent company

(1000 Euros)	Number of shares	Share capital	Share premium	Total
31.12.2005	57 302 732	1 146	76 845	77 991
Stock options exercised			52	52
31.12.2006	**57 302 732**	**1 146**	**76 897**	**78 043**
Stock options exercised			84	84
31.12.2007	**57 302 732**	**1 146**	**76 981**	**78 127**

Stonesoft Corporation has one class of shares. 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' Financial Statements.

Dividends

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

19. Share based payment plans

Share based stock options expire unless they are vested before or on the vesting date defined in the option plan. Stock options are lost if the person leaves the company before he/she has the right to exercise the stock options. During the reporting period 2007 and 2006 the Group has had three separate option programs in place for its employees. The main terms of the stock option programs are presented below.

A total of 84 thousand Euros has been booked as provisions against equity for benefits of employment based on stock options during the reporting period 2007 (52 thousand Euros in 2006). A cost of 16 thousand Euros in 2008 is estimated to arise from the stock options.

The Group has the following stock option plans:

Stock option plan 2/2000

The stock option plan expired 30.4.2006. The stock option plan has no impact on Financial Statements for 2007.

Stock option plan 4/2001

The stock option plan expired 31.10.2006. The stock option plan has no impact on Financial Statements for 2007.

Stock option plan 5/2004

The extraordinary general meeting of shareholders of Stonesoft Corporation, held on November 24, of 2004 approved a new stock option plan proposed by the Board of Directors.

Under this plan, a total of 1 500 000 stock options can, in deviation from the shareholders´ pre-emptive subscription rights, be offered for subscription to the members of the Boards of Directors of the companies in the Stonesoft Group, other management or staff. Each stock option entitles the holder to subscribe for one share in Stonesoft. The subscription 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 ends on December 31, 2010. The share subscription price for all stock options shall be 0.56 Euros.

The Group has not exercised options for financial years 2007 and 2006.

The terms of the option plans are the following:

Option right	Subscription price for one share	Subscription period	Options
Option plan 5/2004 A	0,56	1.1.06 – 31.12.10	288 750
Option plan 5/2004 B	0,56	1.1.07 – 31.12.10	268 750
Option plan 5/2004 C	0,56	1.1.08 – 31.12.10	265 000
Option plan 5/2004 D	0,56	1.1.09 – 31.12.10	265 000

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 excersise prices during the reporting period are:

Amount of option rights issued

(1000 Euros)	2007 Weighed average exercise price Euros/share	2007 Number of options	2006 Weighed average exercise price Euros/share	2006 Number of options
At the beginning of the financial year	0,56	595 000	7,83	1 590 840
Allocated new options	0,56	500 000	0,56	430 000
Forfeited options	0,56	-7 500	0,56	-60 000
Expired options	–	0	9,02	-1 365 840
At the end of the financial year		1 087 500	0,56	595 000
Vested options outstanding at the end of the financial year	0,56	557 500	0,56	163 750
Vested options during the financial year		0		0

Subscription prices and exercising periods of outstanding stock options at the end of the financial year:

Exercising period ends	Subscription price (Euros)	2007 Number of shares	2006 Number of shares
2010	0,56	1 087 500	595 000
Total		**1 087 500**	**595 000**

The fair value of the shares in the option programmes, based on which shares are granted, have been based on actual share prices. Payments of dividends are not foreseen and therefore the calculation of the fair value of the options also excludes dividends. The total cost booked is presented in the notes, item 6. Personnel expenses.

20. Provisions

(1000 Euros)	Losses on projects	Other provisions	Total
31.12.2006	152	43	195
Additions	0	117	117
Utilized during year	-70	-54	-124
31.12.2007	**82**	**106**	**188**

(1000 Euros)	2007	2006
Short term	131	84
Long term	56	112
Total	**188**	**195**

Losses on contracts

The Group has a fixed lease contract on its headquarter 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 discounting rate used when calculating the net present value is 6.5%.

Other provisions

Other provisions are related to restructuring costs.

