

## SSH COMMUNICATIONS SECURITY FINANCIAL CORPORATION STATEMENT RELEASE, JANUARY 1 – DECEMBER 31, 2016

## SUMMARY

October–December 2016: 4.6 % net sales decrease, losses due to investments in sales and R&D activities, and to patent enforcement expenses and one-time restructuring costs. Cash position remained good.

- Net sales totaled EUR 4.1 million, decrease of -4.6 % year on year (EUR 4.3 million in 10–12/2015).
- Operating loss amounted to EUR -4.6 million (EUR -1.3 million in 10–12/2015). Loss was EUR -4.4 million (EUR -0.9 million)
- Earnings per share EUR -0.13 (EUR -0.04).

January–December 2016: Overall net sales declined, but license sales grew 19.7%. Losses are due to continued investments to sales and R&D activities, patent enforcement expenses, and a one-time reorganization charge. Cash flow from operations was negative, but cash position remained good.

- Net sales EUR 15.1 million, decrease by -19.9 % compared to previous year (EUR 18.9 million in 1–12/2015).
- Operating loss EUR -10.8 million (EUR -4.4 million in 1–12/2015). Loss was EUR -11.1 million (EUR -3.9 million)
- Earnings per share EUR -0.36 (EUR -0.15).
- Cash flow from operations was EUR -8.1 million (EUR 0.3 million), total cash flow was EUR -3.5 million (EUR 5.1 million).

Equity ratio remained good 63.1 % (66.8 %) and liquid assets were EUR 7.8 million (EUR 11.3 million).

KEY FIGURES					
	10-12/ 2016	10-12/ 2015	1-12/ 2016	1-12/ 2015	Change %
Net sales (MEUR)	4.1	4.3	15.1	18.9	-19.9
Operating profit/loss (MEUR)	-4.6	-1.3	-10.8	-4.4	-145.9
% of net sales	-113.7	-29.5	-71.1	-23.2	-206.8
Profit/loss before taxes (MEUR)	-4.4	-0.9	-11.0	-3.9	-185.8
Profit/loss (MEUR)	-4.4	-0.9	-11.1	-3.9	-182.7
Return on equity, %			-112.1	-40.4	-177.2
Return on investment, %			-111.8	-39.9	-180.3
Liquid assets			7.8	11.3	-30.6
Gearing (%)			-94.8	-98.8	4.0
Equity ratio (%)			63.1	66.8	-5.6
Earnings Per Share (EUR)	-0.13	-0.04	-0.36	-0.15	-137.7
Shareholders' equity per share (EUR)	0.24	0.36	0.24	0.36	-34.4

## CEO REVIEW

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

The year 2016 was a year of stark contrasts for SSH. Our license sales – especially the sales of our new products – grew and we gained several new Fortune 100 clients but, from a financial perspective, our performance was far from satisfactory. We decreased our reliance on service sales as planned and we started the shift from perpetual license sales to subscription-based sales, which, while supporting long term growth, contributed to the decrease in revenue compared to the previous period and to the loss we incurred.

We significantly improved our cash position with an 8 million euro share emission in June. The emission was over-subscribed and led to two new institutional investors becoming our shareholders. This is testament to the faith the investors have in our success in the cyber security market.

We signed two significant multi-year subscription deals with leading global companies during Q4. This is a welcome and healthy development even though it means that we have to delay the revenue recognition of these agreements. The subscription model creates stable long-term revenue that supports our growth and help create long-term customer relationships. We expect this trend to continue in 2017. In our transition towards subscription-based sales we believe bookings growth is an even more important indicator of successfully executing our strategy than the short-term growth of our revenue.

We suffered two setbacks in our patent litigation efforts. First instance court decisions in both the UK and Germany went against us, leading to a delay in realizing patent licensing income. We believe these decisions to be incorrect and our outside counsel supports this view. We have proceeded to appeal both decisions and expect new decisions in these cases during 2017. We also otherwise continue our patent licensing program in full force.

