STONESOFT

2006

Annual Report

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Main business events

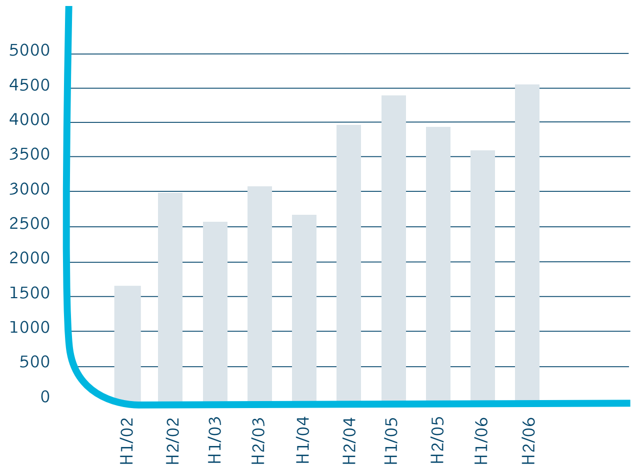
- In January, the renowned technical university RWTH Aachen chose Stonesoft's network security products to protect its IT network.
- In February, the Finnish Defense Forces selected Stonesoft's firewalls to protect its transition network.
- In February, Information Security Magazine, the leading international network security magazine, named StoneGate SG-4000 "Hot Pick of the month".
- In February, the District Prosecutor pressed charges against Stonesoft in a suspected securities market information offence related to the ongoing disclosure requirements for public companies and regarding the alleged delay of Stonesoft's profit warning issued in February 2001. The District Court dismissed all the charges in November. The District Prosecutor has appealed the judgment in January 2007.
- In March, Stonesoft introduced the first internal Firewall/VPN Solution for IBM Mainframes with fully clustered load-balancing capabilities.
- StoneGate firewall was selected as the best in Europe in two categories in a competition of the respected Secure Computing Magazine in April.
- Stonesoft entered into a partner agreement in May with Fujitsu Services Oy, according to which Fujitsu includes product, maintenance and service sales of Stonesoft network security products in its offering in the Nordic and Baltic countries.
- In May, CERN announced an agreement for cooperation in research and development with Stonesoft. CERN is using Stonesoft's technology to protect its grid network.
- In June, Stonesoft launched the new generation StoneGate Platform providing secured, optimized and resilient connectivity for converged services, while preventing damage from attacks.
- In June, Stonesoft signed a global agreement with the United Nations for the provision of StoneGate products and services.
- American independent research company Gartner included Stonesoft in its Magic Quadrant report and described it as an innovative network security company.
- TietoEnator Oyj and Stonesoft signed a partner agreement. According to the agreement, TietoEnator includes Stonesoft products in their service offering.
- Stonesoft and ITPS Ltd signed an agreement for co-operation in England. Based on the agreement ITPS will sell StoneGate products and services securing business continuity and network.
- Siemens and Stonesoft signed a partner agreement in Spain. The agreement broadens the geographical scope of the agreement signed earlier with Siemens that covers Scandinavia and Central Europe.
- Stonesoft was granted four patents during the year: two in the USA and two in Europe.

Key figures

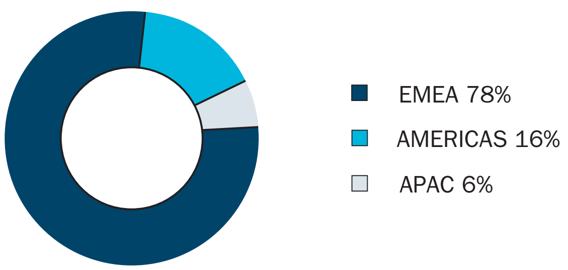
(1000 Euros)	2006	2005
Net sales	21 897	22 237
Operating profit/loss	-6 536	-6 258
% of Net sales	-22	-28
Operating result before taxes	-6 170	-5 719
% of Net sales	-28	-26
Return on equity (ROE) %	-50	-31
Return on investment (ROI) %	-46	-29
Equity ratio %	66	77
Net gearing	-1,50	-1,10
Capital investments	381	437
% of Net sales	2	2
R&D costs	4 804	4 612
% of Net sales	22	21
Number of employees (weighted average)	251	247
Number of employees at the end of the year	254	252
Earnings per share	-0,11	-0,10
Equity per share	-0,17	0,28
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 2002-2006



GEOGRAPHICAL DISTRIBUTION OF NET SALES



CEO's review

Stonesoft Corporation's position in the marketplace changed through the introduction of new products from a network security provider to a provider of network security and information availability. The change was crystallized in the term Secure Information Flow.

The year 2006 was a time of business development for Stonesoft. We managed to build a foundation for growth in 2007 by implementing the new strategy and growth plan in the middle of the year 2006. We launched new StoneGate™ appliances and product features, of which the StoneGate IPS for securing intranet traffic and the solution for bandwidth management deserve a special mention.

The change from a network security provider to a provider of network security and information availability, brought by the new product launches in 2006, clearly strengthened our position on the market. This development is described by the term "Secure Information Flow". The change has resonated very well among our customers.

During 2006, Stonesoft management continued to implement our marketing and sales strategy in line with our global strategy. According to our sales model we continued to create demand for StoneGate products among our target customers.

During the second half of the year we further strengthened our effort to increase sales and expand our customer base and initiated several sales campaigns to support the sales development. We also renewed our product strategy and reorganized our organization and the executive management to be more customer-oriented.

Furthermore, the recruitment and training of the sales teams in different countries were accomplished and the partner network was structured according to the target level of the main markets.

Our vision of managing the networking of businesses

The convergence of voice, video and data in IP-based networks increases the demand for capacity and accelerates the deployment of 10 Gbps networks. Bandwidth growth and the new protocols in IP-based networks require more sophisticated tools for reporting, monitoring and analysis.

This development supports Stonesoft's growth plan for 2007, since these features are the cornerstones of StoneGate Management Center. We further strengthen our competitiveness by launching a renewed product line with increased performance and better prize, including a high capacity 10 Gbps appliance.

In our view, companies continue to network with their customers, partners and subcontractors, and this development sets increasingly high demands for network security and high availability. At the same time, the need for layered defence grows as networks expand and remote use increases. More and more users need a reliable, always-on connection to network services, regardless of time or place.

We believe the combination of security and high availability will manifest its strength in this development.

Expanding our product family to the next level

We at Stonesoft have worked to develop network security and business continuity since 1994. In 2006, this work continued and as a result, we launched StoneGate appliances of a new level, designed for the enterprises and organizations for which secure, optimized and always-on connections are crucial. The appliances developed for securing Internet-based business detect and prevent damage caused by various attacks and worms already at the firewall.

According to our growth plan, in 2007 we will launch a new StoneGate product family with increased performance, including a SSL VPN solution for mobile use. We will continue to develop partnerships and boost sales and marketing, aiming at a strong growth of net sales and improved profitability.

Supporting our customers' business

In 2006, Stonesoft's operations shifted from technology-focused to more customer-oriented thinking. This manifests itself in more versatile listening to our customers and taking their expectations increasingly into account in our product development and other operations.

Our promise ”Secure Information Flow” means that we secure our customers' network traffic and information availability. For us, always-on connectivity, high availability and network security are the primary targets.

Stonesoft will continue its decisive and persistent efforts to increase net sales and to improve the profitability of the company. Our main target for 2007 is to have a strong growth of net sales generating also improved profitability. By the extension of the product portfolio and improved competitiveness, I believe we will reach our target.

Conclusion

I would like to thank Stonesoft customers, partners and employees for good cooperation during 2006. I hope our cooperation will continue favourably also in the future.

Ilkka Hiidenheimo
CEO

Corporate Governance

Stonesoft Corp. (Stonesoft or company) is a publicly listed company registered in Finland and having its headquarters in Helsinki. Stonesoft complies with Finnish legislation and its articles of association, according to which the monitoring and management of the company are divided between the General Meeting, Board of Directors and CEO.

Stonesoft complies with the Corporate Governance Recommendation for listed companies issued by Helsinki Stock Exchange. Stonesoft has prepared its annual and interim financial accounts conforming Finnish Accounting Standards. The Company starts to apply to International Financial Reporting Standards (IFRS) from the beginning of the year 2005.

General Meeting

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

The Annual General Meeting (AGM) is held once a year 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 and in the invitation to the AGM.

A shareholder has the right to have a matter to the agenda of a General Meeting, if the matter is brought to Board of Directors attention early enough to be included in the invitation.

Board of Directors

The Board of Directors (Board) has from three to six members. The Annual General Meeting elects the members of the Board. The Board elects a Chairman from among its members. The Board currently comprises five members, one of whom is employed by the company.

The Board is responsible for supervising the management and proper organization of the company in accordance with legislation, the Articles of Association and the instructions issued by General Meetings.

The Board decides upon matters of major importance to the operations of the company. These include the acceptance of the main strategies, the approval of action plans, major capital expenditures and divestitures of assets.

The Board also appoints and dismisses the CEO of the company and decides on his/her service terms.

The Board has a Charter of the Board, which covers responsibilities and distribution of work of the Board as well as board meetings and their preparations. The Board of Directors reviews and confirms the Charter of the Board annually. The summary of the Charter of the Board is available at the company's website at: www.stonesoft.com/en/investor_relations/corporate_governance/board_of_directors/.

The Board meets regularly at least 8 times a year. In 2006 the Board had 17 meetings. The average attendance of the members at the Board meetings was 98 percent. Stonesoft´s Board comprises the following:

- Pertti Ervi (b. 1957)
  Member of the Board since 2004
  Chairman of the Board since 2006
- Ilkka Hiidenheimo (b. 1960)
  CEO, Stonesoft Corp.
  Chairman of the Board between 1990-1998
  Member of the Board since 1990
- Topi Piela (b. 1962)
  Member of the Board since 2006
- Matti Viljo (b. 1955)
  Member of the Board since 2006
- Matti Tapani Virtanen (b. 1958)
  Member of the Board since 2006

For more information about Board members, see page 13 and 14.