21. Interest bearing liabilities

(1000 Euros)	2007	2006
Long term interest bearing liabilities valued at amortized cost		
Finance lease liabilities	0	62
Short term interest bearing liabilities valued at amortized cost		
Finance lease liabilities	75	107

The principles for defining the fair value of interest bearing debt are presented in the notes, item 25. Fair value of financial assets and liabilities

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

Interest bearing short and long term liabilities are all in Euros.

The weighted averages of effective interest rates in the long term, interest bearing debt 31.12.2007 and 31.12.2006 were:

	2007	2006
Long-term finance lease liabilities	–	4,16%
Short-term finance lease liabilities	4,16%	8,20%

Finance lease liabilities duration

Finance lease liabilities –
Minimum lease payments

(1000 Euros)	2007	2006
In less than one year	77	116
Between one and five years	0	65
Total minimum lease payments	**77**	**181**

Finance lease liabilities –
Present value of minimum lease payments

(1000 Euros)	2007	2006
In less than one year	75	107
Between one and five years	0	62
Total present value of minimum lease payments	**75**	**170**

Future financial charges	2	11
Finance lease liabilities total	75	170

22. Trade and other payables

(1000 Euros)	2007	2006
Short term payables valued at amortized cost		
Prepayments	0	3 630
Trade payables	1 933	1 425
Accrued expenses	7 554	6 528
Other	531	458
Total	**10 018**	**12 041**
Long term payables valued at amortized cost		
Accrued expenses	1 722	1 296
Total	**11 740**	**13 337**

The material items in accrued expenses consist of periodizations of sold maintenance contracts, prepaid by customers. Fair value of trade and other payables are presented in the notes, item 25. Fair value of financial assets and liabilities.

The currency split of short-term liabilities is as follows:

(1000 Euros)	2007	2006
Euro	9 647	11 444
USD	428	218
GBP	146	530
SEK	2	2
CAD	1	8
SGD	4	10
HKD	4	6
INR	0	14
CHF	0	1
TND	1	6
Total	**10 235**	**12 241**

23. Management of financial risks

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

Foreign currency risk

The Group operates on four continents but uses as its main invoicing currency Euros and to a lesser extent US dollars. The cost structure 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 2007 neither of these instruments where used. The daughter companies do not carry major balance items and the translation risk is therefore not substantial.

The operating currency of the parent company is Euro. Assets and liabilities in foreign currencies transformed into Euros using the values of the closing date are:

Nominal values **(1000 Euros)**	**2007** USD	**2006** USD
Non-current assets	0	0
Long-term liabilities	0	0
Current assets	1 431	1 051
Short-term liabilities	58	48
Possible change in exchange rate	-14	-14

The effect of the Euro strengthening or weakening vs the US dollar is shown in the table below, assuming all other factors unchanged. The change percentages represent the average volatility of the corresponding 12 months. The sensitivity analysis is based on the assets and liabilities in USD on the day of closing.

The change in US dollars would primarily have been related to receivables and non-interest bearing liabilities.

	2007
(1000 Euros)	USD
Increase/decrease	6,6 %
Effect on profit after tax	134

	2006
(1000 Euros)	USD
Increase/decrease	8,5 %
Effect on profit after tax	113

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. The table below shows the earnings risk of the investments for a situation where the annual interest rate would change by +-2%, all other parameters unchanged. The value changes in financial assets booked at fair values are booked in the income statement in line Financial income and expenses. The calculation below assumes that the Goup's investments changes with the three month Euribor.

Change in income statement **(1000 Euros)**	2007	2006
3 month Euribor	120	210

Credit risk

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

The Group does not have any significant pools of receivables and credit risk related thereto. The credit losses impacting the result of the reporting period amounted to 80 thousand Euros during 2007 (released 5 thousand Euros in 2006). The credit losses were a result of sudden, unexpected changes in the customers economical environment. The age distribution of the receivables has been presented in the notes, item 16. Trade and other receivables.

Liquidity risk

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

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

(1000 Euros)	Balance Sheet value	Cash flow	Less than 1 year	1-2 years
2007				
Financial lease liabilities	75	75	75	0
Trade and other payables	1 933	1 933	1 933	0

(1000 Euros)	Balance Sheet value	Cash flow	Less than 1 year	1-2 years
2006				
Financial lease liabilities	170	170	107	62
Trade and other payables	1 425	1 425	1 425	0

Commodity risk

As sales are more and more appliance based, the availability of certain components and price fluctuation of these components may create risks. The risk is estimated to be small. No hedging methods are used in this area.

