

YEAR-ON-YEAR REVENUE GROWTH AND SIGNIFICANTLY REDUCED LOSSES, POSITIVE CASH FLOW FROM OPERATIONS

October–December 2017: Net sales increased 56.2 %, bottom line turned into profit. Operating cash flow was positive (EUR 2.5 million), year-end cash position was strong.

- Net sales totaled EUR 6.4 million, up by 56.2 % year on year (EUR 4.1 million in 10–12/2016).
- Operating profit was EUR 1.4 million (EUR -4.6 million in 10–12/2016). Profit was EUR 1.3 million (EUR -4.4 million)
- Earnings per share were EUR 0.03 (EUR -0.13).

January–December 2017: Net sales increased 7.3 %, loss decreased 79.7 %. Performance improvement program has significantly improved the profitability. Operating cash flow was positive, cash position remained strong as a result of the directed share issue in June.

- Net sales totaled EUR 16.2 million, up by 7.3 % compared to previous year (EUR 15.1 million in 1–12/2016).
- Operating loss EUR was -1.7 million (EUR -10.8 million in 1–12/2016). Loss was EUR -2.2 million (EUR -11.1 million)
- Earnings per share EUR were -0.09 (EUR -0.36).
- Cash flow from operations was EUR 1.3 million (EUR -8.1 million), total cash flow was EUR 5.9 million (EUR -3.5 million).

Equity ratio remained good 82.9 % (63.1 %) and liquid assets were EUR 13.5 million (EUR 7.8 million).

KEY FIGURES

EUR million	10–12/2017	10–12/2016	1–12/2017	1–12/2016	Change %
Net sales	6.4	4.1	16.2	15.1	7.3
Operating profit/loss	1.4	-4.6	-1.7	-10.8	84.1
% of net sales	21.9	-113.7	-10.5	-71.1	85.2
Profit/loss before taxes	1.3	-4.4	-2.2	-11.0	79.9
Profit/loss	1.3	-4.4	-2.2	-11.1	79.7
Return on equity, %			-21.2	-112.1	81.1
Return on investment, %			-21.0	-111.8	81.2
Liquid assets			13.5	7.8	71.8
Gearing (%)			-104.5	-94.8	-10.2
Equity ratio (%)			82.9	63.1	31.5
Earnings per share, EUR	0.03	-0.13	-0.09	-0.36	76.3
Shareholders' equity per share, EUR	0.34	0.24	0.34	0.24	40.2

CEO REVIEW

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

The year 2017 was a period of rebuilding for SSH – we restructured the organization after the reorganization and cost savings actions in late 2016, announced a new cloud-facing strategy, launched a new product, increased our focus on marketing, and also started changing our sales model. While this process is still ongoing, the results were encouraging.

Supported by our patent licensing activity and a strong fourth quarter (56% year-on-year revenue growth and very healthy 22% operating profit), we grew our annual revenue by 7% and decreased our operating loss by nearly 80%. Our cash flow from operations for the year was also positive, signifying a nearly 10 MEUR turnaround from 2016.

We successfully controlled costs and improved our operational efficiency throughout the organization. Despite significantly reduced headcount, R&D produced a brand-new product, PrivX® On-Demand Access Manager, and new versions of our Universal SSH Key Manager (UKM) and CryptoAuditor products. The Tectia products continue to be the gold standard in encryption technology that leading customers around the world use for their mission-critical operations.

The launch of PrivX™ On-Demand Access Manager in June of 2017 was the first phase of SSH's ambitious new strategy. PrivX rearchitects access management for the Cloud and DevOps, enabling enterprises to instantly reap the business benefits of faster time-to-market, increased agility, and lower costs. As a "keyless" on-demand solution, PrivX™ On-Demand Access Manager solves one of future CIO and CISO's biggest concerns: managing the virtually limitless number of privileged access credentials.

While we are encouraged by our progress, there is still a lot of work ahead of us as we are far from finished with our transformation journey. However, the past year clearly shows that we are on the right path.

We did not yet turn our result positive and new license sales were challenging due to long sales cycles, increasing competition, and the trend of customers starting their deployments with smaller orders instead of large one-off purchases.

On the other hand, our software subscription revenue grew 80% year-on-year, and the maintenance revenue from old products remained robust. The APAC region performed especially well and the results there exceeded our expectations.