Independence of the Board members

The Board has evaluated the independence of its members in 2006. It was noted that according to the Corporate Governance Recommendation issued by Helsinki Stock Exchange, all other Board members excluding Ilkka Hiidenheimo are independent with the following remark: all external Board members have been granted stock option rights as part of their compensation as Board members. Furthermore, it was noted that Ilkka Hiidenheimo is the CEO and a major shareholder of the company (app. 18% of shares and the voting rights) and that the other members are independent in relation to the major shareholders of 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 was EUR 2,000 per month.

Board and Management holdings at 31.12.2006

	Shares	Option Plan 2004
Ervi Pertti	20 000	30 000
Fagernäs Kim	0	40 000
Hiidenheimo Ilkka	10 417 400	0
Kivikoski Juha	0	50 000
Laine Saara	5 000	40 000
Nyberg Mikael	30 000	50 000
Piela Topi	30 000	15 000
Rautila Mika	400	0
Torniainen Outi	0	0
Viljo Matti	0	15 000
Virtanen Matti	0	15 000

Chief Executive Officer

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

The CEO

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

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

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

The CEO's compensation and other terms

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 6 months notice period and termination compensation equalling to six months salary and a further optional six 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.

Executive Management

Stonesoft is a global provider of integrated network security and business continuity products and services. This is Stonesoft's core business, in addition to which Stonesoft group also had a Finnish subsidiary that offers advanced software solutions for embedded systems, Embe Systems Oy, which was sold in December 2006.

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

The Group's Executive Management comprises the following since June 2006:

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

The responsibilities of the Group's 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 to the members of Executive Management and other direct subordinates of the CEO, including grant of stock option rights. The bonuses paid to the members of the Executive Management on commission scheme are determined quarterly based on the targets achieved. The members of the Executive Management on a fixed salary participate to the Strategic Bonus Scheme targeted to all employees on fixed salary. The bonuses paid from this Bonus Scheme are determined semi-annually based on the Company's result and team targets achieved by individual teams.

For more information about Executive Management, see page 11 and 12.

Audit & internal control

Auditors

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

According to the Articles of association 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 selected until further notice.

Furthermore the Charter of the Board adds that; (i) the board members shall discuss the auditor's report once a year in a meeting held during the first quarter and (ii) one of the Company's auditors should be present in the board meeting, where the auditors report is discussed.

The auditor of Stonesoft is an authorized public accountant Ernst & Young Oy, with authorized public accountant Pekka Luoma as responsible auditor. The auditor fees were EUR 43,975 in year 2006.

Internal control

Internal control function at Stonesoft is incorporated into the daily activities of finance and legal departments. Its aim is to supervise and reinforce the adherence of company's policies and set processes and safeguard company's assets.

Risks and business uncertainties

Risk Management is organized to be part of the Stonesoft management system. The Board of Directors approves the risk management policy that includes 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. The target of risk management is to ensure conditions for achieving the strategic targets and the business continuity.

The risks and business uncertainties in our business relate to the realization timetable of the sales projects and possible production disruption of our subcontractors and suppliers.

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. The company constantly reviews and updates its network infrastructure and guarantees the safety of its business-critical information. All critical components are duplicated and, in addition, the company has a continuously updated back up system placed in another physical location.

Financial risks

The most significant currency in addition to euro is US dollar. The company's costs occur mostly in Euros. The company operates actively to minimize the 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 circulation and short term investments of the operational cash flows and (iii) to follow prudent and transparent investment policy for the cash reserves, aiming at guaranteeing competitive return on 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.

Insiders

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

Under the Finnish Securities Market Act, the permanent insiders of Stonesoft based on their positions are the members of the Board of Directors, CEO and the auditors. Under company's own insider regulations the individuals in the following position are regarded as permanent insiders: the members of the Group's Executive Management, Regional Directors, Marketing, Communications, Order Team and Product

Managers, lawyers, controllers, the Chief Accountant, assistants of marketing and legal affairs and all other positions entitling to global access in company's sales management system Salesforce.com.

The Company's own insider regulations regulate trading with the company's shares and state e.g. 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 2006 this open window was two (2) weeks after publication of the company's financial statements release or the publication of an interim review. The decision to change the length of the window was made in January 2007.

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 financial results).

Stonesoft Executive Management

Ilkka Hiidenheimo

Founder, CEO, Stonesoft Corp.

Ilkka Hiidenheimo (b. 1960) is the founder and CEO of Stonesoft Corporation. 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 during the period 1985 to 1989.

He 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 also in Teos Oy and Hiidenkivi Investment Oy.

Saara Laine

Senior Vice President & General Counsel, Legal Affairs and Human Resources, Stonesoft Corp.

Saara Laine (b. 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, 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). She has a Master of Law degree. Her responsibilities at Stonesoft are legal/business support and human resources.

Mika Rautila

CTO, Stonesoft Corp.

Mr. Mika Rautila (b. 1961), Ph.D, serves as Chief Technology Officer at Stonesoft Corporation. Before his appointment as CTO he served as StoneGate IPS R&D Manager at Stonesoft since 2000. Earlier he worked for four years 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 fall 2000. Before the academic career he worked in Telecom Research Centre at Telecom Finland and in software consultancies. Mr. 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, Stonesoft Corp.

Mikael Nyberg (b. 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. He has Master of Science, Business Administration and Master of Science, Engineering degrees. His areas of responsibility at Stonesoft are Finance, IT and Order Services.

Juha Kivikoski

Vice President, Europe and Channels

Juha Kivikoski (b. 1970) serves as Vice President, Europe and channels at Stonesoft Corporation. He joined Stonesoft as Vice President, Marketing year 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 Tech Data/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, Nordic, APAC and Emerging Markets

Kim Fagernäs (b. 1954) serves as Vice President, Sales Nordic, APAC and Emerging Markets at Stonesoft Corporation. Before joining Stonesoft as Vice President, Nordic year 2004, he worked in Teleste for 15 years in various management and sales management positions in and outside Finland. Year 1997-2004 he served as Vice President Sales in Teleste Broadband Cable Access and 1995-1997 as Sales Director Nordic in Teleste Access.

Outi Torniainen

Vice President, Marketing and Communications

Outi Torniainen (b. 1965) serves as Vice President, Marketing and Communications at Stonesoft Corporation. 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.

Stonesoft Board of Directors

Pertti Ervi

Chairman of the Board, Stonesoft Corp.

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.
- Co-President for Computer 2000 AG international headquarters, Germany, 1995-2000
- Co-founder and Managing Director of Computer 2000 Finland (currently Tech Data Finland) until 1995

Positions of trust:
- Chairman of the Board of Mentorium Venture Connections, Forte Netservices, Instream, Stockway, Holtron Technology Management and Vice Chairman of the Board of F-Secure

Ilkka Hiidenheimo

Member of the Board, Stonesoft Corp.

Born: 1960

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

Main duties: Stonesoft Corp., CEO

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

Positions of trust:
- Teos, Member of the Board
- Hiidenkivi Investment, Member of the Board

Matti Viljo

Member of the Board, Stonesoft Corp.

Born: 1955

In Board:
- Member of the Board of Stonesoft since 2006

Education: M.Sc. 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
- Several sales, service and marketing executive positions in Europe and the USA at IBM, 1979-1997

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

Matti Tapani Virtanen

Member of the Board, Stonesoft Corp.

Born: 1958

In Board:
- Member of the Board of Stonesoft since 2006

Education: MSc. in Computer Science, Business Management, and HVAC Technology

Main duties: CEO of Perlos Oyj

Essential work experience:
- Founder and leading partner in Virtanen Consulting GmbH, 2005-2006
- Senior Vice President and President EMEA, Solectron Corporation, 2004-2005
- Vice President and Managing Director of Hewlett–Packard International Sales Europe GmbH, 2002-2004
- Several executive positions in Compaq Computer Corporation, 1990-2002
- Several executive positions in Nokia, 1984-1990

Positions of trust:
- MCI TechVentures, Member of the Advisory Board

Topi Piela

Member of the Board, Stonesoft Corp.

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:
- Managing Director in Amanda Capital Plc and several of its subsidiaries
- Co-founder and Managing Director of Arctos Rahasto
- Investment Director at Ilmarinen Mutual Pension Insurance Company
- Securities and Investment Director of Ålandsbanken Ab

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 Director's Report

Net sales and profit

(Previous year's figures in parentheses)
The group's net sales totaled EUR 21.9 million (EUR 22.2 million), which was 2% less than in the corresponding period in the previous year. The development of net sales happened in two stages during the financial year: in the first six months, sales declined significantly, but in the last six months, the company was able to turn the development around to increase sales volume, which raised the turnover of the reporting period almost to the level of the previous year. The net sales grew +8.1% during the last six months compared to the corresponding period in the previous year.

The sales of the StoneGate product family, Stonesoft's core business, including Firewall, VPN, and IPS (Intrusion Prevention and Detection System), were EUR 8.3 million (EUR 8.4 million). The growth of the sales of StoneGate product family was +15.1% during the last six months (H2) compared to the corresponding period in the previous year.

The net sales were distributed geographically as follows: EMEA (Europe, Middle East and Africa) 78% (72%), Americas (North and South America) 16% (20%) and APAC (Asia-Pacific) 6% (8%).

The group's profit after taxes was EUR negative 6.4 million (-6.0 million). The operating loss included a non-recurring cost of EUR 0.2 million due to the sale of Embe Systems Oy.

Finance and investments

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

Consolidated liquid assets at the end of the financial period totaled 14.9 million (18.9 million). Investments in tangible and intangible assets totaled EUR 0.4 million (EUR 0.4 million).

Comparability of the annual reports

Stonesoft has applied all changes made to and interpretations given of the IFRS standards after 2005.

Stonesoft has classified the operations of Embe Systems Oy in the Annual Report 2006 into assets held for sale in accordance with IFRS 5 standard and the comparison figures of 2005 have been corrected in accordance with the new definitions.

