

SSH COMMUNICATIONS SECURITY CORPORATION FINANCIAL STATEMENT RELEASE, JANUARY 1 – MARCH 31, 2017

January–March 2017: Net sales growth 17.2 %, losses due to cyclicity of sales and still ongoing performance improvement program. Cash flow was negative, quarter end cash position stayed satisfactory.

- Net sales totaled EUR 3.1 million, up by 17.2 % year on year (EUR 2.6 million in 1–3/2016).
- Operating loss was EUR -1.7 million (EUR -2.2 million in 1–3/2016). There were no non-recurring items on the reporting period. Loss was EUR -1.8 million (EUR -2.6 million)
- Earnings per share EUR -0.06 (EUR -0.09).

Equity ratio remained good 73.4 % (68.4 %). Liquid assets were EUR 6.5 million (EUR 8.5 million).

KEY FIGURES

EUR million	1-3/2017	1-3/2016	Change %	1-12/2016
Net sales	3.1	2.6	17.2	15.1
Operating profit/loss	-1.7	-2.2	24.9	-10.8
% of net sales	-53.8	-84.0	35.9	-71.1
Profit/loss before taxes	-1.8	-2.6	31.1	-11.0
Profit/loss	-1.8	-2.6	31.6	-11.1
Return on equity, %	-25.8	-26.4	2.2	-112.1
Return on investment, %	-25.6	-26.0	1.5	-111.8
Liquid assets	6.5	8.5	-23.3	7.8
Gearing (%)	-113.4	-99.0	-14.5	-94.8
Equity ratio (%)	73.4	68.4	7.3	63.1
Earnings per share, EUR	-0.06	-0.09	35.7	-0.36
Shareholders' equity per share, EUR	0.17	0.27	-39.4	0.24

CEO'S REVIEW

Valued customers, partners, co-workers, and shareholders,

in the first quarter of 2017 we both increased our revenue (17.2%) and narrowed our losses (22.7%) compared to the same period in 2016. While these are encouraging signs, this is only the beginning our performance improvement journey that we have begun and will continue throughout 2017 – while we are encouraged, we are not nearly satisfied yet.

Important customer wins in the first quarter included a Latin American central bank, one of the largest global logistics companies, one of the largest IT systems integrators in Japan, and a major US government contractor. While these initial deals were relatively small, we expect them to lead to larger deals and new opportunities in these segments. Service contracts with major banks and retailers were also renewed, providing steady service revenue.

License sales continued to be soft in Q1 but this was offset by revenue from subscription deals that keep providing us steady, long-term revenue now and in the future. We expect the shift towards subscription billing to continue throughout 2017 and beyond. Recurring revenue will have a major contribution to our financial results. Despite this, a substantial part of our revenue comes from a small number of big deals resulting in continued likelihood of significant quarterly volatility.

The past quarter was one of changes and renewal: I started as CEO, we flattened and streamlined our organization structure, we renewed our management team, started building a new performance culture in the organization, and we focused on driving our new product offerings towards a commercial launch. We also have new board members that bring welcome new expertise and enthusiasm to our top management.

The feedback from existing and new customers about our new cloud-focused access management and provisioning tools is encouraging and we see great opportunity in the digital and cloud transformation that continues to change our customers' IT landscape.

The macro outlook in the cybersecurity segment remains good and we see excellent opportunities for growth in the market. For instance, the analyst firm Cybersecurity Ventures predicts the global annual cost of cybercrime to increase from \$3,000 Billion in 2015 to \$6,000 Billion in 2021 and the and global spending on cybersecurity products and services to exceed \$1,000 Billion cumulatively from 2017 to 2021.

The Americas remain our largest market and we are intensifying our sales efforts there, and increasing utilizing the deep customer knowledge of our US team for the benefit of the global markets.

In Europe, regulatory changes create new opportunities. EU's wide-ranging GDPR (General Data Protection Regulation) will start applying in May of 2018, forcing companies to address their data protection policies and systems. Furthermore, the various national and EU-level bank ringfencing initiatives are creating opportunities for in the financial sector.

Our performance in the APAC has remained stable and we have achieved some important partner and customer openings in this channel-driven market.

