



Corporate Governance



Principles

SSH abides by its bylaws, principles of sound corporate governance, and high ethical standards in its governance and decision-making. The Company complies with the Finnish Companies Act and securities market legislation, the rules of the Helsinki Stock Exchange, and the joint recommendations of the Helsinki Stock Exchange, the Helsinki Chamber of Commerce, and the Confederation of Finnish Industries regarding corporate governance of publicly listed companies.

Shareholders' Meeting

Ultimate decision-making power at SSH is vested in the shareholders' meeting. The Annual General Meeting is held within six months of the completion of the Company's fiscal year, at a time decided by the Board. It decides the number of members of the Board of Directors, and appoints the members. Additionally, under the Finnish Companies Act, the Annual General Meeting 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 shareholders' meetings.

The documents relating to matters scheduled for consideration at the Annual General Meeting, are available for inspection in advance at the Company's headquarters in Helsinki. Shareholders are invited to the Annual General Meeting by the publication of an invitation in at least one newspaper decided upon by the Board, or by sending invitations to the addresses listed in the shareholder register. The invitation to the Annual General Meeting and the Board's proposals to the Annual General Meeting, are published as a stock exchange release and on the Company's website. The Company makes every effort to choose a suitable venue for the Annual General Meeting to enable as many shareholders as possible to attend, and thus participate in the decision-making.

The Company's CEO and usually all Board Members attend the Annual General Meeting. 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 the shareholders.

SSH's shareholders are entitled to make proposals to the shareholder's meeting within the limits of the Finnish Companies Act. Additionally, shareholders can send management comments, questions and proposals by e-mail to . These messages will be replied to within the limits of business and Company secrets.

Board of Directors

In accordance with the Company's Bylaws, the Annual General Meeting appoints three to eight Board members. Their term of office ends with the closing of the Annual General Meeting following their appointment. The Board has a quorum when more than half of its members are present. The Company's Bylaws do not restrict the members' terms of office or present any specific selection criteria for members. The Board elects a chairperson from among its members.

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 the Finnish Companies Act 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 monitors 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 on 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.

Board Composition

SSH's Board of Directors consists of four members whose term of office started on April 26, 2005. In 2005, the major shareholders informed the Annual General Meeting in advance of the Board members they were proposing for appointment. The Company published a stock exchange release on this prior to the Annual General Meeting.

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

Since SSH's operations focus on one area of business and the Company is small by international standards, a four-member board is considered 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.

Board Responsibilities

The Board works to a predetermined agenda. The themes to be considered in future meetings, and the Board's agenda, are planned at the start of each new term of office. During the spring, the agenda focused on outlining strategic policies and updating the corporate strategy. In the autumn, the focus was on tactical matters, and in November the budget for 2005 was approved. Meetings in the early spring focus on preparations for the Annual General Meeting.

The members of the Board receive regular updates on the Company's business and financial performance. In the Board meetings, the CEO, the Chairman of the Board or another person appointed by the CEO, presents business to be considered to the Board. Each Board meeting considers a progress report provided by the CEO in line with the standard agenda. All Board meetings also monitor sales performance, market development and the Company's financial performance. The Company's General Counsel acts as secretary to the Board. In addition to the secretary and the CEO, the CFO and director responsible for US operations also attend Board meetings.

SSH's Board of Directors convened 13 times in 2005. The average attendance rate of Board members was 96 percent.

The Board evaluates its operations and processes to increase efficiency and quality. Internal self-evaluation is conducted once a year.

Committees of the Board of Directors

In a corporation, the proper functioning of the administrative and control systems requires that the work of the Board of Directors 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. SSH's Board of Directors has appointed an Audit Committee, but owing to the scope of the Company's activities, it has not been deemed necessary to establish a separate appointment or remuneration committee.

Tomi Laamanen acts as the Chairman of the Audit Committee. As the CEO, CFO and the auditor participate in the meetings, the Board has deemed one Board member to be sufficient in the Committee. The Committee convenes a minimum of twice a year, and the Board has confirmed the principal responsibilities of the Audit Committee to be the following:

- monitoring the financial performance of the Company
- monitoring the financial reporting (financial statements, interim reports)
- assessing the sufficiency and due form of internal administration and risk management
- ensuring compliance with laws and regulations
- preparing the appointment of an auditor
- communicating with the auditor, studying the auditing plan and the auditor's report

The Audit Committee convened twice in 2005.

CEO

SSH's Board of Directors appoints the CEO and decides the terms of his or 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.

[» More Information about Arto Vainio](#)

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 months. Severance payment is equivalent to twelve months' salary.

Management Team

SSH's Management Team has nine members. The Team is chaired by the CEO. The other members are the directors responsible for business operations and various corporate support functions. The Management Team can be enlarged if this is considered necessary for the business and topic under consideration. The members of the Management Team are all directly subordinate to the CEO, and as such report directly to him.

The management Team's principal responsibilities are 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 regularly on a weekly basis.

[» Members of the 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.

Forms of bonus for SSH's senior management and CEO involve 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.