I am very excited about the direction of our product development and the expertise of our team. We continue to integrate our industry-leading products into a unified platform which makes us an even more strategic vendor to our customers. We are also working on some exciting new technologies and products to help our customers in their accelerating digitalization drive and we will make some interesting new product announcements in 2017.

During Q4 we worked hard to stem the losses and improve our competitiveness in 2017 and beyond. First, we completed a major reorganization and cost savings program that makes us both operationally and financially stronger than before.

We also strengthened our executive management team: Chris Riley and Rami Raulas bring extensive senior sales leadership experience to us and we believe they will significantly improve our sales execution. The other members of the management team, Tatu Ylönen, Markku Rossi, Kalle Jääskeläinen, Helena Kukkonen, and Jussi Mononen also bring their expertise to support our future success.

Personally, I am fully committed to my new position and will work relentlessly with the management team to improve the execution capability of SSH. I believe the changes we have already started and continuous development of our operations will make us a strong and recognized player in the cyber security segment. We are committed to remain a strong innovator in this industry.

Kaisa Olkkonen  
CEO

## NET SALES

Consolidated net sales for October–December totaled EUR 4.1 million (EUR 4.3 million), decrease by -4.6 %, year on year.

Consolidated net sales for January–December totaled EUR 15.1 million (EUR 18.9 million), decrease by -19.9 %, year on year. The decrease of revenue was the result of several factors: decrease in service business, delayed sales due to the challenging macroeconomic environment, and the starting transition from perpetual license sales towards subscription sales. License sales grew 19.7%, year on year. The same period in 2015 included an exceptionally large

consultancy deal.

The Americas; Europe, Middle East and Africa market area; and the Asia Pacific region accounted for 53.9 % (62.1 %), 33.2 % (26.7 %) and 12.9 % (11.2 %) of reported net sales, respectively.

SSH NET SALES					
EUR million	10-12/ 2016	10-12/ 2015	1-12/ 2016	1-12/ 2015	Change %
BY SEGMENT					
AMERICAS	2.2	2.1	8.2	11.7	-30.3
APAC	0.6	0.9	2.0	2.1	-7.7
EMEA	1.3	1.3	5.0	5.0	-0.6
SSH Group Total	4.1	4.3	15.1	18.9	-19.9
BY OPERATION					
Software fees	1.3	1.6	6.1	5.1	19.7
Professional services & other	0.6	0.6	1.1	6.1	-81.9
Recurring revenue	2.2	2.0	7.9	7.6	3.7
Total	4.1	4.3	15.1	18.9	-19.9

The majority of SSH Communications Security's invoicing is U.S. dollar based. During the reporting period, the U.S. dollar's average exchange rate to euro strengthened 0.2 %. With comparable exchange rates, net sales decline would have been -20.0% compared to 2015.

## RESULTS AND EXPENSES

Operating loss for October–December amounted to EUR -4.6 million (EUR -1.3 million), with net loss totaling EUR -4.4 million (EUR -0.9 million).

Operating loss for January–December amounted to EUR -10.8 million (EUR -4.4 million), with net loss totaling EUR -11.1 million (EUR -3.9 million). Continued investments to sales and product development, delays in closing sizeable deals, patent enforcement expenses, and one-time reorganization charges influenced profitability. The company booked reorganization charges of EUR 0.9 million during January–December 2016.

Sales, marketing and customer support expenses for the October–December reporting period amounted EUR -3.8 million (EUR -3.3 million), while research and development expenses totaled EUR -3.0 million (EUR -1.0 million) and administrative expenses EUR -0.9 million (EUR -0.6 million).

Sales, marketing and customer support expenses for the January–December reporting period amounted EUR -12.0 million (EUR -10.0 million), while research and development expenses totaled EUR -9.5 million (EUR -5.1 million) and administrative expenses EUR -2.4 million (EUR -1.6 million).