Capital management

The Group's financing structure became own capital oriented in the public offerings at the time of the millenium. External capital has not been used with the exception of some leasing.

The Group's capital structure is monitored by gearing. The Group's interest bearing liabilities were at the end of 2007 75 thousand Euros (170 thousand Euros 2006) and the gearing was -1.46% (-1.50% in the reporting period 2006).

In calculating the gearing, the net interest bearing liabilities are divided by own capital. Net interest bearing liabilities are calculated as interest bearing liabilities less interest bearing receivables and assets.

(1000 Euros)	2007	2006
Interest bearing liabilities	75	170
Cash and cash equivalents	-8 210	-14 862
Net liabilities	-8 135	-14 692
Shareholders' equity total	**5 579**	**9 767**
Net gearing	-1,46 %	-1,50 %

24. Financial assets and liabilities by categories

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

Financial assets by category 2007

(1000 Euros)	Note	Loans and receivables Amortised cost	Financial assets at fair-value booked through income statement	Total financial assets
Financial instruments in current assets				
Trade receivables	16.	5 227	0	5 227
Marketable securities	13.	0	7 571	7 571
Cash and cash equivalents	17.	640	0	640
Total		**5 867**	**7 571**	**13 437**

Financial assets by category 2006

(1000 Euros)	Note	Loans and receivables Amortised cost	Financial assets at fair-value booked through income statement	Total financial assets
Financial instruments in current assets				
Trade receivables	16.	4 745	0	4 745
Marketable securities	13.	0	13 755	13 755
Cash and cash equivalents	17.	616	0	616
Total		**5 360**	**13 755**	**19 115**

Financial liabilities by category 2007

(1000 Euros)	Note	Other financial liabilities Amortised cost	Total financial liabilities
Financial instruments in non-current liabilities			
Interest-bearing liabilities	21.	0	0
Financial instruments in current liabilities			
Interest-bearing liabilities	21.	75	75
Trade payables	22.	1 933	1 933
Total		**2 008**	**2 008**

Financial liabilities by category 2006

(1000 Euros)	Note	Other financial liabilities Amortised cost	Total financial liabilities
Financial instruments in non-current liabilities			
Interest-bearing liabilities	21.	62	62
Financial instruments in current liabilities			
Interest-bearing liabilities	21.	107	107
Trade payables	22.	1 425	1 425
Total		**1 595**	**1 595**

25. Fair value of financial assets and liabilities

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

Investments in shares, mutual funds and other investments

In the Financial Statements 31.12.2007 there are no non-quoted shares in the continuous operations assets. The financial assets booked at fair values are either tradable or then the value used by the counterparts purchasing price on the closing data has been used.

26. Adjustments for cash flow from operating activities

(1000 Euros)		
Non-cash transacting	**2007**	**2006**
Depreciations	449	508
Impairment	17	49
Employment benefits	84	52
Provisions	-8	33
Allowance TEKES	-258	0
Financial expenses	-83	-58
Financial incomes	285	438
Fair value gains/losses of financial instruments held for trading	-69	39
Total	**417**	**1 062**

27. Subsidiaries

The information is presented in the notes, item 30. Related party transactions.

28. Operating lease commitments

Group as leaseholder

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

(1000 Euros)	2007	2006
In less than one year	1 755	1 815
Between one and five years	2 869	4 110
Total	**4 624**	**6 103**

The Group rents the offices it utilizes. The remaining duration of the rental contracts are 0–3 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 2007 contains rents paid based on rental agreements for a total of 1 943 thousand Euros (2 043 thousand Euros in 2006).

The Group has sublet a part of its offices. The rental costs related to the offices is 706 thousand Euros in 2007 (684 thousand Euros in 2006). The rental income related to the subleases is 670 thousand Euros in 2007 (659 thousand Euros in 2006). The Group has made a provision of 82 thousand Euros in 2007 (152 thousand Euros in 2006) linked to the subleases. Information on provisions are presented in the notes, item 20. Provisions.