Kaisa Olkkonen
CEO

NET SALES

Consolidated net sales for January–March totaled EUR 3.1 million (EUR 2.6 million), up by 17.2 %, year on year. Software sales was down by -16% mainly driven by slowness in closing of new deals. Subscription sales grew at the same time by +286%.

The Americas, the Europe, Middle East and Africa market area and the Asia Pacific region accounted for 61.0 % (66.2 %), 25.1 % (18.4 %) and 13.9 % (15.4 %) of reported net sales, respectively.

CONSOLIDATED NET SALES

EUR million	1-3/2017	1-3/2016	Change %	1-12/2016
BY SEGMENT				
AMERICAS	1.9	1.7	8.4	8.2
APAC	0.4	0.4	6.5	2.0
EMEA	0.8	0.5	59.6	5.0
Total	3.1	2.6	17.2	15.1
BY OPERATION				
Software fees	0.6	0.7	-15.9	6.1
Professional services & other	0.4	0.1	356.7	1.1
Recurring revenue	2.1	1.8	15.7	7.9
Total	3.1	2.6	17.2	15.1

The majority of the company's invoicing is U.S. dollar based. With comparable exchange rates, net sales growth would have been 14.4 % compared with 2016 corresponding period.

RESULTS AND EXPENSES

Operating loss for January–March was EUR -1.7 million (EUR -2.2 million), with net loss totaling EUR -1.8 million (EUR -2.6 million). Profitability was influenced mainly by the cyclicity of the sales but also by slowness in sales growth. Expenses were on an expected level.

There were no non-recurring items during January–March.

Sales, marketing and customer support expenses for the January–March reporting period amounted to EUR -2.4 million (EUR -2.6 million), while research and development expenses totaled EUR -1.8 million (EUR -1.7 million) and administrative expenses EUR -0.4 million (EUR -0.6 million). Quarter-on-quarter operating expenses were down by -33% as a result of the savings programs initiated in Q4/2016. Full impact from the savings programs is not yet visible when comparing expenses with Q1/2016, but will show bigger savings in the coming quarters.

BALANCE SHEET AND FINANCIAL POSITION

The financial position of SSH Communications Security was satisfactory during the reporting period. The consolidated balance sheet total on March 31, 2017 stood at EUR 15.4 million (31.3.2016 EUR 17.1 million; 31.12.2016 EUR 21.8 million), of which liquid assets accounted for EUR 6.5 million (31.3.2016 EUR 8.5 million; 31.12.2016 EUR 7.8 million, or 42.5 % of the balance sheet total). On March 31, 2017, gearing, or the ratio of net liabilities to shareholders' equity, was -113.4 % (31.3.2016 -99.0 %; 31.12.2016 -94.8 %) and the equity ratio stood at 73.4 % (31.3.2016 68.4 %; 31.12.2016 63.1 %).

The reported gross capital expenditure for the period totaled EUR 0.4 million (EUR 0.7 million). The reported financial income and expenses consisted mainly of interest on deposits and exchange rate gains or losses. Financial income and expenses totaled EUR -0.1 million (EUR -0.4 million).

During January–March, SSH Communications Security reported a negative cash flow of EUR -0.1 million (EUR -1.2 million) from business operations, and investments showed a negative cash flow of EUR -0.4 million (EUR -0.7 million). Cash flow from financing totaled EUR -0.8 million (EUR -0.9 million). Total cash flow from operations, investments and financing was negative EUR -1.3 million (EUR -2.8 million).

There were no short-term investments at the end of the reporting period.

RESEARCH AND DEVELOPMENT

Research and development expenses for January–March totaled EUR -1.8 million (EUR -1.7 million), the equivalent of 57.2 % of net sales (63.8 %). During January–March, the company has capitalized new product R&D costs EUR 0.3 million (EUR 0.6 million). Activation level has decreased due to maturing of the products, and R&D resources shifting partially to maintenance work. Depreciation from R&D capitalization assets was EUR -0.4 million (EUR -0.4 million). Patent costs were slightly higher compared to Q1/2016, but are expected to go down in the coming quarters.