## BALANCE SHEET AND FINANCIAL POSITION

The financial position of SSH Communications Security remained strong during the reporting period. The consolidated balance sheet total on December 31, 2016 stood at EUR 21.8 million (EUR 21.8 million; December 31, 2015), of which liquid assets accounted for EUR 7.8 million (EUR 11.3 million), or 35.9 % of the balance sheet total.

During June, new shares in a directed share issue of EUR 8 million were issued.

On December 31, 2016, gearing, or the ratio of net liabilities to shareholders' equity, was -94.8 % (-98.8 %) and the equity ratio stood at 63.1 % (66.8 %).

The reported gross capital expenditure for the period totaled EUR 2.5 million (EUR 2.6 million). The reported financial income and expenses consisted mainly of exchange rate gains or losses. Financial income and expenses totaled EUR -0.3 million (EUR 0.5 million).

During January–December, SSH Communications Security reported negative cash flow of EUR -8.1 million (EUR 0.3 million) from business operations, and investments showed a negative cash flow of EUR -2.5 million (EUR -2.6 million). Cash flow from financing totaled EUR 7.1 million (EUR 7.4 million). Total cash flow from operations, investments and financing was negative EUR -3.5 million (EUR 5.1 million).

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

## RESEARCH AND DEVELOPMENT

Research and development expenses for October–December totaled EUR -3.0 million (EUR -1.0 million), the equivalent of 74.8 % of net sales (23.3 %). During October–December company has capitalized R&D costs EUR 0.5 million (EUR 0.7 million).

Research and development expenses for January–December totaled EUR -9.5 million (EUR -5.1 million), the equivalent of 62.5 % of net sales (26.9 %). During the reporting period R&D cost capitalizations amounted to EUR 1.9 million (EUR 2.1 million). Depreciation from R&D capitalization assets was EUR -1.6 million (EUR -1.2 million).

## HUMAN RESOURCES AND ORGANIZATION

At the end of December, the Group had 84 employees on its payroll. The number of employees decreased by 25 people from the previous year (-22.9 %), and by 31 persons from the previous quarter due to personnel reductions from the savings program undertaken in Q4.

At the end of the period, 38.1 % (40.4 %) of the employees worked in sales, marketing and customer services, 47.6 % (48.6 %) in R&D, and 14.3 % (11.0 %) in corporate administration.

## BOARD AND AUDITORS

At the Annual General Meeting on April 20, 2016, Kaisa Olkkonen and Harri Koponen were elected and Timo Syrjälä, Tatu Ylönen and Jukka Manner were re-elected as directors of the company. Kaisa Olkkonen was elected as the Chairman of the Board of Directors in the board's organizing meeting held after the Annual General Meeting. As announced on December 30, 2016, Kaisa Olkkonen resigned from the position of the Chairman and Jukka Manner was appointed as the new Chairman of the Board of Directors.

The Authorized Public Accountants Ernst & Young Oy were elected as the auditor of the company with Erkkä Talvinko, authorized public accountant, as the principal auditor.

## SHARES, SHAREHOLDING AND CHANGES IN GROUP STRUCTURE

The reported trading volume of SSH Communications Security Corporation shares totaled 6,450,197 shares (valued at EUR 18,314,111). The highest quotation was EUR 4.39 and the lowest EUR 1.86. The trade-weighted average share price for the period was EUR 2.84 and the share closed at EUR 1.94 (December 30, 2016).

The company's principal owner Tatu Ylönen holds directly and indirectly 52.3 % of the company's shares; Timo Syrjälä

holds directly and through companies under his control 8.2 %; and Juha Mikkonen holds directly and through his company under his control, Assetman Oy, 6.9 %. More information about the shareholding can be obtained from the company's web site.

As announced on June 1, 2016, SSH spun off its mobile authentication business.

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 December 31, 2016 was EUR 1,036,824.99 consisting of 34,560,833 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 2017. As announced on May 27th 2016, the Board of Directors decided upon an option plan of maximum 400,000 options. As announced on June 20th 2016, a directed share issue of 2,950,000 shares was issued.

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 2017.