Many of the changes and initiatives we decided on and started executing in 2017 will start showing results in 2018 and beyond. Some of the key initiatives include a strategic shift in our marketing to digital and online, and investment in a new sales model that encompasses both online sales and aggressive inside sales for targeting new customer segments and faster market penetration.

We successfully grew our digital footprint and increased the number of visitors on our web site by more than 500% compared to 2016. One of the key initiatives in 2018 will be increasingly converting this visitor flow into new customers.

Online and inside sales help us reach a significantly larger number of customers cost-efficiently and also help in the visitor-to-customer conversion. The average deal sizes will be smaller in these channels than in our direct sales channel, but this difference will be more than offset by the expected larger number of transactions and much shorter sales cycles. Year 2018 will be a very important year for the new sales model: while we do not expect a large revenue impact yet, the work will build a strong foundation for future growth and should start producing significant results in 2019 and beyond.

Our cash position remains very strong. We ensured we have enough resources to execute our new strategy and invest in R&D and marketing with a successful 7 million euro share emission in June. The emission was fully subscribed and led to a new major institutional investor joining our list of shareholders. While the success of the funding round was gratifying, we also feel the urgency to successfully execute the new strategy to create growing shareholder value.

We strengthened and streamlined our organization and leadership team during the year. We started a dedicated PrivX Business Program to manage the go-to-market process of the PrivX product and ensure there are enough resources and focus on the product line to make it a success and an engine of future growth for SSH. We were successful in hiring new world-class marketing and digital talent to lead us in our digital transformation process and create the increased online presence and visibility required for future growth.

We also saw our first win on the patent licensing front: in December, we announced a 2.1 million Euro cross-licensing agreement with a global technology company. We continue our other patent licensing efforts with full force.

The firewall business continues to progress steadily, and the certification process is proceeding well. However, deliveries still await the completion of the certification and confirmed customer orders.

I would like to thank the whole team at SSH for their efforts and dedication during 2017. This was not an easy year as the pace of change was fast and we were in a heavy rebuilding phase. The team responded superbly to the challenges we faced, and we emerged from this year stronger and in a clearly better position to prosper than we were at the end of the previous year.

I expect the changes we did and the new initiatives we started in 2017 to start bearing fruit in 2018 and I am looking forward to continuing the change journey together with the SSH team.

Kaisa Olkkonen
CEO

NET SALES

Consolidated net sales for October–December totaled EUR 6.4 million (EUR 4.1 million), up 56.2 %, year on year.

Consolidated net sales for January–December totaled EUR 16.2 million (EUR 15.1 million), up by 7.3 %, year on year.

The Americas accounted for 50.9 % (53.9 %), Europe, the Middle East and Africa 21.8 % (33.2 %) and the Asia Pacific region 14.3 % (12.9 %) of reported net sales. 12.9 % (0.0 %) of reported net sales consisted of global royalty income.

CONSOLIDATED NET SALES

EUR million	10–12/2017	10–12/2016	1–12/2017	1–12/2016	Change %
BY GEOGRAPHICAL AREA					
AMERICAS	2.6	2.2	8.3	8.2	1.4
APAC	0.7	0.6	2.3	2.0	18.9
EMEA	1.0	1.3	3.5	5.0	-29.4
Global royalty income	2.1	0.0	2.1	0.0	100.0
Total	6.4	4.1	16.2	15.1	7.3

BY OPERATION					
Software fees	1.8	1.3	4.0	6.1	-33.9
Professional services & other	2.5	0.6	3.9	1.1	253.3
Recurring revenue	2.1	2.2	8.3	7.9	4.7
Total	6.4	4.1	16.2	15.1	7.3

The majority of SSH Communications Security's invoicing is U.S. dollar based. With comparable exchange rates, net sales growth would have been 8.8 % compared to 2016.

RESULTS AND EXPENSES

Operating profit for October–December amounted to EUR 1.4 million (EUR -4.6 million), with net profit totaling EUR 1.3 million (EUR -4.4 million).

Operating loss for January–December amounted to EUR -1.7 million (EUR -10.8 million), with net loss totaling EUR -2.2 million (EUR -11.1 million).

Sales, marketing and customer support expenses for the October–December reporting period amounted EUR -2.4 million (EUR -3.8 million), while research and development expenses totaled EUR -1.2 million (EUR -3.0 million) and administrative expenses EUR -0.7 million (EUR -0.9 million). Compared to October–December 2016, operating expenses decreased by 45 %, driven by the tight cost control and performance improvement program.