HUMAN RESOURCES AND ORGANIZATION

At the end of March, the Group had 80 employees on its payroll. The number of employees decreased by 32 persons from the previous year (-28.6 %) and by 4 persons from the year end.

At the end of the period, 40.0 % (39.3 %) of the employees worked in sales, marketing and customer services, 43.8 % (50.9 %) in R&D, and 16.3 % (9.8 %) in corporate administration.

BOARD AND AUDITORS

At the Annual General Meeting, March 29, 2017, Petri Kuivala and Ari Vänttinen were elected and Tatu Ylönen, Timo Syrjälä and Jukka Manner were re-elected to directors of the company. Jukka Manner was elected as the Chairman of the Board of Directors at the board's organizing meeting.

The Authorized Public Accountants Ernst & Young Oy was elected as the auditor of the company. Ernst & Young Oy has informed that Erkkä Talvinko, Authorized Public Accountant, will act as the principle auditor.

SHARES, SHAREHOLDING AND CHANGES IN GROUP STRUCTURE

The reported trading volume of SSH Communications Security shares totaled 1,749,656 shares (valued at EUR 3,902,917). The highest quotation was EUR 2.59 and the lowest EUR 1.90. The trade-weighted average share price for the period was EUR 2.23 and the share closed at EUR 2.11 (March 31, 2017).

Company's principal owner Tatu Ylönen holds directly and through his company, Clausal Computing Oy, 52.2 % of the company's shares, Timo Syrjälä holds directly and through his company 8.2 % and Juha Mikkonen holds directly and through company under his control, Assetman Oy, 6.8 %. More information about the shareholding can be obtained from the company's web site.

No dividend or return of capital has been distributed during the reporting period.

SHARE CAPITAL AND BOARD AUTHORIZATIONS

The company's registered share capital on March 31, 2017 was EUR 1,039,659.99 consisting of 34,655,333 shares.

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon the issuing of a maximum of 6,000,000 shares as a share issue against payment or by giving stock options or other special rights entitling to shares, in accordance with Chapter 10 Section 1 of the Finnish Limited Liability Companies Act, either according to the shareholders' pre-emptive right to share subscription or deviating from this right, in one or more tranches. Based on the authorization, either new shares can be issued or own shares, which the company possibly has in its possession, can be transferred. Based on the authorization, the Board of Directors has the same right as the Annual General Meeting to decide on the issuing of shares against payment and special rights (including stock options) in accordance with Chapter 10 Section 1 of the Finnish Limited Liability Companies Act. Thereby, the authorization to be given to the Board of Directors includes, inter alia, the right to deviate from the shareholders' pre-emptive rights with directed issues providing that the company has a weighty financial reason for the deviation in respect of the share issue against payment.

Furthermore, the authorization includes the Board of Directors' right to decide who are entitled to the shares and/or stock options or special rights in accordance with Chapter 10 Section 1 of the Finnish Limited Liability Companies Act as well as on the related compensation, subscription and payment periods and on the registering of the subscription price into the share capital or invested non-restricted equity fund within the limits of the Finnish Limited Liability Companies Act.

The authorization will be valid until the next Annual General Meeting, but will however expire at the latest on June 30th, 2018.

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon the acquiring of a maximum of 2,000,000 shares of the company with assets belonging to the company's non-restricted equity. The shares can also be acquired otherwise than in proportion to the holdings of the existing shareholders (directed acquisition). The maximum compensation to be paid for the acquired shares shall be the market price at the time of purchase, which is determined in the public trading.

The Board of Directors proposes that the authorization for the acquiring of the company's own shares would be used, inter alia, to strengthen the company's capital structure, to finance and realize corporate acquisitions and other arrangements, to realize the share-based incentive programs of the company or otherwise to be kept by the company, to be transferred for other purposes or to be cancelled. The acquisition of shares reduces the company's distributable non-restricted equity.

Decision concerning the acquiring of own shares cannot be made so that the combined amount of the own shares which are

in the possession of, or held as pledges by, the company or its subsidiaries exceeds one-tenth of all shares. The Board of Directors decides on all other matters related to the acquisition of shares.

The authorization will be valid until the next Annual General Meeting, but will however expire at the latest on June 30th, 2018.