Development of business operations

Stonesoft managed to build a foundation for growth in 2007 with a new strategy and growth plan implemented since mid 2006. The change of Stonesoft's position in the marketplace from a network security provider to a provider of network security and information availability through the introduction of new products clearly strengthened the company's market position and strongly increased its sales pipeline during the last six months, even though the development was not fully seen as an increase in the sales figures.

The company did not meet its sales targets for 2006, even though its sales developed auspiciously during the last six months after the weaker development in the first half-year. The main reasons for not reaching the targets were exceptionally weak development in the United States during the beginning of the year, for the correction of which a new regional manager was hired, as well as the refocusing of operations in APAC, which is believed to generate positive results in the long run. Furthermore, the sales development was affected by delays in the development of sales forces and partner networks as well as a delay in the launch of a product that strongly developed the company's product offering.

In accordance with its growth plan, during the last six months the company strengthened its effort to increase sales and expand its customer base, as well as initiated several sales campaigns to support the development of sales. Stonesoft renewed its product strategy and reorganized its organization and the Executive Management to be more customer-oriented. Furthermore, the company finalized the recruitment and training of the sales teams in different countries and structured the partner network according to the target level in the main markets.

These activities created a major increase in the sales pipeline during the last six months. The company believes that this indicates a positive development in sales, in particular from the second quarter of 2007 onwards.

According to its growth plan, during 2007 the company will launch a new StoneGate product line with increased performance and extend its product offering with a SSL VPN solution for mobile use. Stonesoft will further strengthen its co-operation with partners and accelerate sales and marketing with the aim of achieving a strong growth of net sales and improved profitability.

Main business events in 2006

(See page 2.)

Channel partners

The sales of StoneGate product family as Stonesoft's core business are mainly conducted through its international channel. Building up the partner network to the target level in the main markets was an essential part of Stonesoft's strategy in 2006.

Markets in 2006

According to the Research Institute Infonetics, the markets for Firewall/VPN and Intrusion Prevention Systems are estimated to have grown globally around 10%, reaching 3.3 billion Euros in 2006.

Review of major research and development activities

The company continued to invest heavily in its research and development activities. In 2006, the investments totaled EUR 4.8 million (EUR 4.6 million). This represented 18% of total operating costs (17%). Research and development employed 67 (67) persons at the end of the financial year.

In its research and development operations, the company focused on further development of network security in the StoneGate product family and continued to further develop layered security, high availability, fault tolerance, and secure resilient connectivity.

In June, Stonesoft launched new generation StoneGate products. These new products enable secured, flexible, and optimized connections to services offered through the network, while preventing the damage caused by network security attacks. The main improvements in the new StoneGate Firewall-VPN appliances are related to ensuring resiliency, security, and high quality of voice in the use of VoIP (Voice-over-IP) using the SIP protocol in corporate networks. At the same time, Stonesoft announced a new intrusion prevention and detection system, StoneGate IPS, as part of the StoneGate information security platform. StoneGate IPS detects malicious traffic in the network and stops it, which eliminates the damage caused by worms, malware, and other attacks. In addition, IPS prevents internal attacks within a network. This secures business continuity and diminishes the number of random supply and operational breakdowns, thus increasing productivity.

Personnel

At the end of the year, the group's personnel totaled 254 (252) people, of which 241 were employees and 13 had contractual relationships as full-time sales representatives.

The salaries and other remuneration paid to the employees, including social security payments, were 16.7 Million Euros (16.1).

The geographical distribution of Stonesoft personnel, excluding employees of Embe Systems Oy, which was divested at the end of 2006, was the following:

AREA	12/2006	12/2005
EMEA	155	157
AMERICAS	23	21
APAC	8	11
Total	**186**	**189**

Share capital and stock option program

At the end of the financial period on December 31, 2006, Stonesoft's share capital recorded in the Trade Register totaled EUR 1,146,054.64. The number of shares was 57,302,732. The share capital remained unchanged.

The company has currently one valid stock option program, Stock Option program 2004-2010, the subscription price of which is EUR 0.56. During 2006, no subscriptions were made on the basis of the option programs for key personnel of the company.

Development of share prices and turnover

At the beginning of the financial period on January 2, 2006, Stonesoft's shares were valued at EUR 0.49. At the end of the financial period, the share price was EUR 0.47. The highest share price was EUR 0.61, and the lowest EUR 0.41. During the year, the total turnover of Stonesoft shares amounted to EUR 10.9 million. Stonesoft's share price decreased by 4.1% during the fiscal year. Over the same period, the OMX-Helsinki index increased by 17.2%, while the Information Technology sector index decreased by 2.1%. Based on the share price on December 29, 2006, Stonesoft's market capitalization was EUR 26.9 million.

Proposal by the board of directors for distribution of profit

At the end of the financial period, neither the group nor the parent company had any distributable equity in its shareholders' equity. The Board of Directors proposes that the company pay no dividend for 2006 and that the loss be debited to the Profit/Loss account.

Authorization currently in force

The Annual General Meeting granted the company's Board of Directors an authorization to decide upon increasing the share capital by a new issue, granting option rights, or taking a convertible loan as specified in detail in the resolution. According to the resolution, the share capital of the company may be increased in one or several lots in such a way that the shares issued in the rights offering and/or the shares issued on the basis of the issued options and/or the shares issued in exchange for convertible bonds can altogether increase the share capital of the company by a maximum of EUR 229,000,00.

The authorization is in force until the next Annual General Meeting of Shareholders, but not longer than one year from the date of the resolution of the Annual General Meeting of Shareholders.

The granted authorization was not used in 2006.

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

Corporate governance

Since 2004, Stonesoft has complied with the Corporate Governance Recommendation for listed companies issued by the Helsinki Stock Exchange. More information can be found from Stonesoft's website at http://www.stonesoft.com/en/investor_relations/corporate_governance.

The company's board of directors and executive management

In the financial period, Ilkka Hiidenheimo was the CEO of the company. The Chairman of the Board of Directors was Pertti Ervi and other members were Ilkka Hiidenheimo, Topi Piela, Matti Viljo and Matti Virtanen.

In the beginning of the year, the members of the company's Executive Management were Ilkka Hiidenheimo, Juha Kivikoski, Saara Laine, Mikael Nyberg, Erkki Panula, and Mika Rautila, and, after Erkki Panula's resignation in June, Kim Fagernäs and Outi Torniainen.

Auditor

In 2006, authorized public accountants Ernst & Young Oy, acted as Stonesoft's auditor, and authorized public accountant Pekka Luoma as the main auditor.

Acquisitions and changes in the structure of the group

To be able to fully focus on integrated network security and business continuity in accordance with its strategy, in December the company signed a sales contract to sell Embe Systems Oy. The transfer of ownership of the shares of the company took place in January 2007. The company received a fixed purchase price of EUR 3.63 million, while the total purchase price can be up to EUR 4.65 million at the maximum. The transaction brought a non-recurring cost of EUR 0.2 million. An estimation of the sales profit is EUR 2.2 million and it was booked in January 2007.

During the financial period of 2006 Stonesoft Inc. (USA) was merged with Optiwise Inc. and the name of the company was changed to Stonesoft Inc. Additionally, the subsidiary companies Embe Systems Inc (a subsidiary of Embe Systems Oy) and Stonesoft BV Netherlands were liquidated.

Environment

Due to the nature of Stonesoft's business, the direct environmental impacts of Stonesoft's 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).

Major events after the financial year

On the first of January 2007, the ownership of Stonesoft's subsidiary, Embe Systems Oy, was transferred to Nice-business Solutions Finland Oy in accordance with the sales contract signed in December.

In February, Stonesoft extended its product offering to mobile users. The company signed a partner agreement with Portwise Ab, a Swedish company specializing in a browser-based SSL VPN solution for mobile and remote use.

In February, Stonesoft also launched new members in the renewed StoneGate product family: StoneGate FW-5100, and IPS-6000 for large and demanding network environments. StoneGate FW-5100 is designed for networks requiring a performance of 10 Gbps, and StoneGate IPS-6000 meets capacity requirements of 2 Gbps.

Risks and business uncertainties

Risk Management is organized as part of the Stonesoft management system. The Board of Directors approves the risk management policy that includes risk management principles and processes. The CEO is responsible for organizing the 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 respective units. The target of risk management is to ensure conditions for achieving the strategic targets and the business continuity.

In the near future, the main risks and business uncertainties relate to the realization timetable of the sales projects and possible production disruption of our subcontractors and suppliers.

Operational risks

Stonesoft continuously develops its sales processes and related control systems. Products and related services are sold mainly through a global distribution 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 providing guidance related to Stonesoft agreements, and by making legal risk assessments for business plans before their implementation. The company has worldwide insurance to cover operational risks. Stonesoft manages and safeguards its critical business information by stringent internal policies and processes. The company continuously reviews and updates its network infrastructure and guarantees the safety of its business-critical information. All critical components are duplicated and, in addition, the company has a continuously updated back up system situated in a different physical location.

Financial risks

In addition to the Euro, the most important invoicing currency to the company is the US dollar. The company's costs occur mostly in Euros. The company operates actively to minimize the exchange rate risks.

The main principles of the company's treasury policy are (i) to ensure the short-term liquidity of the company, (ii) to guarantee efficient circulation and short term investments of the operational cash flows and (iii) to follow prudent and transparent investment policy for the cash reserves, with the goal of guaranteeing competitive return on 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 under continuous control. The company does not have a separate internal audit organization or a separate audit committee.

Issues that have and impact on the 2007 result

In January 2007, the group books EUR 2.2 million of sales profit from the sale of Embe Systems Oy. This is an estimate made by the company. The maximum amount of the purchase price is tied to the 2007 result of Embe Systems Oy and the final amount will be seen after the end of year 2007.

Future outlook

According to the Research Institute Infonetics, the Firewall/VPN and Intrusion detection and protection market will grow globally by roughly ten percent in 2007. The market will continue to be dynamic.