Group as landlord

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

(1000 Euros)	2007	2006
In less than one year	521	588
Between one and five years	38	420
Total	**559**	**1 008**

The Group has sublet the parts of its headquarters in Helsinki which it does not need. The duration of the rental agreements are 1–3 years.

29. Contingent liabilities

(1000 Euros)	2007	2006
Other contingent liabilities		
Pledged securities	0	585
Other contingent liabilities	20	323

The pledged securities are the shares of Embe Systems Oy, which were given as security for the deposit received until ownership was transferred. The title to the company was transferred to the buyer on 1.1.2007.

Disputes and litigations

Charges were raised against Stonesoft Corporation in February 2006 regarding an alleged delay of a profit warning in February 2001. The district court of Helsinki discharged the charges in November 2006. The prosecutor appealed to the Helsinki court of appeal in January 2007. The case will appear in the court of appeal in June 2008.

According to the management's view the trial is unlikely to have any substantial impact on the company's financial result or situation. Therefore the books include no reservations related to this trial.

30. Related party transactions

Related parties include Group companies, Board members, Chief Executive Officers and members of the Management Group.

The parent and the Group companies are:

Company	Home country	Ownership %	Voting right %
Parent Stonesoft Corporation	Finland, Helsinki		
Stonesoft Finland Oy	Finland, Helsinki	100,00	100,00
Stonesoft Inc	USA, Atlanta	100,00	100,00
Stonesoft AB	Sweden, Stockholm	100,00	100,00
Stonesoft Networks (UK) Ltd	Great Britain, Surrey	100,00	100,00
Stonesoft France S.A.S.	France, Sophia Antipolis	100,00	100,00
Stonesoft Germany GmbH	Germany, Frankfurt	100,00	100,00
Stonesoft Espana S.A.	Spain, Madrid	100,00	100,00
Stonesoft Italy S.r.l	Italy, Milan	99,99	99,99
Stonesoft Singapore PTE Ltd	Singapore	100,00	100,00
Stonesoft LTDA	Brasil, São Paulo	99,99	99,99
Stonesoft Tunis SARL	Tunis, Ariana	99,99	99,99
BVBA Stonesoft Belgium	Belgium, Diegem	99,00	99,00

Transactions related to products and services done with related parties are based on market prices.

Employee benefits of Directors and Executive Officers (1000 Euros)	2007	2006
Salaries and other short term employee benefits	770	735
Other long term payments	10	0
Share based payments	51	47
Total	**831**	**782**

Remuneration for Board of Directors and Managing Directors (1000 Euros)	2007	2006
Managing Directors	0	107
Board of Directors		
Ervi Pertti	49	44
Viljo Matti	25	20
Piela Topi	25	20
Ritvala Jyrki	0	5
Sozonoff Alexis	0	11
Virtanen Matti Tapani	6	20

The impacts of the stock options are presented in the notes, item 19. Share based payment plans. The chairman of the Board has received consultation fees amounting to 73 thousand Euros during the reporting period 2007 (9 thousand Euros in 2006).

The company management and Board were given 380 000 stock options in 2007 (430 000 in 2006). The stock options of the management and the Board have same terms and conditions. The management and the Board had on the 31.12.2007 a total of 687 500 granted stock options out of which 357 500 where vestable (595 000 in 2006 out of which 163 750 vestable).

31. Events after the Balance Sheet Date

- Stonesoft's StoneGate IPS intrusion detection and prevention system received the Network IPS certification from the US-based ICSA Labs. Stonesoft is one of the few vendors whose product has passed the ICSA Labs tests.
- Stonesoft launched StoneGate FW-5100 appliances with 10 Gbps interfaces and IPS-6100, which have been designed especially for the needs of high capacity networks.
- Stonesoft became a member of the Technology Alliance Partner (TAP) Program of VMware, the leading provider of virtualization solutions, and announced it will introduce a virtual StoneGate firewall/VPN appliance that protects corporate networks and ensures business continuity in virtual and physical network environments.
- The final selling price of Embe Systems Oy will be higher than previously estimated. According to our estimate, this will improve the result of the first quarter of 2008 by EUR 0.2 million.
- Mika Jalava was nominated as the new CTO and member of the Executive Management at the year-end replacing Mika Rautila, who left the company to join the Technical Research Centre of Finland as a professor of Information Security Technology.