RISKS AND UNCERTAINTIES

Largest risks that might impact the profitability of the company have remained by and large the same than in previous reporting period and are listed below. Other risks, which are currently either unknown or considered immaterial to SSH Communications Security may, however, become material in the future.

Largest risks:

- continuing uncertainty of the macroeconomic environment
- cybercrime, including e.g. ransomware
- delays in product development and closing new business
- maintaining our ability to innovate and develop our product portfolio including intellectual property rights (IPR)
- IPR litigation and the utilization of our patent portfolio
- ability to retain and recruit key personnel
- ability to execute our strategy
- large portion of the company revenue is invoiced in USD currency so possible large fluctuation in USD currency rates during 2017 could have unpredictable effects for profitability that are at the time difficult to estimate. The company decides on hedging of USD based contracts case by case.

Utilization of the company's patent portfolio may have significant positive and/or negative impacts.

Principles and organization of risk management of SSH Communications Security can be read from company's webpage: www.ssh.com.

RELATED PARTY TRANSACTIONS

During the reporting period, there have not been any significant transactions with related parties.

EVENTS AFTER THE BALANCE SHEET DATE

The SSH Communications Security management is not aware of any significant transactions after the reporting period.

REPORTING

This financial statement release is prepared according to IAS 34 Interim Financial Reporting. Financial statement release follows the same principles and standards as the previous financial statement release. Additionally, the effective changes in IFRS standards during the reporting period have been adopted. These changes have no material impact on the interim report. The information presented in this interim report has not been audited.

TABLES

COMPREHENSIVE INCOME STATEMENT

EUR million	1-3/2017	1-3/2016	1-12/2016
Net sales	3.1	2.6	15.1
Cost of goods sold	-0.2	0.0	-1.9
Gross profit	2.9	2.7	13.2
Other operating income	0.0	0.0	0.0
Sales, marketing and customer support costs	-2.4	-2.6	-12.0
Product development expenses	-1.8	-1.7	-9.5
Administrative expenses	-0.4	-0.6	-2.4
Operating profit/loss	-1.7	-2.2	-10.8
Financial income and expenses	-0.1	-0.4	-0.3
Profit/loss before taxes	-1.8	-2.6	-11.0
Taxes	-0.0	-0.0	-0.0
Net profit/loss for the financial period	-1.8	-2.6	-11.1
Non-controlling interest	0.0	0.0	0.0
Other profit and loss account items:			
Items which might be later transferred to P/L statement:			
Foreign subsidiary translation differences	0.0	0.3	0.4
Change in fair value of available-for-sale financial assets	0.0	0.0	0.0
Total comprehensive income	-1.8	-2.3	-10.6
Net profit/loss attributable to:			
Owners of the Company	-1.8	-2.3	-10.6
Non-controlling interest	0.0	0.0	0.0
EARNINGS PER SHARE			
Earnings per share (EUR)	-0.06	-0.09	-0.36
Earnings per share diluted (EUR)	-0.06	-0.09	-0.36

BALANCE SHEET

EUR million	31.3.2017	31.3.2016	31.12.2016
ASSETS			
Non-current assets			
Tangible assets	0.2	0.3	0.2
Intangible assets	5.2	4.9	5.2
Investments	0.0	0.0	0.0
Total non-current assets	5.4	5.2	5.5
Current assets			
Trade and other receivables	3.5	3.4	8.5
Short-term financial assets	0.0	0.0	0.0
Cash and cash equivalents	6.5	8.5	7.8
Total current assets	10.0	11.9	16.4
Total assets	15.4	17.1	21.8
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
Attributable to parent company shareholders	5.8	8.6	8.3
Non-controlling interest	0.0	0.0	0.0
Shareholders' equity total	5.8	8.6	8.3
Non-current liabilities			
Provisions	0.0	0.0	0.0
Non-current interest-bearing liabilities	0.0	0.0	0.0
Total long-term liabilities	0.0	0.0	0.0
Current liabilities	9.6	8.5	13.6
Liabilities total	9.6	8.5	13.6
Total equity and liabilities	15.4	17.1	21.8

