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English



Principles

SSH applies principles of sound corporate governance and high ethical standards, complying with the Finnish Companies Act, securities market legislation, the recommendations of the Helsinki Exchanges, Chamber of Commerce and Federation of Finnish Industry and Employers, and the regulations of the Helsinki Exchanges.

In addition, SSH applies corporate governance recommendations for listed companies issued by HEX Ltd, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers in December 2003 with the following deviations: .

- SSH does not have a Supervisory Board
- SSH's Board of Directors consists of four members. A four-member Board is sufficient to effectively accomplish Board's duties, as SSH's operations are focused on one area of business and, in international terms, the company is still a small in size
- Besides the Audit Committee, SSH's Board of Directors has established no other committees.

[→Articles of Association](#)

Shareholders' Meeting

[→Stock announcement on April 26, 2005](#)

Ultimate decision-making power at SSH is vested in the shareholders' meeting, at which shareholders participate in the control and supervision of the Company. The shareholders' meeting is convened at least once a year. The Annual General Meeting (AGM) is held within six months of the completion of the Company's financial statements. The AGM decides the number of members on the Board of Directors and appoints Board members. Additionally, under the Finnish Companies Act, the AGM has the authority to amend the Company's Bylaws, adopt the financial statements, determine the amount of dividend, and to select the Company's Auditors. Each SSH share conveys one vote at shareholder meetings.

The documents relating to business to be considered at the AGM are available for inspection in advance at the Company's head office in Helsinki. The Company (registered in Helsinki) makes every effort to choose a suitable venue for the AGM to enable as many shareholders as possible to attend and thus participate in decision-making.

The Company's CEO and usually all Board members attend the AGM. Persons standing for appointment to the Board for the first time must attend the shareholders' meeting at which they seek appointment so as to be properly presented to shareholders.

SSH shareholders are able to make suggestions and initiatives within the limits of the Finnish Companies Act. Additionally, shareholders are able to send management comments, questions and initiatives to . Every effort will be made to reply to these messages within the limits of business and Company secrets.

Board of Directors

The AGM appoints three to eight Board members to serve for a term of one year at a time. Board members comprise representatives of major shareholders and external, independent experts with a diverse breadth and depth of experience in the business and industry in which SSH operates. The Board elects a Chairman and Vice Chairman from among its members. SSH's current Board consists of experts in the industry, and representatives from the Company's largest shareholders.

In 2005, the Company's largest shareholder notified the Company in advance of the Board

composition it would propose to the AGM. SSH duly issued a stock exchange release on the matter prior to the AGM.

→ [Members of the Board of Directors](#)

Board Responsibilities

The Board works to a predetermined agenda. At the start of each new term of office, a plan is drawn up of the Board's agenda and the themes to be considered during future meetings. During the spring, the agenda focused on outlining strategic policies, and updating the corporate strategy. In the fall, it was mostly matters at the tactical level, whilst in November the Board approved the budget for 2005. Meetings in the early spring focus on preparations for the AGM. Each Board meeting also considers a progress report provided by the CEO and CFO. In line with the standard agenda, all Board meetings monitor sales performance and market development. SSH's CEO attends Board meetings and presents business to be considered to the Board. The Company's General Counsel acts as secretary to the Board. In addition to the secretary and CEO, the CFO and director responsible for US operations also attend Board meetings. SSH's Board of Directors is responsible for the Company's strategic policies, and the appropriate organization of business operations and administration. The Board of Directors acts in the Company's interests at all times.

In addition to the tasks and responsibilities provided by law and the Company's Bylaws, in accordance with its agenda, SSH's Board of Directors

- confirms the Company's long-term goals and strategy
- approves the Company's action plan, budget and financial plan, as well as monitoring their implementation
- decides on large, single investments of strategic importance such as corporate and business acquisitions and divestments
- decides on strategically important product development projects
- appoints the CEO and determines his or her remuneration
- decides bonus and incentive schemes for senior management
- confirms the Company's risk management and reporting procedures
- determines the Company's dividend policy and is responsible for the development of shareholder value
- confirms the Company's values.

SSH's Board of Directors convened 12 times in 2004. The average attendance rate of Board members was 100 percent.

Committees of the Board of Directors

In a corporation, the proper functioning of the administrative and control systems requires the work of the Board of Directors to be organized as effectively as possible. The preparation of matters for which the Board of Directors is responsible can be made more effective through setting up committees comprising Board members. An Audit Committee started at SSH Communications Security Corp during 2004.

Chaired by Tomi Laamanen, other Committee members were CFO Johanna Lamminen, CEO Arto Vainio and Authorized Public Accountant Henrik Sormunen.