32. Key ratios

(1000 Euros)	IFRS 2007	IFRS 2006	IFRS 2005	IFRS 2004	FAS 2003
Net sales	19 020	21 879	22 237	22 490	23 197
Net sales change-%	-13%	-2%	-1%	-3%	-23%
Net sales, continuing operations	19 020	16 479	16 453		
Net sales change-%	15%	0%			
Net sales, discontinued operations	0	5 400	5 783		
Net sales change-%	–	-7%			
Operating result	-6 514	-6 536	-6 258	-8 988	-15 067
% of Net sales	-34%	-30%	-28%	-40%	-65%
Operating result, continuing operations	-6 514	-6 608	-6 460		
Operating result, discontinued operations	0	72	202		
Result before taxes	-6 312	-6 170	-5 719	-8 532	-14 214
% of Net sales	-33%	-28%	-26%	-38%	-61%
Result for the accounting period	-4 212	-6 448	-6 008	-12 981	-14 787
% of Net sales	-22%	-29%	-27%	-58%	-64%
Return on equity (ROE) %	-85%	-50%	-31%	-46%	-35%
Return on investment (ROI) %	-78%	-46%	-29%	-27%	-33%
Equity ration %	52%	66%	74%	81%	90%
Net gearing	-1,46	-1,50	-1,14	-0,98	-0,78
Capital investments	495	381	437	501	197
% of Net sales	3%	2%	2%	2%	1%
R&D costs	5 285	4 804	4 612	5 075	6 541
% of Net sales	28%	22%	21%	23%	28%
Number of employees (weighted average)	181	251	247	258	298
Number of employees at the end of the year	181	254	252	237	264

Earnings per share	-0,07	-0,11	-0,10	-0,23	-0,26
Earnings per share, continuing operations	-0,11	-0,11	-0,11		
Earnings per share, discontinued operations	-0,04	0,00	0,00		
Equity per share	0,10	0,17	0,28	0,38	0,61
Dividends	0,00	0,00	0,00	0,00	0,00
Dividends per share	0,00	0,00	0,00	0,00	0,00
Dividends/profit %	0%	0%	0%	0%	0%
Average number of shares adjusted for share issue	57 302 732	57 302 732	57 302 732	57 302 732	57 643 083
Number of shares adjusted for share issue at year end	57 302 732	57 302 732	57 302 732	57 302 732	57 301 132

Definitions for key indications

Return on equity (ROE) % $= \dfrac{\text{(Profit before taxes – taxes) x 100}}{\text{Equity + minority interest}}$

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

Equity ration % = $\dfrac{\text{(Equity + minority interest) x 100}}{\text{Balance sheet total – advances received}}$

Net gearing = $\dfrac{\text{Interest bearing net debt – cash in hand and in bank - marketable securities}}{\text{Equity + minority interest}}$

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

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

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

33. Breakdown of share ownership

Number of shareholders 31.12.2007	Number of shareholders	Shares and voting rights %	Number of shares and voting rights
1-100	1 393	0,2%	109 647
101 - 500	2 018	1,1%	630 699
501 - 1.000	830	1,2%	705 080
1.001 - 5.000	1 199	5,3%	3 064 599
5.001 - 10.000	263	3,6%	2 056 852
10.001 - 50.000	241	9,3%	5 306 301
50.001 - 100.000	42	5,3%	3 008 846
100.001 - 500.000	36	15,2%	8 698 525
500.001 -	12	58,8%	33 722 183
Total	**6 034**	**100,0%**	**57 302 732**

Distribution of ownership by sector 31.12.2007	Number of shareholders	Shares and voting rights %	Number of shares and voting rights
Companies	285	17,8%	10 181 357
Financial and insurance institutions	11	13,3%	7 636 808
Public-sector organisations	3	1,3%	736 500
Households	5 678	63,9%	36 634 278
Non-profit organisations	8	0,9%	497 122
Foreign owners	49	2,8%	1 616 667
Total*	**6 034**	**100,0%**	**57 302 732**
* Incl. nominee-registered, total	11	8,4%	4 823 037