In our view, companies will continue networking with their partners and subcontractors, and this development will create even higher requirements for network security and availability. Furthermore, we believe that combining the security and high availability, which has been the basis for StoneGate product design from the beginning, will prove its strength even better than before in this development.

The convergence of voice, video, and data on 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 the 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 2007 growth plan, since these are the cornerstones of StoneGate Management Center's functionality. Furthermore, Stonesoft will further strengthen its competitiveness in the market with its new appliance family that addresses the performance issue with a new 10 Gbps appliance, while raising the price/performance ratio.

Stonesoft will continue its decisive and persistent efforts to increase its net sales and to improve the profitability of the company. The main target for 2007 is to have a strong growth of net sales, generating improved profitability. By extension of the product portfolio and improved competitiveness, we aim to win more large single sales deals.

Based on the extension of the product portfolio, intensified sales efforts and strong growth of the sales pipeline, the company expects to have annual overall net sales of roughly 25 million euros (+/- 10%) while the comparable net sales during the previous financial year were 16.5 million euros. The annual costs are expected to be 24.5 million euros (+/- 10 %) while the comparable costs during the previous financial year were 22.6 million euros. The operating profit and the total result for the whole year is expected to develop favorably.

The operative result during the first quarter is expected to remain negative, while the overall result will be positive due to the income from the sales of Embe Systems Oy to be booked in the first quarter.

With regard to the development of both the net sales and the 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 factors such as long sales cycles, a relatively big impact of individual deals, and the variation between the quarters in the previous year.

Stock exchange releases 2006

02.01.2006	Stonesoft Corp.: StoneGate sales remained below estimates during the last quarter 2005
02.02.2006	Finnish Defence Forces selects Stonesoft's firewalls for Transition Network 2008 project
06.02.2006	Stonesoft denies charges for alleged delay of profit warning in February 2001
13.02.2006	Stonesoft's annual results for January-December 2005 on Tuesday, February 14, 2006 at 9:00 a.m
14.02.2006	Proposals of the Board of Directors for the AGM
14.02.2006	Stonesoft Corporation's Financial Statements release for January-December 2005
21.02.2006	Invitation to the Annual General Shareholders' Meeting
10.03.2006	Changes to Stonesoft´s 2006 published financial reports
23.03.2006	Decisions made by the Annual General Meeting on March 23, 2006
28.04.2006	Stonesoft Corp.'s Interim Report for January-March 2006
27.06.2006	Stonesoft signed a global agreement with the United Nations
03.07.2006	Stonegate sales remained below estimates during the second quarter
03.08.2006	Stonesoft Corp's Interim Report for January-June 2006
26.10.2006	Stonesoft Corp.'s Interim Report for January-September 2006
31.10.2006	Expiry of Stonesoft's year 2001 option plan (option plan 4)
15.11.2006	The District Court dismissed all charges against Stonesoft in a suspected delay of a profit warning in February 2001
23.11.2006	District Prosecutor has given notice of appeal against the District Court´s decision
19.12.2006	Stonesoft focuses on its core business by selling Embe Systems Oy

2006

Financial Statements

Income Statement (IFRS)

Stonesoft Group

(1000 Euros)			
Continuing operations	Note	1.1. - 31.12.2006	1.1. - 31.12.2005
Net sales	1	**16 479**	**16 453**
Other operating income	3	766	545
Material and services		-1 915	-1 937
Personnel expenses	6	-13 135	-12 667
Depreciation	5	-512	-1 055
Other operating expenses	4	-8 292	-7 800
Operating result		**-6 608**	**-6 460**
Financial income and expences	7,8	382	526
Result before taxes		**-6 226**	**-5 934**
Taxes	9	-262	-282
Result from continuing operations		**-6 488**	**-6 216**
Profit from discontinued operations	2	40	208
Result for the accounting period		**-6 448**	**-6 008**
Earnings per share from continuing operations			
Basic earnings per share (EUR)	10	-0,11	-0,11
Diluted earnings per share (EUR)	10	-0,11	-0,11
Earnings per share from discontinued operations			
Basic earnings per share (EUR)	10	0,00	0,00
Diluted earnings per share (EUR)	10	0,00	0,00

Balance Sheet (IFRS)

Stonesoft Group

(1000 Euros)	Note	31.12.2006	31.12.2005
Assets			
Non-Current assets			
Tangible assets	11	608	773
Intangible assets	12	137	218
Deferred tax assets	14	2	2
Total		**747**	**992**
Current assets			
Inventories	15	912	519
Trade and other receivables	16	5 522	4 045
Prepayments	16	98	96
Marketable securities	13	13 755	17 378
Cash in hand and in bank	17	616	718
Total		**20 902**	**22 756**
Assets held for sale	2	2 859	3 035
Total assets		**24 507**	**26 782**
Equity and liabilities			
Equity attributable to equity holders of the parent	18		
Share capital		1 146	1 146
Share premium account		76 897	76 845
Conversion differences		-867	-849
Retained earnings		-67 410	-60 961
Total		**9 767**	**16 181**
Long term liabilities			
Provisions	20	112	124
Interest bearing liabilities	21	62	152
Other long term liabilities	22	1 296	789
Total		**1 470**	**1 065**
Short-term liabilities			
Trade and other payables	22	12 041	8 378
Tax liabilities		116	55
Provisions	20	84	38
Short-term interest bearing liabilities	21	107	184
Total		**12 348**	**8 655**
Liabilities held for sale	2	922	881
Total liabilities		**14 740**	**10 601**
Total equity and liabilities		**24 507**	**26 782**

Cash Flow Statement (IFRS)

Stonesoft Group

(1000 Euros)	Note	1.1.-31.12.2006	1.1.-31.12.2005
Cash flow from operating activities			
Result for the period		-6 608	-6 460
Adjustments	25		
Operations without money transfer		564	1 079
Financial expenses		-58	-58
Financial incomes		477	718
Change in net working capital			
Change of trade and other receivables		-1 478	1 889
Change of inventories		-393	-325
Change of trade and other liabilities		598	179
Change of provisions		33	139
Taxes paid		-261	-283
Net cash flow from operating activities continuing operations		**-7 125**	**-3 121**
Net cash flow from operating activities discontinued operations	2	114	468
Total cash flow from operating activities		**-7 011**	**-2 653**
Cash flow from investing activities			
Investments in tangible assets		-216	-300
Investments in intangible assets		-50	1 506
Investments in affiliated company		3 631	48
Investments in other shares		0	9
Net cash flow investing activities continuing operations		**3 365**	**1 264**
Net cash flow investing activities discontinued operations	2	-131	-1 647
Total cash flow investing activities		**3 233**	**-383**
Cash flow from financing activities			
Payments of financial leasing liabilities		-166	-149
Total cash flow from financing activities		**-166**	**-149**
Change in cash and cash equivalents			
Cash and cash equivalents at beginning of period		18 097	22 187
Conversion differences		-18	44
Changes in the market value of investments		-39	-183
Discontinued operations	2	274	-766
Total cash and cash equivalents at end of period	13,17	**14 370**	**18 097**

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 1.1.2005	**1 146**	**76 821**	**-892**	**-55 012**	**22 063**
Change to equity				59	59
Conversion differences			44		44
Net income recognised directly in equity			**44**	**59**	**102**
Result for the period				-6 008	-6 008
Total recognised income and expense for the period			**44**	**-5 949**	**-5 905**
Stock options exercised		24			24
Shareholders' equity at 31.12.2005	**1 146**	**76 845**	**-849**	**-60 961**	**16 181**

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 expense 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**

Notes to the consolidated financial statements

Stonesoft Group

Corporate information

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

Stonesoft Corporation was founded in 1990. Stonesoft Corp's headquarters are in Helsinki, Finland and Americas area office in Atlanta, USA.

The parent company of the group is Stonesoft Corp. Its domicile is Helsinki and the registered address is Itälahdenkatu 22 A, 00210 Helsinki. Stonesoft Corp shares are quoted on the main list of Helsinki Stock Exchange.

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

Principles and accounting policies applied preparing the annual report

Basis for preparing the annual report

The group's annual report has been prepared in accordance with IFRS (International Financial Reporting Standards). IAS and IFRS standards in force 31.12.2006 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 group's annual report has 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 annual report is expressed in thousands of Euros.

Preparing the group's annual report in accordance with IFRS requires managerial judgement when applying the standards. Information on judgement used by the management when applying the standards which has 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 group's annual report

Group companies

The group's annual report includes the parent company Stonesoft Corp. 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 report. Daughter companies disposed of are included in the group's annual report up to the date when control ceases.

During the reporting period, 2006, Stonesoft Inc (USA) was merged into Optiwise Inc (USA) and the company was then renamed to Stonesoft Inc. Furthermore Embe Systems Inc (daughter company of Embe Systems Oy) and Stonesoft BV Netherlands were closed down. The contract for selling Embe Systems Oy was signed in December 2006. Ownership is transferred on 1.1.2007.

Handling of foreign currency

The result and financial situation of group entities are measured in the currency primarily used in its operating environment ("operating currency"). The group's annual report is presented in Euros, the group'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. Profit and losses arising from business transactions in foreign currency and from translating monetary items are booked in the income statement. Exchange rate profit and losses related to business transactions are included in the corresponding lines above operating 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 fully done.

Depreciation on assets is booked using flat rates based on the economical life expectance.

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 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.

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

Research and development costs

The group's products require continuous research and development in order to meet the changing security risks.

Costs related to the development of new products are not activated due to e.g. that the future cash flows related to them only can 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.

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 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, less estimated costs of sale.