Owing to the scope of the Company's activities, it has not been deemed necessary to establish a separate appointment committee and remuneration committee. These responsibilities are dealt with by the entire Board of Directors.

CEO

SSH's Board of Directors appoints the CEO and decides the terms of his/her service contract. The CEO is in charge of the Company's operative management in accordance with the Companies Act and the instructions and authority provided by the Board of Directors.

Since July 2, 2002, the Company's CEO has been Arto Vainio BSc (Econ), born 1950. Prior to joining SSH, Mr Vainio was Vice President, Marketing at Tellabs. Before Tellabs, he was Vice President, Sales, South-East Asia, for Nokia Telecommunications (now Nokia Networks).

The CEO's retirement age and determination of pension comply with standard rules under the Employees' Pension Act. The period of notice for the CEO is six (6) months. Severance payment is equivalent to twelve (12) months' salary.

Members of the Board of Directors

The Board of Directors of SSH Communications Security Corp consisted of four members during the 2004–2005 term of office. Since SSH Communications Security Corp's operations focus on one area of business and the Company is still small by international standards, a four-member Board is large enough to effectively manage the Board's responsibilities.

The majority (3 members) of SSH Communications Security Corp's Board of Directors have no dependence on the Company. Tapio Kallioja, Tomi Laamanen and Timo Ritakallio are deemed to be independent Board members.

The fourth member, Tatu Ylönen, has, under Chapter 1, Section 3 of the Finnish Companies Act, a controlling interest in the Company and as such is not an independent Board member.

Executive Management Team

SSH's Executive Management Team has six members. The Team is chaired by the CEO, and the other members are the directors responsible for the business operations and various corporate support functions. The Executive Management Team can be enlarged if this is considered necessary for the business and topic under consideration.

The Executive Management Team's principal responsibility is to assist the CEO, to monitor and develop the Company's business in line with the objectives set, disseminate information, and to prepare investment decisions for consideration by the Board. The Team convenes on a regular weekly basis. Members of the Executive Management Team are all directly subordinate to the CEO and as such report directly to him.

→[Members of the Executive Management Team](#)

Salaries and Remuneration

The shareholders' meeting confirms annually in advance the emoluments payable to members of the Board of Directors. The Board of Directors confirms the salary and other benefits of the CEO, and also determines the salaries and benefits payable to senior management.

The bonus scheme for SSH's senior management is approved by the Board of Directors. The bonus scheme is based on the following factors: the Company's net sales and trend in net sales, Company profitability and personal qualitative targets. The weighting of the corporate financial indicators varies slightly between different members of the Company's management, but the weighting of the key financial indicators should represent at least 70–85 percent of the overall target. The targets for the Company's senior management are fixed for one year at a time.

Forms of bonus for SSH's senior management and CEO have involved a performance related bonus and option schemes. The Company has no other bonus practices, nor does it have any differing pension arrangements for the CEO or other senior management.

Members of SSH's Board of Directors since April 27, 2004 and the Company's CEO hold approximately 54.3 percent of the Company's shares and votes, either directly or indirectly through the companies they own. Board members, the CEO, and members of the Executive Management Team hold a total of some 55.3 percent of the Company's shares and votes. As at December 31, 2004, the stock options held by SSH's Board of Directors, CEO, and other members of the Executive Management Team accounted for 27.7 percent of all outstanding stock options for 1999–2003.

Salaries and remuneration

The Board of Directors

- Tapio Kallioja EUR 14 800.00
- Tomi Laamanen EUR 14 800.00
- Timo Ritakallio EUR 14 800.00
- Tatu Ylönen

CEO

- Arto Vainio EUR 177 514.40

Insiders

SSH operates its own insider guidelines, which comply with the Guidelines for Insiders approved for public companies by the Helsinki Exchanges.

Permanent insiders may trade freely only in the three weeks following disclosure of the Company's financial results. Trading is strictly prohibited during the three weeks before publication of the Company's interim reports and financial statement bulletins. SSH has also published on its website a set of principles regulating trading in SSH shares by permanent insiders.

In situations where the company is preparing for an event, such as a corporate acquisition or launch of a new product, that could have a material impact on the value of the company's shares, the company will establish a project-specific insider register. The guidelines approved by the Helsinki Exchanges also apply to project-specific insiders.