## DIVIDEND AND OTHER DISTRIBUTION OF ASSETS

The SSH Communications Security's Board of Directors will propose to the Annual General Meeting on March 29<sup>th</sup>, 2017 that no dividend or return of capital shall be distributed. It is proposed that the loss of the financial year shall be entered to the shareholders' equity in the profit/loss account.

## RISKS AND UNCERTAINTIES

Most significant risks that might impact the profitability of the company have remained by and large the same as 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 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.

Principles and organization of risk management of SSH Communications Security can be read from company's webpage: [www.ssh.com](http://www.ssh.com).

## RELATED PARTY TRANSACTIONS

Clausal Computing Oy, a company wholly owned by SSH Communications Security's majority owner and board member Tatu Ylönen, has delivered the company mainly R&D services valued in total EUR 0.5 million during January–December 2016. Tatu Ylönen subscribed for 489,200 shares and Member of Board Timo Syrjälä through his company 733,900 shares from the directed share issue issued by the company on June 20th 2016. During the reporting period, there have not been any other significant transactions with related parties.

## EVENTS AFTER THE BALANCE SHEET DATE

LL.M. Kaisa Olkkonen was appointed Chief Executive Officer of the company starting January 1, 2017.

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

## REPORTING

This financial statement release is prepared according to IAS 34. Financial statement release follows the same principles and standards as the previous financial statement release. Additionally, the effective changes in IAS/IFRS standards during the reporting period have been adopted. These changes have no material impact on the interim report. Effects of the changes in the standards are presented in the Annual Report. The information presented in this

financial statement release has not been audited.

TABLES

COMPREHENSIVE INCOME STATEMENT				
EUR million				
	10-12/ 2016	10-12/ 2015	1-12/ 2016	1-12/ 2015
Net sales	4.1	4.3	15.1	18.9
Cost of goods sold	-0.9	-0.6	-1.9	-6.5
Gross profit	3.1	3.7	13.2	12.4
Other operating income	0.0	0.0	0.0	0.0
Sales, marketing and customer support costs	-3.8	-3.3	-12.0	-10.0
Product development expenses	-3.0	-1.0	-9.5	-5.1
Administrative expenses	-0.9	-0.6	-2.4	-1.6
Operating profit/loss	-4.6	-1.3	-10.8	-4.4
Financial income and expenses	0.2	0.3	-0.3	0.5
Profit/loss before taxes	-4.4	-0.9	-11.0	-3.9
Taxes		-0.0	-0.0	-0.1
Net profit/loss for the financial period	-4.4	-0.9	-11.1	-3.9
Non-controlling interest	0.0	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	0.7	-0.1	0.4	-0.4
Net change in fair value of available-for-sale financial assets	0.0	0.0	0.0	0.0
Total comprehensive income	-3.6	-1.0	-10.6	-4.3
Net profit/loss attributable to:				
Owners of the Company	-3.6	-1.0	-10.6	-4.3
Non-controlling interest	0.0	0.0	0.0	0.0
<b>EARNINGS PER SHARE</b>				
Earnings per share (EUR)	-0.13	-0.04	-0.36	-0.15
Earnings per share diluted (EUR)	-0.13	-0.04	-0.36	-0.15

BALANCE SHEET		
EUR million		
	31.12.2016	31.12.2015
<b>ASSETS</b>		
Non-current assets		
Tangible assets	0.2	0.3
Intangible assets	5.2	4.6
Investments	0.0	0.0
Total non-current assets	5.5	4.9
Current assets		
Trade and other receivables	8.5	5.5
Short-term financial assets	0.0	0.0
Cash and cash equivalents	7.8	11.3
Total current assets	16.4	16.8
Total assets	21.8	21.8
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Shareholders' equity		
Equity attributable to the parent company shareholders total	8.3	11.4
Non-controlling interest	0.0	0.0
Shareholders' equity total	8.3	11.4
Non-current liabilities		
Provisions	0.0	0.0
Non-current interest-bearing liabilities	0.0	0.0
Total long-term liabilities	0.0	0.0
Current liabilities	13.6	10.3
Liabilities total	13.6	10.3
Total equity and liabilities	21.8	21.8