Major shareholders 31.12.2007	Number of shares	%
Hiidenheimo Ilkka	10 417 400	18,2%
Turunen Hannu	7 450 000	13,0%
Nordea Pankki Suomi Oyj *	3 055 930	5,3%
Ulkomarkkinat Oy	2 499 900	4,4%
Nordea Pankki Suomi Oyj	2 373 900	4,1%
Veikko Laine Oy	1 562 650	2,7%
Syrjälä Timo	1 524 000	2,7%
Evli Pankki Oyj *	1 288 970	2,3%
Majos Oy	1 221 833	2,1%
Syrjälä&Co Oy	1 035 700	1,8%
Other	24 872 449	43,4%
Total	**57 302 732**	**100,0%**
Incl. nominee-registered, total	4 823 037	8,4%

Shares and share options held by the members of the Board of Directors 31.12.2007

	Number of shares	Number of options
Ervi Pertti	20 000	30 000
Hiidenheimo Ilkka	10 417 400	0
Piela Topi	30 000	15 000
Turunen Hannu	7 450 000	0
Viljo Matti	0	15 000
Total	**17 917 400**	**60 000**

Income Statement (FAS)

Stonesoft Corporation

(1000 Euros)	Note	1.1–31.12. 2007	1.1.–31.12. 2006
Net sales		**19 020**	**16 424**
Other operating income		1 141	1 404
Materials and services		-3 064	-1 915
Personnel costs		-6 396	-6 594
Depreciation and impairment		-213	-224
Other operating expenses		-17 704	-16 395
Operating result		**-7 216**	**-7 300**
Financial income and expenses		275	1 462
Result before extraordinary items		**-6 941**	**-5 838**
Extraordinary items +/–		521	1
Result before appropriations and taxes		**-6 421**	**-5 837**
Taxes		6	-16
Result for financial year		**-6 414**	**-5 852**

Balance Sheet (FAS)

Stonesoft Corporation

(1000 Euros)			
ASSETS	Note	31.12.2007	31.12.2006
Non-current assets			
Intangible assets	9	115	177
Tangible assets	10	202	188
Investments	11	1 014	4 737
Non-current assets total		**1 331**	**5 102**
Current assets			
Inventories		1 069	912
Short-term receivables	12	7 188	5 247
Marketable securities	13	7 471	13 750
Cash in hand and in bank		450	431
Current assets total		**16 177**	**20 340**
Total		**17 509**	**25 442**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	14	1 146	1 146
Share premium account	14	76 821	76 821
Retained earnings/loss	14	-67 304	-61 451
Profit/loss for the financial year	14	-6 414	-5 852
Shareholders' equity total		**4 249**	**10 663**
Provisions	15	**86**	**152**
Liabilities			
Short term liabilities	16	13 174	14 626
Liabilities total		**13 174**	**14 626**
Total		**17 509**	**25 442**

Cash Flow Statement (FAS)

Stonesoft Corporation

(1000 Euros)	1.1–31.12. 2007	1.1–31.12. 2006
Cash flow from operating activities		
Operating result	-7 216	-7 300
Adjustments to operating result	-93	288
Financial income and expenses	125	431
Change in net working capital	901	-1 447
Taxes paid	6	-16
Total	**-6 277**	**-8 043**
Cash flow from investing activities		
Investments to intangible and tangible assets	-167	-154
Investments to (–) / sales of (+) shares in subsidiaries	33	3 648
Dividends received	150	1 010
Total	**16**	**4 504**
Cash flow from financing activities total	**0**	**0**
Change in cash and cash equivalents	**-6 261**	**-3 539**
Cash and cash equivalents at the beginning of the period	14 181	17 720
Cash and cash equivalents at the end of the period	7 920	14 181

Notes to the Financial Statements

Accounting principles

Items in foreign currency

The Financial Statements have been prepared in Euros. Receivables and payables in foreign currency have been converted to Euros using 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 income statements 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

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

Research and development

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

Rents

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

Valuation of capital assets

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

Depreciation period of capital assets

	2007	2006
Machinery	3–5	3–5
Equipment	5	5
Other tangible assets	5	5
Other long term expense items	3–5	5
Goodwill	5	5

Securities included in financial assets

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

Notes to the Income Statement

(1000 Euros)