Leases

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

Assets obtained through financial leasing are depreciated during the economical life of the asset or if shorter the lease time. Lease payments are split into financial costs and debt amortizations. 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 owning are with the lessor are treated as other rental agreements. Rents paid based on other rental agreements are booked as costs during the rental period. A more detailed specification of other rental agreements can be found in the notes, item 27. Operation 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 which cash flow 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. By the value in use of an asset or a cash generating unit is meant the estimated future cash flows, discounted to their net present value. For financial assets the cash flow that can be generated is either the fair value or the 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 through impairment are booked into the Income statement. If the loss generated by impairment is linked to a cash flow generating unit, it is firstly deducted from this unit’s Goodwill and after this on an even basis from other assets of this unit. An impairment loss is reversed if changes in the environment occur and the cash flow that the asset can generate has changed since the impairment loss booking date. Impairment losses are not reversed with a larger amount than the originally booked impairment loss. Impairment losses on Goodwill are not reversed under any conditions.

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 into the Income Statement during the period the charge is related to.

Share-based payment plans

The group has options based incentive programs which are paid with equity based instruments. Options are valued at market prices on the granting date and booked as costs evenly during the period of earning. The cost of the options at the granting date is based on the group’s estimate of the number of options which will be vestable by the end of the earning period. The fair value is calculated using the Black-Scholes pricing model. Impacts of non market based conditions (e.g.

profitability and or a given profit growth target) are not included in the fair price of the option but 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 into 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 has been secured. 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.

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

Products sold and services provided

Income from products sold are booked when the risks and benefits related to owning the products are transferred to the buyer. At this stage the group no longer has control of the product. In most cases this coincides with when the product is delivered to the customer in accordance with the delivery terms clause.

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 booked has been realised. The group received no dividend income during 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 primarily will be 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.

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. The figures for 2005 have been adjusted to be comparable.

The Embe Systems Oy operations are classified as Held for sale in the annual report.

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 hands and at banks consists of cash, a 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 they 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 24. 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 possible reversals of impairment losses on interest bearing instruments held for sale are booked as profit.

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 bankrupts, 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 that the impairment booking, the loss is reversed into a profit.

Derivative contracts and hedge accounting

The group used no derivatives in the financial years 2006 or 2005.

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 annual report one is forced to make estimates and assumptions related to the future, which may deviate from the final outcome. On top of this one has to make judgements related to principles to apply in preparation of the report. The estimates are based on managements best understanding on closing date. Possible changes in estimates and assumptions are booked in the period during which the estimate or the assumption is changed, and for all subsequent periods.

The central assumptions concerning the future and uncertainties related to estimates on the closing date impacting book values are

- the valuation of assets and liabilities
- utilization of deferred tax receivables against future taxable income

Testing for impairment

The group tests Goodwill and 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

The standards, interpretations and their changes listed below have been published, but are not yet in force. The group has not applied these rules before they become mandatory. The group will in 2007 apply the following new and renewed standards and interpretations published by IASB in 2005 and 2006.

- IFRS 7 Financial instruments: Disclosures
- Amendment in IAS 1 Presentation of Financial statements – Capital disclosures
- IFRIC 10 Interim Financial Reporting and Impairment

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 of the segments are presented based on where the customers are geographical situated and the assets situation.

The operating result of a segment consists of geographical sales, local costs of group companies and cost allocations from headquarters.

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

Geographical segments

The geographical segments of the group are

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

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

Geographical segments 1.1. - 31.12.2005
(1000 Euros)

	EMEA	AMERICAS	APAC	Elimination	Total
External sales					
Software	2 146	658	349		3 153
Services	4 570	2 215	795		7 580
Other sales	3 808	1 217	696		5 721
External sales total	**10 524**	**4 090**	**1 839**		**16 453**
Internal sales	0	50	0	-50	0
Net sales	**10 524**	**4 140**	**1 839**	**-50**	**16 453**
Operating result	-4 005	-2 087	-368		-6 460
Result from continuing operations	-4 005	-2 087	-368		-6 460
Result from discontinued operations	206	2			208
Unallocated					244
Result for the accounting period					**-6 008**
Assets	7 441	1 165	413		9 019
Unallocated					17 763
Total assets					**26 782**
Liabilities	8 669	1 362	570		10 601
Unallocated					0
Total liabilities					**10 601**
Investments	532	-97	2		437
Depreciation	1 015	89	9		1 113

2. Assets held for sale and discontinued operations

The group signed a contract in December 2006 concerning selling all the shares of Embe Systems Oy, a part of it's EMEA-segment, to Nice-business Solutions Finland Oy. According to the contract the cash price for the shares total a maximum of 4.65 million Euros. The price consists of a fixed part and apart dependent on the 2007 result of Embe. The fixed price is 3,630 thousand Euros, transferred to the Stonesoft group's liquid funds at the end of year 2006. The Stonesoft group books a profit of 2,210 thousand Euros in January 2007. Stonesoft does not pay taxes on the profit of the sale. The ownership and the control of the company is transferred to 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.-31.12.2006	1.1.-31.12.2005
EMBE Systems Oy		
Net sales	5 400	5 783
Other income	41	40
Employment benefits	-3 878	-3 954
Depreciation	-69	-58
Other costs	-1 422	-1 610
Operational result	**72**	**202**
Financial income and costs	-15	13
Result before taxes	57	215
Taxes	-17	-6
Result for the accounting period	**40**	**208**
Income	5 443	5 838
Costs	-5 386	-5 623
Result before taxes	**57**	**215**
Taxes	-17	-6
Profit from discontinued operations	**40**	**208**
Cash flow of EMBE Systems Oy:		
Operational cash flow	114	468
Cash flow from investments	-131	-1 647
Cash flow form financial transactions	274	-766
Total cash flow	**257**	**-1 945**

Impacts of the sale of Embe Systems Oy on the groups financial situation	2006	2005
Tangible assets	98	68
Goodwill	1 507	1 507
Other intangibles	25	10
Other financial assets	4	4
Receivables	733	680
Cash and equivalents	492	766
Accounts payable and other liabilities	-922	-881
Total assets and liabilities	**1 936**	**2 154**
Received as cash	3 630	
Cash of the discontinued operation	-492	
Impact on cash flow	**3 138**	

The sold unit was attributed 1,507 thousand Euros of Goodwill on 31.12.2006. The selling price was used as fair value in testing for impairment.

3. Other operating income

(1000 Euros)	2006	2005
Gain on disposal of fixed assets	8	100
Leasing income	659	348
Lunch sales to employees	57	54
Others	43	43
Total	**766**	**545**

4. Other operating expenses

(1000 Euros)	2006	2005
Optional personnel expenses	267	264
Leasing and other building expenses	2 351	2 313
Office expenses	381	231
EDP-expenses	557	587
Travel expenses	735	782
Car expenses	231	257
Entertainment expenses	126	114
Marketing expenses	1 112	628
Telephone expenses	422	434
External services	1 573	1 606
Other expenses	537	582
Total	**8 292**	**7 800**

5. Depreciation, amortization and impairment

(1000 Euros)	2006	2005
Depreciation and amortization by asset type		
Intangible assets		
Other Intangible assets	131	187
Tangible assets		
Machinery and equipment	369	601
Other tangible assets	11	172
Impairment loss by asset type		
Shares of subsidiaries	0	94
Total	**512**	**1 055**

6. Personnel expenses

(1000 Euros)	2006	2005
Wages and salaries	10 618	10 286
Pensions – defined contribution plans	1 197	1 225
Granted share based and paid options	52	24
Other personnel costs	1 268	1 132
Total	**13 135**	**12 667**

Average number of personnel in Group	2006	2005
EMEA	220	213
APAC	10	9
AMERICAS	21	25
Total	**251**	**247**

Information on benefits offered to the management are presented in the notes, 29. Related party transactions. Information on granted options are presented in the notes, 19. Share based payments.

7. Financial income

(1000 Euros)	2006	2005
Interest income	27	23
Exchanges gains	17	57
Sales profit of securities held for trading	395	422
Other financial income	1	98
Total	**439**	**601**

Exchange gains included in operating result total 205 thousand Euros in 2006 (289 thousand Euros in 2005).

8. Financial expenses

(1000 Euros)	2006	2005
Interest expenses	23	33
Exchange expenses	35	27
Other financial expenses	0	15
Total	**58**	**75**

Exchange losses included in operating result total 308 thousand Euros in the financial year 2006 (166 thousand Euros in 2005). Other financial expenses include 18 thousand Euros of interest booked during the period related to financial leases (27 thousand Euros in 2005).

9. Income taxes

(1000 Euros)	2006	2005
Current income tax for the year	253	258
Current income tax of previous years	9	22
Deferred tax	0	2
Total	**262**	**282**

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

(1000 Euros)	2006	2005
Profit before tax	-6 226	-5 934
Tax calculated at Finnish statutory tax rate of 26%	-1 619	-1 543
Unrecognised tax receivables of losses	1 801	1 629
Effect of different tax rates in foreign subsidiaries	46	25
Income not subject to tax	-15	-27
Expenses not deductible for tax purposes	32	164
Previously unbooked usage of tax losses	-20	0
Current income tax of previous years	9	22
Other	28	12
Tax charge	**262**	**282**

Taxes related to discontinued operations are presented in the notes item 2. Assets held for sale.

10. Earning 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)	2006	2005
Profit attributable to equity holders of the parent company, continuing operations	-6 488	-6 216
Profit attributable to equity holders of the parent company, discontinued operations	40	208
Weighted average number of shares outstanding (1000 pcs)	57 303	57 303
Effect of issued share options (1000 pcs)	0	4
Diluted weighted average number of shares outstanding (1000 pcs)	57 303	57 307
Diluted earnings per share (1 EUR), continuing operations	-0,11	-0,11
Diluted earnings per share (1 EUR), discontinued operations	0,00	0,00

11. Tangible assets

(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 31.12.2006	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 rates	0	0	0
Accumulated depreciation at 31.12.2005	**2 506**	**1 166**	**3 672**
Book value at 1.1.2006	711	61	773
Book value at 31.12.2006	571	37	608
Acquisition cost at 1.1.2005	5 478	1 427	6 905
Correction for the acquisition cost	-258	-165	-423
Additions	335	27	362
Transferred to long term assets held for sale	-349	0	-350
Disposals	1 706	-60	-1 766
Acquisition cost at 31.12.2005	**3 500**	**1 228**	**4 728**
Accumulated depreciation at 1.1.2005	4 336	1 229	5 565
Correction to the accumulated depreciation	-267	-177	-444
Depreciation during the financial year	601	172	774
Transferred to long term assets held for sale	-235	0	-235
Disposals	-1 653	-58	-1 711
Change in exchange rates	7	0	7
Accumulated depreciation at 31.12.2005	**2 789**	**1 167**	**3 956**
Book value at 1.1.2005	1 142	198	1 340
Book value at 31.12.2005	711	61	773

The tangible assets include assets rented through financial leasing contracts for a value of 472 thousand Euros in 2006 (739 thousand Euros in 2005).