The bonus scheme for SSH's senior management is based on the Company's net sales and trend in net sales, Company profitability and personal qualitative and quantitative 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 represents 75-85 percent of the overall target. The targets for the Company's senior management are fixed for one year at a time.

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 (no salary or remuneration)

CEO

- Arto Vainio EUR 147,137.00

Neither the members of the Board of Directors nor the CEO were given stock options during the fiscal year. The numbers of shares and stock options held by the members of the Board of Directors, CEO and members of the Management Team are included in their personal profiles.

Insiders

SSH has established its own insider guidelines that comply with the Guidelines of Insiders approved for public companies by the Helsinki Stock Exchange. The Company maintains a public insider register of the public permanent insiders and the persons closely associated with the said permanent insiders' share and stock option holdings in the SIRE system of the Finnish Central Securities Depository Ltd. The public insider register and the principles regulating trading by insiders, are available at the company's website and the company's headquarters.

The public permanent insiders of the company are members of the Board, CEO, members of the Management Team, and the auditors. The number of public permanent insiders is currently 16. The company maintains also a company-specific insider register of persons who by virtue of their position regularly receive insider information or could have an opportunity to gain access to insider information through the nature of their work and who are not in the public insider register. These persons include the assistants to executive management, product management, financial administration, and management of information services.

Insiders belonging to the public or company specific insider register are not allowed to trade in securities issued by the company for a period of 21 days prior to the announcement of an interim report and the financial statement bulletin (closed window). Trading in securities issued by the company without a separate determination of the company's insider responsible person, is allowed for the said permanent insiders only for a period of 21 days after the announcement of the interim report and the financial statement bulletin of the company (open window).

Under circumstances where the company is preparing an event that may have a significant impact on the stock price, a project-specific insider register is established. Also the project-specific insider register will be based on the insider guidelines of the Helsinki Stock Exchange.

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

Internal Administration, Risk management and Internal Auditing

The aim of internal administration and risk management is to ensure efficient, appropriate operations, dependable financial information and compliance with regulations and internal processes. SSH's Board of Directors ensures that the Company has defined principles of internal administration, and that the Company monitors the effectiveness of the administration. The ultimate responsibility for the Company's accounting and supervision lies with SSH's Board of Directors. The Board also approves SSH's risk management and reporting procedures and monitors the adequacy, appropriateness and efficiency of the Company's administrative processes.

The CEO, assisted by other operative management, is responsible for the practical arrangements for accounting and administration mechanisms and for compliance with laws, regulations, Company processes, and the Board's decisions. To support its operations, the Company has a number of rules and guidelines. Process and quality work ensures that there is a description of all processes, and that the various process interfaces are properly defined and documented. Processes are also intended to ensure that everyone in the organization knows how the Company works, and how the work of each individual is integrated into the Company's operations. Supervisory actions ensure compliance with rules, guidelines and processes.

The Company sets annual financial targets in connection with the budget and constantly tracks target achievement. The Company's organizational structure supports efficient planning, implementation and monitoring of business operations. Balanced Scorecard measurements ensure that the targets are in balance.

Risk management is a part of SSH's internal administration. It aims to ensure that major risks affecting the Company's business and operating environment are identified and monitored. Since the United States is the main market area, any risks including currency risks, associated with that country are considered to be significant. Other major risks are related to product technology, competitor activities and profitability. Property, business interruption and liability risks are covered by insurance.

SSH's main market area is the United States. To reduce this market dependency risk, the Company is actively seeking to expand operations in Europe. 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. SSH also 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.

Corrections are made immediately and updates are supplied to customers without delay. 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 architecture. Encryption and strong authentication protect the Company's confidential telecommunications from both internal and external threats.

Finance risk management is described separately in the financial statements section of the Company's annual report. SSH provides no financing for its customers other than by granting normal payment periods. The Company has a strong balance sheet and no significant long-term liabilities. Asset managers invest the Company's cash reserves in accordance with a policy approved by the Board of Directors: almost all the assets under management are invested in fixed income funds. Since most of SSH's invoicing takes place in US dollars, the Company is hedged against exchange rate risks.

Because of the scope of its activities, SSH has no separate internal audit organization. The continuous monitoring by the auditors in conjunction with the interim reports also aims to assess and develop the effectiveness of risk management, monitoring and administration processes, and to support the Board with its monitoring responsibility.

Auditors

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.

In accordance with the Company Bylaws, SSH has one Principal Auditor authorized by the 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 auditors are appointed at the Annual General Meeting. SSH's auditor is PricewaterhouseCoopers Oy with Henrik Sormunen APA as principal auditor.

The auditor's fees for 2005 were EUR 56,165 in the Group and EUR 51,784 in the parent company. Other fees charged by the firm of auditors were EUR 86,082 in the Group and EUR 23,191 in the parent company. Other fees were mostly related to tax advice and the adoption of IFRS.

Communication

SSH aims to give the markets a clear view of the Company's operations and financial performance in accordance with the regulations on the disclosure obligation for publicly listed companies. The Company prefers electronic forms of communication. All stock market releases, other investor information and latest Company information is available at the SSH website.

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