1a. Net sales by market area

	2007	2006
EMEA	14 078	11 548
AMERICAS	3 906	3 509
APAC	1 036	1 367
Total	**19 020**	**16 424**

1b. Net sales by business function

	2007	2006
Software and appliance revenue		
Own licenses and appliances	10 687	8 496
Software and appliance revenue total	**10 687**	**8 496**
Service revenue		
Consultation and training	620	590
Support, own	7 785	7 416
Support, other	0	7
Service revenue total	**8 405**	**8 013**
Other revenue		
Other revenue (including exchange rate differences)	-72	-85
Total	**19 020**	**16 424**

2. Other income from business operations

	2007	2006
Sales of fixed assets	2	3
Rental income	670	659
Lunch sold to employees	211	70
Tekes allowance	258	0
Group internal administration fee	0	672
Total	**1 141**	**1 404**

3. Materials and services

	2007	2006
Materials and supplies (goods)		
Purchases during the financial period	3 168	2 279
Change in stocks	-157	-393
Total	**3 011**	**1 886**
External services	53	29
Total	**3 064**	**1 915**

4. Wages, salaries and indirect employee expenses

	2007	2006
Wages and salaries	5 247	5 383
Pension expenses	845	876
Other indirect employee expenses	304	335
Total	**6 396**	**6 594**
Salaries and fees paid to the Board of Directors and CEO	102	114
Consultation fees paid to Members of the Board	73	9
Number of personnel, average	104	105

5. Depreciation and impairment

	2007	2006
Goodwill	20	20
Tangible assets	101	72
Intangible assets	92	129
Extraordinary depreciation of investments and assets	0	3
Total	**213**	**224**

6. Financial income and expenses

	2007	2006
Dividend income from Group companies	150	1 010
Interest and other financial income	194	487
Financial income, total	344	1 497
Interest and other financial expenses	69	35
Financial income and expenses, total	**275**	**1 462**
Financial income and expenses includes		
exchange rate gains/losses (net)	-58	-18
gains/losses from securities market	146	411

7. Extraordinary items

	2007	2006
Extraordinary income		
Profit from sold subsidiary	515	0
Group contribution	6	1
Extraordinary income, total	**521**	**1**
Extraordinary expenses, total	**521**	**1**

8. Income taxes

	2007	2006
Taxes from previous financial periods	6	-16
Direct taxes, total	**6**	**-16**

Notes to the Balance Sheet

(1000 Euros)

9. Intangible assets

Intangible rights	2007	2006
Acquisition cost 1.1.	1 448	1 404
Additions	28	44
Acquisition cost 31.12.	1 476	1 448
Accumulated depreciation 1.1.	-1 314	-1 192
Depreciation for financial period	-82	-122
Accumulated depreciation 31.12.	-1 396	-1 314
Balance sheet value 31.12	**80**	**134**
Goodwill		
Acquisition cost 1.1.	100	100
Acquisition cost 31.12.	100	100
Accumulated depreciation 1.1.	-78	-58
Depreciation for financial period	-20	-20
Accumulated depreciationt 31.12.	-98	-78
Balance sheet value 31.12.	**2**	**22**
Other long term expense items		
Acquisition cost 1.1.	1 178	1 178
Additions	23	0
Acquisition cost 31.12.	1 201	1 178
Accumulated depreciation 1.1.	-1 158	-1 151
Depreciation for financial period	-10	-7
Accumulated depreciation 31.12.	-1 168	-1 158
Balance sheet value 31.12.	**33**	**21**

10. Tangible assets

Machinery and equipment	2007	2006
Acquisition cost 1.1.	1 298	1 193
Additions	116	108
Reductions	0	-3
Acquisition cost 31.12.	1 414	1 298
Accumulated depreciation 1.1.	-1 116	-1 044
Depreciation for financial period	-101	-72
Accumulated depreciation 31.12.	-1 217	-1 116
Balance sheet value 31.12.	**197**	**183**

Other tangible assets		
Acquisition cost 1.1.	5	5
Additions	41	18
Reductions	-41	-18
Acquisition cost 31.12.	5	5
Accumulated depreciation 1.1.	0	0
Depreciation for financial period	0	0
Accumulated depreciation 31.12.	0	0
Balance sheet value 31.12.	**5**	**5**

11. Investments

Stocks and shares	2007	2006
Acquisition cost 1.1.	4 735	4 738
Reductions	-3 734	-3
Acquisition cost 31.12.	1 001	4 735

A specification of the daughter companies including ownership information can be found in the notes, item 30 in the Financial Statements of the Group. Reductions for financial period 2007 are due from the sale of Embe Systems Oy.