The acquisition value remaining after depreciation of machinery and equipment in tangible assets is 408 thousand Euros 31.12.2006 (382 thousand Euros 31.12.2005).

Tangible assets include assets rented through financial leases as follows:

(1000 Euros)	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
Acquisition cost at 1.1.2005	775
Additions	81
Disposals	-116
Acquisition cost at 31.12.2005	**739**
Accumulated depreciation at 1.1.2005	290
Depreciation on disposals	-116
Depreciation during the financial year	237
Accumulated depreciation at 31.12.2005	**410**
Book value at 1.1.2005	485
Book value at 31.12.2005	329

Additions to acquisition costs of tangible assets include assets acquired through financial leases for 22 thousand Euros in 2006 (81 thousand Euros in 2005).

12. Intangible assets

(1000 Euros)	Other intangible assetst	Goodwill	Total
Acquisition cost at 1.1.2006	1 527	0	1 527
Additions	79	0	79
Transferred to long term assets held for sale	-27	0	-27
Disposals	-4	0	-4
Acquisition cost at 31.12.2006	**1 575**	**0**	**1 575**
Accumulated depreciation at 1.1.2006	1 309	0	1 309
Depreciation during the financial year	131	0	131
Transferred to long term assets held for sale	0	0	0
Disposals	-2	0	-2
Accumulated depreciation at 31.12.2006	**1 438**	**0**	**1 438**
Book value at 1.1.2006	218	0	218
Book value at 31.12.2006	137	0	137
Acquisition cost at 1.1.2005	1 711	6 029	7 741
Correction for the acquisition cost	-103	0	-103
Transferred to long term assets held for sale	-102	-6 029	-6 131
Additions	21	0	21
Acquisition cost at 31.12.2005	**1 527**	**0**	**1 527**
Accumulated depreciation at 1.1.2005	1 308	4 522	5 830
Correction for the accumulated depreciation	-105	0	-105
Transferred to long term assets held for sale	-81	-4 522	-4 603
Depreciation during the financial year	187	0	187
Accumulated depreciation at 31.12.2005	**1 309**	**0**	**1 309**
Book value at 1.1.2005	404	1 507	1 911
Book value at 31.12.2005	218	0	218

13. Other investments and marketable securities

(1000 Euros)	2006	2005
Securities held for trading	13 755	17 378
Total	**13 755**	**17 378**

During 2006 no sales of non-quoted shares took place.

The group has decided to book investments in interest bearing instruments made during the reporting period at fair values impacting the income statement on original booking date.

Securities held for trading consist primarily of mutual money market funds. The principles for defining fair values is defined in 24. Fair value of financial assets and liabilities.

14. Deferred tax receivables and liabilities

Change in the deferred taxes

(1000 Euros)	31.12.2005	Changed to statement of earnings	Changed to shareholders' equity	31.12.2006
Deferred tax receivables:				
Other	2	0	0	2
Total	**2**	**0**	**0**	**2**
Deferred tax liabilities:				
Other investments at fair value	0	0	0	0
Total	**0**	**0**	**0**	**0**

(1000 Euros)	31.12.2004	Changed to statement of earnings	Changed to shareholders' equity	31.12.2005
Deferred tax receivables:				
Other	0	2	0	2
Total	**0**	**2**	**0**	**2**
Deferred tax liabilities:				
Other investments at fair value	59	0	-59	0
Total	**59**	**0**	**-59**	**0**

The group has cumulated, taxable losses for a total of 76,430 thousand Euros at the closing on the 31.12.12006. Losses confirmed in the 2005 taxation equal 69,513 thousand Euros, expiring in the years 2011-2015. 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.

15. Inventories

(1000 Euros)	2006	2005
Finished goods	912	519
Total	**912**	**519**

The value of the Inventories has not been lowered during 2006 or 2005.

16. Trade and other receivables

(1000 Euros)	2006	2005
Trade receivables	4 745	3 338
Prepayments	98	96
Accrued income	540	458
Other receivables	238	249
Total	**5 620**	**4 141**

The main items in Accrued incomes are related to fixing of costs to the correct reporting period. The fair values of the receivables are presented in the notes, item 24. Fair value of financial assets and liabilities.

The group has booked credit gains on it's receivables, 5 thousand Euros. (32 thousand Euros gain in 2005). The Balance Sheet values values equal the amount of money, which is the maximum credit risk, in case the other contractual parties are unable to fulfil their obligations related to the financial instruments. No major concentration of credit risk is linked to the receivables.

17. Cash on hand and on deposit

(1000 Euros)	2006	2005
Cash and bank	616	718
Total	**616**	**718**

According to cash flow statement:

Cash and bank	616	718
Total	**616**	**718**

18. Share capital of the parent company

(1000 Euros)	Number of shares	Share capital	Share premium	Total
31.12.2004	57 302 732	1 146	76 821	77 967
Stock options exercised			24	24
31.12.2005	**57 302 732**	**1 146**	**76 845**	**77 991**
Stock options exercised			52	52
31.12.2006	**57 302 732**	**1 146**	**76 897**	**78 043**

Maximum number of shares is 168,000,000. The counter value of a share is 0.02 EUR and the maximum share capital amounts to 3,360,000 euro. All issued shares are fully paid.

A description of the equity reserves is presented below:

Foreign currency translation

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

Dividends

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

19. Share based payment plans

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

A total of 52 thousand Euros has been booked as provisions against equity for benefits of employment based on options during the reporting period 2006. A cost of 15 thousand Euros in 2007 and 5 thousand Euros in 2008 is estimated to arise from the options.

The Group has following share option plans:

Option plan 1/1999

The option plan expired 30.4.2005. The option plan has no impact on annual reports for 2006 and 2005.

Option plan 2/2000

The option plan expired 30.4.2006. The option plan has no impact on annual reports for 2006 and 2005.

Option plan 4/2001

The option plan expired 31.10.2006. The option plan has no impact on annual reports for 2006.

Option plan 5/2004

The special general meeting of shareholders of the Stonesoft Corporation held on November 24, 2004, approved a new option plan proposed by the Board of Directors. Under this plan, a total of 1,500,000 options with warrants were offered for subscription to the members of the Boards of Directors of the companies in the Stonesoft Group, other management or staff. Each option with warrants entitles the holder to subscribe for one share in Stonesoft with a par value of 0.02 euros. The subscription period for the shares begin in stages as follows: January 1, 2006, January 1, 2007, January 1, 2008, January 1, 2009 and January 1, 2010. The subscription period for all the shares shall end on December 31, 2010. The subscription price of each share shall be 0.56 euros.

The Group has not exercised options for financial year 2006 and 2005.

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	163 750
Option plan 5/2004 B	0,56	1.1.07 - 31.12.10	143 750
Option plan 5/2004 C	0,56	1.1.08 - 31.12.10	143 750
Option plan 5/2004 D	0,56	1.1.09 - 31.12.10	143 750

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)	2006 Weighed average exercise price euro/share	Number of options	2005 Weighted average exercise price euro/share	Number of options
At the beginning of the financial year	7,83	1 590 840	4,72	1 894 420
Allocated new options	0,56	430 000	0,56	225 000
Forfeited options	0,56	-60 000	12,11	-34 400
Expired options	9,02	-1 365 840	6,50	-494 180
At the end of the financial year	0,56	595 000	7,83	1 590 840
Vested options outstanding at end of the financial year	0,56	163 750	9,02	1 365 840
Vested options during the financial year		0		0

Outstanding options at end of the financial year:

Ending of exercised	Subscription price (euro)	2006 Number of shares	2005 Number of shares
2006	2.43 - 14.16	0	1 365 840
2010	0,56	595 000	225 000
Total		**595 000**	**1 590 840**

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
31.12.2005	159	3	162
Additional provisions	31	40	71
Utilized during year	-38	0	-38
31.12.2006	**152**	**3**	**195**

(1000 Euros)	2006	2005
Short term	84	38
Long term	112	124
Total	**195**	**162**

Losses on contracts

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

Other provisions

Other provisions are related to restructuing costs.

21. Interest bearing liabilities

(1000 Euros)	2006 Carrying amount	2006 Fair value	2005 Carrying amount	2005 Fair value
Long term				
Finance lease liabilities	62	62	152	152
Short term				
Finance lease liabilities	107	107	184	184

Fair values are based on discounted cash flows. The interest rate used in discounting equals the rate at which the leasing debt at the end of the contract is fully amortized.

Interest bearing short and long term liabilities are all in Euros. The future cost for long term contracts are as following:

2006 (1000 Euros)	2007	2008	2009	2010	Thereafter
Finance lease liabilities	0	62	0	0	0

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

The weighted averages of effective interest rates on long term, interest bearing debt 31.12.2006 and 31.12.2005 where:

	2006	2005
Finance lease liabilities %	4,16%	7,10%

The weighted averages of effective interest rates on short term, interest bearing debt 31.12.2006 and 31.12.2005 where:

	2005	2005
Finance lease liabilities %	8,20%	9,24%

Finance lease liabilities are payable

Finance lease liabilities - Minimum lease payments

(1000 Euros)	2006	2005
In less than one year	116	201
Between one and five years	65	162
Total minimum lease payments	**181**	**363**

Finance lease liabilities - Present value of minimum lease payments

(1000 Euros)	2006	2005
In less than one year	107	184
Between one and five years	62	152
Total present value of minimum lease payments	**170**	**335**
Future financial charges	11	28
Finance lease liabilities total	170	335

22. Trade and other payables

(1000 Euros)	2006	2005
Prepayments	3 630	0
Trade payables	1 425	1 076
Accrued expenses	7 824	6 835
Other	458	1 257
Total	**13 337**	**9 167**

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, 24. Fair value of financial assets and liabilities.