CASH FLOW STATEMENT		
EUR million		
	1-12/2016	1-12/2015



Cash flow from business operations	-8.1	0.3
Cash flow from investments	-2.5	-2.6
Cash flow from financing	7.1	7.4
Increase(+) / decrease(-) in cash	-3.5	5.1
Cash at period start	11.3	6.1
Effect of exchange rate	0.1	0.1
Cash at period end	7.8	11.3

STATEMENT ON CHANGES IN SHAREHOLDERS' EQUITY						
EUR million	Share capital	Fair value reserves	Hybrid capital securities	Translation differences	Unrestricted equity funds and retained earnings	Total
Shareholders' equity Jan 1, 2015	0.9	0.0	4.0	-1.7	4.7	7.9
Change	0.0		8.0		-0.1	7.9
Net profit				-0.4	-3.9	-4.3
Shareholders' equity Dec 31, 2015	0.9	0.0	12.0	-2.1	0.6	11.4
Change	0.1				7.4	7.5
Net profit				0.4	-11.1	-10.6
Shareholders' equity Dec 31, 2016	1.0	0.0	12.0	-1.7	-3.1	8.3

KEY FIGURES AND RATIOS		
EUR million	1-12/ 2016	1-12/ 2015
Net sales	15.1	18.9

Operating profit/loss	-10.8	-4.4
Operating profit/loss as % of net sales	-71.1	-23.2
Profit/loss before items affecting comparability	-11.0	-3.9
Profit/loss before items affecting comparability as % of net sales	-72.9	-20.4
Profit/loss before taxes	-11.0	-3.9
Profit/loss before taxes as % of net sales	-72.9	-20.4
Return on equity (%)	-112.1	-40.4
Return on investment (%)	-111.8	-39.9
Interest-bearing net liabilities	-7.8	-11.3
Equity ratio (%)	63.1	66.8
Gearing (%)	-94.8	-98.8
Gross capital expenditure	2.5	2.6
% of net sales	16.2	13.7
R&D expenses	9.5	5.1
% of net sales	62.5	26.9
Personnel, period average	111	102
Personnel, period end	84	109

Calculation for key figures and ratios are presented in 2015 financial statement and annual report. There have been no changes in calculation rules.

PER SHARE DATA		
EUR	1-12/ 2016	1-12/ 2015
Earnings per share undiluted*	-0.36	-0.15
Earnings per share diluted*	-0.36	-0.15
Equity per share	0.24	0.36
No. of shares at period average (thousands)	32,983	31,068
No. of shares at period end (thousands)	34,561	31,370
Share performance		
Average price	2.84	4.50
Low	1.86	2.52
High	4.39	6.32
Share price period end	1.94	3.02
Market capitalization period end (EUR million)	67.0	94.7
Volume of shares traded (million)	6.5	8.4
Volume of shares traded as % of total	19.6	27.0
Value of shares traded (EUR million)	18.3	37.7
Price per earnings ratio (P/E)	neg.	neg.
Dividend per share	0.00	0.00
Dividend per earnings, %	0.00	0.00

Effective return on dividend, %	0.00	0.00
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\* earnings per share is impacted by unpaid interest of hybrid capital securities

CONTINGENT LIABILITIES		
EUR million	31.12.2016	31.12.2015
Hybrid Loan, Interest	0.7	0.7
Rent security deposits	0.1	0.1
Leasing commitments outside the balance sheet		
Maturing within 1 year	0.5	0.5
Maturing between 1 and 5 years	0.4	0.5

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SSH Communications Security Corporation will release its interim report of the first quarter of the year in April 20<sup>th</sup>, 2017.

Helsinki, February 9<sup>th</sup>, 2017

SSH COMMUNICATIONS SECURITY CORPORATION  
Board of Directors

Kaisa Olkkonen  
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