By virtue of their position, statutory insiders include Board members, the CEO and Deputy CEO, the auditor, and the principal auditor of the company's firm of auditors. Other persons defined as insiders by virtue of their responsibilities include members of the core management team, persons responsible for corporate communications and investor relations, and secretaries to senior management. In addition, permanent insiders include non-company lawyers and other employees of the accounting firm involved in the audit. There are currently 19 permanent insiders. SSH maintains an insider register in the SIRE system of the Finnish Central Securities Depository Ltd. A list of SSH's permanent insiders and their share and stock option holdings is available online at www.ssh.com/investors-fi/shares/insiders-html.

There is also a number of people employed by the company who, because of the work they do,

have agreed to trading restrictions. These are people who could have an opportunity to gain access to financial information through the nature of their work. These persons work in financial administration, and in the company's IT management. As far as they are concerned, it has been agreed trading in the company's shares requires separate permission from the insider administrator.

The company's CFO acts as insider administrator, with responsibility for the management and monitoring of insider matters.

→[Insider information \(updated once a month\)](#)



Auditors

SSH has one Principal Auditor Authorized by the Central Chamber of Commerce, and one Deputy Auditor. If a firm of Authorized Public Accountants is appointed as the principal auditor, there is no need to appoint a deputy auditor. The auditor serves for a term of office of one year at a time. SSH's Auditor, PricewaterhouseCoopers Oy, a firm of Authorized Public Accountants, with Henrik Sormunen APA as principal auditor, is responsible for directing and coordinating the audit work.

The Company's Auditors provide shareholders with a report, as required by law, in conjunction with the annual financial statements. The principal aim of the statutory audit is to verify that the financial statements give a true and fair view of the Company's financial performance and position for each fiscal year. In addition to the Auditor's report provided with the annual financial statements, the auditors report on their findings to the Company's Board of Directors in connection with the interim reports.

The Auditor's fees for 2004 were EUR 72,941 in the Group and EUR 41,530 in the parent company. Other fees charged by the firm of auditors were EUR 104,006 in the Group and EUR 74,595 in the parent company. Other fees mostly related to tax advice, and the adoption of IFRS.

Risk management

Ultimate responsibility for the Company's accounting and supervision of its asset management lies with SSH's Board of Directors. The Board of Directors is also tasked with approving SSH's risk management and reporting procedures, and for monitoring the adequacy, appropriateness and efficiency of the company's administrative processes.

To date, SSH Communications Security Corp's main market area has been the United States. To reduce this market risk, the Company is actively seeking to expand operations in Europe. In 2004, the Company launched operations in both Germany and the UK. So far, the Company has not depended on just a few customers, which has made it possible to reduce market risk.

The Company has sought to manage the risks relating to its business operations by developing its operating processes and control points. During 2004, the Company stepped up efforts to develop sales processes and to build sales control systems. Sales operations are supported by the Company's own legal unit, which, through continuous management of contracts, seeks to reduce the risks related to the Company's business operations. SSH protects its copyrights and trademarks through sales agreements. The Company has an active patent policy to protect its technology and encourages its employees to make and protect inventions.

SSH has a process in place whereby any network security risks found in the Company's products are promptly reported to senior management. Repairs are carried out immediately. The matter is communicated immediately and, likewise, updates are supplied immediately.

The Company provides no financing for its customers other than by granting normal payment periods. Since the Company's liabilities are all short-term, debt financing costs do not affect the Company's financial position. Since most of SSH's invoicing and purchasing takes place in US dollars, the Company has hedged against exchange rate risks. Exchange rate fluctuations may affect the Company's result.

Finance risk management is described separately in the financial statements section of the Company's annual report.

A comprehensive control system monitors the Group's financial performance each month. This control system includes the actual income statement at both Group level and by segment, and sales development by segment and product. Sales are also monitored so as to reflect previous quarters and development. The control system also produces information about the Company's cost structure. Sales forecasts are examined almost weekly. Internal accounting produces up-to-date information on the development of net sales by product and market area for both product and sales management. The Company's cost structure is also continuously monitored. Since the Company is small, it has no separate internal audit organization. The Company's operations are continuously examined in conjunction with interim reports to provide a constant monitoring of financial risks.

The Company's cash reserves have been placed with asset managers, who have invested them in accordance with a policy approved by the Board of Directors. Almost all the assets under management are invested in fixed income funds.

The Company's critical information systems are secured and operations can continue even in the event of an external catastrophe. SSH actively uses its own products to protect its own information system infrastructure. Encryption and strong authentication protect the Company's confidential telecommunications from both internal and external threats.

The Group currently has adequate employees in terms of both numbers and caliber. There is no major risk in this respect. Various working environment surveys are regularly carried out to monitor employee satisfaction and commitment to the Company. The latest results show employees to be highly satisfied and committed to the Company.

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