23. Management of financial risks

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

Currency risk

The group operates on four continents but uses as it's 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 2006 neither of these instruments where used. The daughter companies do not carry major balance items and the translation risk is therefore not substantial.

Interest rate risk

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

The market risk related to investments

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

Credit risk

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

Liquidity risk

There is no liquidity risk related to the group since the invested funds, which are large in comparition with the cash flow, are available on a next day basis.

24. Fair value of financing asset and liabilities

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

(1000 Euros)	Note	2006 Carrying amount	2006 Fair value	2005 Carrying amount	2005 Fair value
Financing assets					
Investments booked at fair value through the Income statement	13	13 755	13 755	17 378	17 378
Trade and other receivables	16	5 522	5 522	4 045	4 045
Prepayments	16	98	98	96	96
Cash on hand and on deposit	17	616	616	718	718
Financing liabilities					
Finance lease liabilities	21	170	170	335	335
Trade and other payables	22	13 337	13 337	9 167	9 167

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

Investments in shares, in mutual funds and other investments

In the annual report 31.12.2006 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. This value has also been tested using valuation methods commonly used, using available market bids.

Debts related to financial leases

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

Payables and other liabilities and receivables

The original book value of receivables corresponds to their fair value as discounting is not material taking the maturity of the receivables into account.

25. Adjustments for cash flow from operating activities

(1000 Euros)		
Adjustments	**2006**	**2005**
Depreciations	508	961
Amortizations	3	94
Employment benefits	52	24
Financial expenses	-58	-58
Financial incomes	438	536
Fair value gains/loss of financial instruments hold for trading	39	183
Total	**984**	**1 739**

26. Subsidiaries

The information is presented in the notes, item 29. Related Party Disclosures.

27. Operating lease commitments

Group as leaseholder

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

(1000 Euros)	**2006**	**2005**
In less than one year	1 928	1 815
Between one and five years	4 175	5 490
Total	**6 103**	**7 305**

The group rents the offices it utilizes. The remaining duration of the rental contracts are 0-4 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 2006 contains rents paid based on rental agreements for a total of 2,043 thousand Euros (2,098 thousand Euros in 2005).

The group has sublet part of it's offices. The minimum rental costs related to the offices is 684 thousand Euros (336 thousand Euros in 2005). The minimum rental income related to the subleases is 659 thousand Euros in 2006 (348 thousand Euros in 2005). The group has made a provision of 152 thousand Euros 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)	2006	2005
In less than one year	588	618
Between one and five years	420	833
Total	**1 008**	**1 451**

The group has sublet the parts of the it's headquarters which it does not need. The duration of the rental agreements are 1-3 years.

28. Commitments and contingencies

(1000 Euros)	2006	2005
Collateral for own commitments		
Rent security	0	131
Other collaterals		
Pledged securities	585	0
Performance bond	323	0

The pledged securities are the shares of Embe Systems Oy, which were given as security for the deposit payment until the ownership is transferred to the buyer.

The ownership and the control of the company is transferred to the buyer on 1.1.2007.

29. 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	Size of holding %	Size of voting right %
Parent company Stonesoft Oyj	Finland, Helsinki		
Stonesoft Finland Oy	Finland, Helsinki	100,00	100,00
Embe Systems Oy	Finland, Oulu	100,00	100,00
Stonesoft Inc	USA, Atlanta	100,00	100,00
Stonesoft AB	Sweden, Tukholma	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, Milano	99,99	99,99
Stonegate AG	Switzerland, Zurich	100,00	100,00
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 group price lists in force.

Transactions with Directors and Executive Officers (1000 Euros)	2006	2005
Salaries and other short term employee benefits	735	567
Share based payments	47	18
Total	**782**	**585**

Remuneration for Board of Directors and Managing Directors	2006	2005
Managing Directors	107	85
Board of Directors		
Ervi Pertti	44	26
Viljo Matti	20	0
Virtanen Matti Tapani	20	0
Piela Topi	20	0
Ritvala Jyrki	5	26
Sozonoff Alexis	11	50

The impacts of options are presented in the notes, item 19. Share based payment plans. Members of the board have received consultation fees amounting to 9 thousand Euros during the reporting period 2006.

The company management and board were given 430,000 share options in 2006 (225,000 in 2005). The options of the management and the board have similar terms and conditions. The management and the board had on the 31.12.2006 a total of 595,000 granted options out of which 163,750 where vestable (445,000 in 2005 out of which 220,000 vestable).

30. Events after the Balance Sheet Date

- Swisscom Mobile chose Stonesoft firewalls to protect their network architecture.
- StoneGate was nominated as a candidate for the best network security product in the Secure Computing Magazine awards. Last year Stonesoft won the categories of firewall and best network product.
- Stonesoft extended its product offering to mobile users. The company signed a partner agreement with Portwise Ab, a Swedish company specializing in a browser-based SSL VPN solution for mobile and remote use.
- Stonesoft launched the new members of the renewed StoneGate product line, StoneGate FW-5100 and IPS-6000 for large and demanding network environments. StoneGate FW-5100 is designed for networks requiring a performance of 10 Gbps and StoneGate IPS-6000 meets capacity requirements of 2 Gbps.

31. Key Ratios

(1000 Euros)	IFRS 2006	IFRS 2005	IFRS 2004	FAS 2003	FAS 2002
Net sales	21 879	22 237	22 490	23 197	30 173
Net sales change-%	-2	-1	-3	-23	-48
Net sales, continuing operations	16 479	16 453			
Net sales change-%	0				
Net sales, discontinued operations	5 400	5 783			
Net sales change-%	-7				
Operating result	-6 536	-6 258	-8 988	-15 067	-25 178
% of Net sales	-30	-28	-40	-65	-83
Operating result continuing operations	-6 608	-6 460			
Operating result discontinued operations	72	202			
Operating result before taxes	-6 170	-5 719	-8 532	-14 214	-15 965
% of Net sales	-28	-26	-38	-61	-53
Result for the accounting period	-6 448	-6 008	-12 981	14 787	-16 707
% of Net sales	-29	-27	-58	-64	-55
Return on equity (ROE) %	-50	-31	-46	-35	-44
Return on investment (ROI) %	-46	-29	-27	-33	-42
Equity ration %	66	74	81	90	90
Net gearing	-1,50	-1,14	-0,98	-0,78	-0,81
Capital investments	381	437	501	197	699
% of Net sales	2	2	2	1	2
R&D costs	4 804	4 612	5 075	6 541	7 436
% of Net sales	22	21	23	28	25
Number of employees (weighted average)	251	247	258	298	403
Number of employees at the end of the year	254	252	237	264	336
Earnings per share	-0,11	-0,10	-0,23	-0,26	-0,49
Earnings per share, continuing operations	-0,11	-0,11			
Earnings per share, discontinued operations	0,00	0,00			
Equity per share	0,17	0,28	0,38	0,61	0,87
Dividend	0,00	0,00	0,00	0,00	0,00
Dividend per share	0,00	0,00	0,00	0,00	0,00
Dividend/profit %	0	0	0	0	0
Average number of shares adjusted for share issue	57 302 732	57 302 732	57 302 732	57 643 083	55 499 114
Number of shares adjusted for share issue at year end	57 302 732	57 302 732	57 302 732	57 301 132	57 267 532

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 = $\dfrac{\text{Interest bearing net debt - cash in hand and on deposit - marketable securities}}{\text{Equity + minority interest}}$

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

32. Breakdown of share ownership

Number of shareholders 31.12.2006

	Number of shareholders	Shares and voting rights %	Number of Shares and voting rights
1-100	1 584	0,2	125 534
101 - 500	2 334	1,3	730 994
501 - 1.000	986	1,5	840 899
1.001 - 5.000	1 412	6,3	3 618 276
5.001 - 10.000	300	4,0	2 293 866
10.001 - 50.000	227	8,5	4 889 892
50.001 - 100.000	46	5,9	3 399 236
100.001 - 500.000	32	13,6	7 808 181
500.001 -	14	58,6	33 595 854
Total	**6 935**	**100,0**	**57 302 732**

Distribution of ownership by sector 31.12.2006

	Number of shareholders	Shares and voting rights %	Number of Shares and voting rights
Companies	321	17,9	10 267 777
Financial and insurance institutions	11	11,7	6 711 280
Public-sector organisations	2	1,3	729 500
Households	6 537	63,9	36 598 453
Non-profit organisations	10	0,9	530 826
Foreign and nominee-registered owners	54	4,3	2 464 896
Total*	**6 935**	**100,0**	**57 302 732**
* Incl. nominee-registered, total	11	8,8	5 051 858

Major shareholders 31.12.2006

	Number of shares	%
Hiidenheimo Ilkka	10 417 400	18,2
Turunen Hannu	7 450 000	13,0
Ulkomarkkinat Oy *	2 499 900	4,4
Nordea Pankki Suomi Oyj *	2 462 065	4,3
Evli Pankki Oyj *	2 034 470	3,6
Nordea Pankki Suomi Oyj	1 673 900	2,9
Veikko Laine Oy	1 562 650	2,7
Syrjälä&Co Oy	1 095 000	1,9
Syrjälä Timo	1 024 000	1,8
Oy Q & A Consulting Ab	755 469	1,3
Other *	26 327 878	45,9
Total	**57 302 732**	**100,0**
* Incl. nominee-registered, total	5 051 858	8,8

Shares and share options held by the members of the Board of Directors 31.12.2006