CASH FLOW STATEMENT

EUR million	1-3/2017	1-3/2016	1-12/2016
Cash flow from business operations	-0.1	-1.2	-8.1
Cash flow from investments	-0.4	-0.7	-2.5
Cash flow from financing	-0.8	-0.9	7.1
Increase(+) / decrease(-) in cash	-1.3	-2.8	-3.5
Cash at period start	7.8	11.3	11.3
Effect of exchange rate	-0.0	-0.2	0.1
Cash at period end	6.5	8.5	7.8

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR million	Share capital	Hybrid capital securities	Translation difference	Unrestricted invested equity fund	Retained earnings	Total
Shareholders' equity 1.1.2016	0.9	12.0	-2.1	6.8	-6.2	11.4
Change			0.3		-0.5	-0.2
Net profit					-2.6	-2.6
Shareholders' equity 31.3.2016	0.9	12.0	-1.8	6.8	-9.3	8.6
Change	0.1		0.1	8.1	-0.3	8.1
Net profit					-8.5	-8.5
Shareholders' equity 31.12.2016	1.0	12.0	-1.7	15.0	-18.0	8.3
Change	0.0		0.0	0.1	-0.8	-0.7
Net profit					-1.8	-1.8
Shareholders' equity 31.3.2017	1.0	12.0	-1.6	15.0	-20.6	5.8

CONTINGENT LIABILITIES

EUR million	31.3.2017	31.3.2016	31.12.2016
Interest on hybrid capital securities	0.0	0.0	0.7
Rent security deposits	0.1	0.1	0.1
Leasing commitments outside the balance sheet			
Maturing within 1 year	0.5	0.5	0.5
Maturing between 1 and 5 years	0.4	0.5	0.4

KEY FIGURES AND RATIOS

EUR million	1-3/2017	1-3/2016	1-12/2016
Net sales	3.1	2.6	15.1
Operating profit/loss	-1.7	-2.2	-10.8
Operating profit/loss as % of net sales	-53.8	-84.0	-71.1
Profit/loss before items affecting comparability	-1.8	-2.6	-11.0
Profit/loss before items affecting comparability as % of net sales	-58.1	-98.9	-72.9
Profit/loss before taxes	-1.8	-2.6	-11.0
Profit/loss before taxes as % of net sales	-58.1	-98.9	-72.9
Return on equity (%)	-25.8	-26.4	-112.1
Return on investment (%)	-25.6	-26.0	-111.8
Interest-bearing net liabilities	-6.5	-8.5	-7.8
Equity ratio (%)	73.4	68.4	63.1
Gearing (%)	-113.4	-99.0	-94.8
Gross capital expenditure	0.4	0.7	2.5
% of net sales	13.2	25.9	16.2
R&D expenses	1.8	1.7	9.5
% of net sales	57.2	63.8	62.5
Personnel period average	81	111	111
Personnel period end	80	112	84

PER SHARE DATA

EUR	1-3/2017	1-3/2016	1-12/2016
Earnings per share undiluted*	-0.06	-0.09	-0.36
Earnings per share diluted*	-0.06	-0.09	-0.36
Equity per share	0.17	0.27	0.24
No. of shares at period average (thousand)	34,590	31,370	32,983
No. of shares at period end (thousand)	34,655	31,370	34,561
Share performance			
Average price	2.23	3.51	2.84
Low	1.90	2.92	1.86
High	2.59	4.30	4.39
Share price period end	2.11	3.49	1.94
Market capitalization period end (EUR million)	73.1	109.5	67.0
Volume of shares traded (million)	1.7	0.8	6.5
Volume of shares traded as % of total	5.1	2.5	19.6
Value of shares traded (EUR million)	3.9	2.7	18.3
Price per earnings ratio (P/E)	neg.	neg.	neg.
Dividend per share	0.00	0.00	0.00
Dividend per earnings, %	0.00	0.00	0.00
Effective return on dividend, %	0.00	0.00	0.00

* earnings per share is impacted by unpaid interest of hybrid capital securities

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SSH Communications Security will release its next interim report for the period January 1 – June 30, 2017 on July 20th, 2017.

Helsinki, April 20th, 2017

SSH COMMUNICATIONS SECURITY

Board of Directors

Kaisa Olkkonen
CEO

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