Capital loans to Group companies		
Balance sheet value 1.1.	3	0
Additions	10	3
Balance sheet value 31.12.	**13**	**3**

12. Short-term receivables

	2007	2006
Accounts receivable	5 227	4 260
Receivables from Group companies		
Other receivables	70	62
Other receivables		
VAT receivables	152	62
Other receivables	0	485
Prepayments and accrued income		
Rental deposits	18	24
Tekes	258	0
Nice Business Solutions	575	0
Other prepayments and accrued income	888	354
Short term receivables, total	**7 188**	**5 247**

Stonesoft Corporation has cumulated, taxable losses for a total of 83 475 thousand Euros at the closing on the 31.12.2007. Losses confirmed in the 2006 taxation equal 76 330 thousand Euros, expiring in the years 2011–2016. There is no certainty about the parent company generating taxable income within that timeframe against which the losses could be utilized. No deferred tax income has been booked related to the cumulated losses.

13. Securities included in financial assets

Marketable securities	2007	2006
Replacement value	7 544	13 755
Book value	7 471	13 750
Difference	73	5

14. Shareholders' equity

Share capital	2007	2006
Share capital 1.1.	1 146	1 146
Share capital 31.12.	1 146	1 146
Other restricted shareholders' equity		
Share premium account 1.1.	76 821	76 821
Share premium account 31.12.	76 821	76 821
Other restricted shareholders' equity total	76 821	76 821
Retained earnings/loss		
Retained earnings/loss 1.1.	-67 304	-61 451
Retained earnings/loss 31.12.	-67 304	-61 451
Result for the financial period	-6 414	-5 852
Shareholders' equity, total	**4 249**	**10 663**

Calculation on distributable funds

	2007	2006
Retained earnings/loss	-67 304	-61 451
Result for the financial period	-6 414	-5 852
Total	**-73 718**	**-67 304**

15. Provisions

Other provisions	2007	2006
Losses on contracts	82	152
Guarantee reserve	4	0
Total	**86**	**152**

16. Liabilities

Short term liabilities	2007	2006
Prepayments received	0	3 630
Accounts payable	1 729	1 297
Debts to the Group companies		
Other debts	3 119	2 436
Substantial items included in deferred liabilities		
Matched maintenance cost	6 988	6 028
Other deferred liabilities	1 170	1 068
Other debts	168	167
Short term liabilities, total	**13 174**	**14 626**
Liabilities total	**13 174**	**14 626**

17. Contingent liabilities

Leasing liabilities	2007	2006
Payable in year 2008	109	154
Payable later	28	89
Leasing liabilities to the Group companies		
Payable in year 2008	100	28
Payable later	131	44
Rental liabilities and pledges		
Rental liabilities	3 778	4 865
Pledged securities	0	585
Performance bond	20	323
Contingent liabilities, total	**4 166**	**6 088**

Stonesoft Corporation

Signatures to the Financial Statements and Board of Director's Report

Helsinki, March 25, 2008

Pertti Ervi
Chairman of the Board

Hannu Turunen
Member of the Board

Topi Piela
Member of the Board

Matti Viljo
Member of the Board

Ilkka Hiidenheimo
CEO

Auditor's Note

The year-end Financial Statements and the Annual Report have been prepared according to good accounting practices. An Auditor's Report concerning the performed audit has been given to date.

Helsinki, March 25, 2008

Ernst & Young Oy
Authorised Public Accountant Firm

Pekka Luoma
Authorized Public Accountant Firm

Auditor’s Report

To the shareholders of Stonesoft Corporation

We have audited the accounting records, the report of the Board of Directors, the Financial Statements and the administration of Stonesoft Corporation for the period 1.1. – 31.12.2007. 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 25, 2008

Ernst & Young Oy
Authorized Public Accountant Firm

Pekka Luoma
Authorized Public Accountant

Forward-looking Statements

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

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