	Number of shares	Number of options
Ervi Pertti	20 000	30 000
Hiidenheimo Ilkka	10 417 400	0
Viljo Matti	0	15 000
Virtanen Matti Tapani	10 000	15 000
Piela Topi	120 000	15 000
Total	**10 567 400**	**75 000**

Income statement (FAS)

Parent company

(1000 Euros)	Note	1.1. - 31.12.2006	1.1. - 31.12.2005
Net sales	1	**16 424**	**16 378**
Other operating income	2	1 404	1 347
Materials and services	3	-1 915	-1 934
Personnel costs	4	-6 594	-6 582
Depreciations and reduction in value	5	-224	-3 938
Other operating expenses		-16 395	-15 777
Operating result		**-7 300**	**-10 506**
Financial income and expenses	6	1 462	2 838
Result before extraordinary items		**-5 838**	**-7 669**
Extraordinary items +/-	7	1	-235
Result before appropriations and taxes		**-5 837**	**-7 904**
Direct taxes	8	-16	17
Result for financial year		**-5 852**	**-7 887**

Balance sheet (FAS)

Parent company

(1000 Euros)			
ASSETS	Note	31.12.2006	31.12.2005
Non-current assets			
Intangible assets	9	177	281
Tangible assets	10	188	154
Investments	11	4 737	4 738
Non-current assets total		**5 102**	**5 173**
Current assets			
Inventories		912	519
Short term receivables	12	5 247	3 779
Marketable securities	13	13 750	17 223
Cash in hand and at banks		431	497
Current assets total		**20 340**	**22 018**
Total		**25 442**	**27 191**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	14	1 146	1 146
Share premium account	14	76 821	76 821
Retained earnings/loss	14	-61 451	-53 564
Profit/loss for the financial year	14	-5 852	-7 887
Shareholders' equity total		**10 663**	**16 516**
Provisions		**152**	**159**
Liabilities			
Short term liabilities	15	14 626	10 515
Liabilities total		**14 626**	**10 515**
Total		**25 442**	**27 191**

Cash flow statement (FAS)

Parent company

(1000 Euros)	1.1.-31.12.2006	1.1.-31.12.2005
Cash flow from operating activities		
Operating result	-7 300	-10 506
Adjustments to operating result	288	4 042
Financial income and expenses	431	692
Change in net working capital	2 183	311
Taxes paid	-16	17
Total	**-4 413**	**-5 445**
Cash flow from investing activities		
Investments to intangible and tangible assets	-154	-202
Investments to (-) / sales of (+) shares in subsidiaries	18	112
Dividends received	1 010	2 030
Total	**874**	**1 940**
Cash flow from financing activities total	**0**	**0**
Change in cash and cash equivalents	**-3 539**	**-3 505**
Cash and cash equivalents at the beginning of the period	17 720	21 226
Cash and cash equivalents at the end of the period	14 181	17 720

Notes to the financial statements

Accounting principles

Scope of the consolidated financial statement

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

Pension expenses

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

Research and development

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

Rents

Rental expenses are recorded as expenditure for the financial period they incurred. The rental liabilities 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

	2006	2005
Machinery	3-5	3-5
Equipment	5	5
Other tangible assets	5	5
Other long term expense items	5	5
Consolidated goodwill	-	-

Securities included in financial assets

Securities included in financial assets have been 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

	2006	2005
EMEA	11 548	10 525
AMERICAS	3 509	4 014
APAC	1 367	1 839
Total	**16 424**	**16 378**

1b. Net sales by business functions

	2006	2005
Software and appliance revenue		
Own licenses and appliances	8 496	8 639
Software and appliance revenue total	**8 496**	**8 639**
Service revenue		
Consultation and training	590	346
Support, own	7 416	6 917
Support, other	7	259
Service revenue total	**8 013**	**7 522**
Other revenue		
Hardware	0	19
Other revenue	-85	198
Total	**16 424**	**16 378**

2. Other income from business operations

	2006	2005
Sales of fixed assets	3	88
Rental income	659	313
Lunch sold to employees	70	53
Compensation paid by an insurance company	0	25
Group internal administration fee	672	868
Total	**1 404**	**1 347**

3. Materials and services

	2006	2005
Materials and goods	2 279	2 244
Purchases during the financial period	-393	-330
Change in stocks	**1 886**	**1 914**
External services	29	20
Total	**1 915**	**1 934**

4. Wages, salaries and indirect employee expenses

	2006	2005
Wages and salaries	5 383	5 347
Pension expenses	876	919
Other indirect employee expenses	335	316
Total	**6 594**	**6 582**
Salaries and fees paid to the Board of Directors and CEO	114	96
Consultation fees paid to Members of the Board	9	51
Number of personnel, average	105	100

5. Depreciation

	2006	2005
Goodwill	20	20
Tangible assets	72	204
Intangible assets	129	338
Extraordinary depreciation of investments and assets	3	3 376
Total	**224**	**3 938**

6. Financial income and expenses

	2006	2005
Dividend income from Group companies	1 010	2 030
Interest and other financial income	487	850
Financial income, total	1 497	2 880
Interest and other financial expenses	35	42
Financial income and expenses, total	**1 462**	**2 838**
Financial income and expenses includes		
exchange rate gains/losses (net)	-18	30
gains/losses from securities market	411	605

7. Extraordinary items

	2006	2005
Extraordinary income		
Group contribution	1	330
Extraordinary income, total	**1**	**330**
Extraordinary expenses	0	565
Stonesoft International Oy, loss due to the merger	0	565
Extraordinary expenses, total	**1**	**-235**

8. Income taxes

	2006	2005
Income taxes on actual business	0	8
Taxes from previous financial periods	-16	9
Direct taxes, total	**-16**	**17**

Notes to the balance sheet

(1000 euros)

9. Intangible assets

Intangible rights	2006	2005
Acquisition cost 1.1.	1 404	1 385
Additions	44	19
Acquisition cost 31.12.	1 448	1 404
Accumulated depreciation 1.1.	-1 192	-1 015
Depreciation for financial period	-122	-177
Accumulated depreciation 31.12.	-1 314	-1 192
Balance sheet value 31.12.	**134**	**212**

Goodwill	2006	2005
Acquisition cost 1.1.	100	100
Additions	0	0
Acquisition cost 31.12.	100	100
Accumulated depreciation 1.1.	-58	-38
Depreciation for financial period	-20	-20
Accumulated depreciation 31.12.	-78	-58
Balance sheet value 31.12.	**22**	**42**

Other long term expense items	2006	2005
Acquisition cost 1.1.	1 178	1 169
Additions	0	9
Acquisition cost 31.12.	1 178	1 178
Accumulated depreciation 1.1.	-1 151	-990
Depreciation for financial period	-7	-161
Accumulated depreciation 31.12.	-1 158	-1 151
Balance sheet value 31.12.	**21**	**27**

10. Tangible assets

Machinery and equipment	2006	2005
Acquisition cost 1.1.	1 193	696
Correction to acquisiton cost	0	1 417
Additions	108	88
Reductions	-3	-1 008
Acquisition cost 31.12.	1 298	1 193
Accumulated depreciation 1.1.	-1 044	-431
Accumulated depreciation on reductions	0	-409
Depreciation for financial period	-72	-204
Accumulated depreciation 31.12.	-1 116	-1 044
Balance sheet value 31.12.	**183**	**149**

Other tangible assets	2006	2005
Acquisition cost 1.1.	5	6
Additions	18	40
Reductions	-18	-41
Acquisition cost 31.12.	5	5
Accumulated depreciation 1.1.	0	0
Accumulated depreciation on reductions and transfers	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	2006	2005
Acquisition cost 1.1.	4 738	8 118
Additions	0	6
Reductions	-3	-3 386
Acquisition cost 31.12.	4 735	4 738
Capital loans to Group companies		
Balance sheet value 1.1.	0	0
Additions	3	0
Balance sheet value 31.12.	**3**	**0**

12. Short term receivables

	2006	2005
Accounts receivable	4 260	3 319
Receivables from Group companies		
Other receivables	62	135
Other receivables		
VAT receivables	62	33
Other receivables	485	0
Prepayments and accrued income		
Rental deposits	24	28
Other prepayments and accrued income	354	264
Deferred tax credits		
Due to accumulated losses	0	19
Short term receivables, total	**5 247**	**3 779**

13. Securities included in financial assets

Investments	2006	2005
Replacement value	13 755	17 266
Book value	13 750	17 223
Difference	5	43

14. Shareholders' equity

Share capital	2006	2005
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.	-61 451	-53 564
Retained earnings/loss 31.12.	-61 451	-53 564
Result for the financial period	-5 852	-7 887
Shareholders' equity, total	**10 663**	**16 516**

Calculation on distributable funds	2006	2005
Retained earnings/loss	-61 451	-53 564
Result for the financial period	-5 852	-7 887
Total	**-67 304**	**-61 451**

15. Liabilities

Short term liabilities	2006	2005
Prepayments	3 630	0
Accounts payable	1 297	925
Debts to the Group companies		
Other debts	2 436	3 371
Substantial items included in deferred liabilities		
Matched maintenance cost	6 028	4 932
Other deferred liabilities	1 068	1 123
Other debts	167	164
Short term liabilities total	**14 626**	**10 515**
Liabilities total	**14 626**	**10 515**

16. Contingent liabilities

Leasing liabilities	2006	2005
Payable in year 2007	154	258
Payable later	89	221
Leasing liabilities to the Group companies		
Payable in year 2007	28	0
Payable later	44	0
Rental liabilities and pledges		
Rental liabilities	4 865	5 998
Rental pledges	0	31
Pledges issued for companies in the same Group	0	100
Pledged securities	585	0
Performance bond	323	0
Contigent liabilities total	**6 088**	**6 608**

Auditors' Report

To the shareholders of Stonesoft Corp.

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Stonesoft Corp. for the period 1.1. – 31.12.2006. 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 1, 2007

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 forward-looking 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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