Sales, marketing and customer support expenses for the January–December reporting period amounted EUR -8.8 million (EUR -12.0 million), while research and development expenses totaled EUR -5.6 million (EUR -9.5 million) and administrative expenses EUR -2.1 million (EUR -2.4 million). Operating expenses decreased by 31 % compared to previous year.

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, 2017 stood at EUR 23.2 million (EUR 21.8 million; December 31, 2016), of which liquid assets accounted for EUR 13.5 million (EUR 7.8 million), or 58.1 % of the balance sheet total. In June, new shares for EUR 7 million were issued in a directed share issue. On December 31, 2017, gearing, or the ratio of net liabilities to shareholders' equity, was -104.5 % (-94.8 %) and the equity ratio stood at 82.9 % (63.1 %).

The reported gross capital expenditure for the period totaled EUR 1.5 million (EUR 2.5 million). Financial income and expenses totaled EUR -0.5 million (EUR -0.3 million), which consisted mainly of exchange rate gains or losses.

During January–December, SSH Communications Security reported a positive cash flow of EUR 1.3 million (EUR -8.1 million) from business operations, and investments showed a negative cash flow of EUR -1.5 million (EUR -2.5 million). Cash flow from financing totaled EUR 6.1 million (EUR 7.1 million). Increase in cash totaled EUR 5.9 million (EUR -3.5 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 -1.2 million (EUR -3.0 million), the equivalent of 18.9 % of net sales (74.8 %). During October–December the company has capitalized R&D costs EUR 0.4 million (EUR 0.5 million).

Research and development expenses for January–December totaled EUR -5.6 million (EUR -9.5 million), the equivalent

of 34.3 % of net sales (62.5 %). During the reporting period, R&D cost capitalizations totaled EUR 1.2 million (EUR 1.9 million). The overall activation level has decreased due to maturing of the products and overall cost reduction. Depreciation from R&D capitalization assets was EUR -1.7 million (EUR -1.6 million).

HUMAN RESOURCES AND ORGANIZATION

At the end of December, the Group had 80 (December 31, 2016: 84; September 30, 2017: 84) employees on its payroll. The number of employees decreased by 4 persons from the previous quarter.

At the end of the period, 29 (September 30, 2017: 31) of the employees worked in sales, marketing and customer services, 35 (38) in R&D, and 16 (15) in corporate administration.

BOARD AND AUDITORS

At the Annual General Meeting held on March 29, 2017, Petri Kuivala and Ari Vanttinen were elected as new members of the Board of Directors and Tatu Ylönen, Timo Syrjälä and Jukka Manner were re-elected as members of the Board of Directors. At the Board's organizing meeting Jukka Manner was elected as the Chairman of the Board of Directors.

The Authorized Public Accountants Ernst & Young Oy was 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 5,565,659 shares (valued at EUR 11,728,799). The highest quotation was EUR 2.59 and the lowest EUR 1.72. The trade-weighted average share price for the period was EUR 2.11 and the share closed at EUR 1.77 (December 29, 2017).

The company's principal owner Tatu Ylönen holds directly and through his company, Clausal Computing Oy, 47.7 % of the company's shares, Timo Syrjälä holds directly and through his company, Acme Investments SPF S.a.r.l., 9.3 % and Juha Mikkonen holds directly 5.5 % of the company's shares. More information about the shareholding can be obtained from the company's web site www.ssh.com.

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, 2017 was EUR 1,153,226.49 consisting of 38,440,883 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 30, 2018. As announced on June 15, 2017, a directed share issue of 3,400,000 shares was issued under the authorization.

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 30, 2018.

DIVIDEND AND OTHER DISTRIBUTION OF ASSETS

The SSH Communications Security's Board of Directors will propose to the Annual General Meeting on March 28th, 2018 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:

- uncertainty of the macroeconomic environment
- cybercrime, including e.g. ransomware
- delays in product development and closing new business
- ability to execute our strategy
- ability to retain and recruit key personnel
- maintaining our ability to innovate and develop our product portfolio including intellectual property rights (IPR)
- IPR litigation and the utilization of our patent portfolio
- large portion of the company revenue is invoiced in USD currency so possible large fluctuation in USD currency rates during 2018 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.

RELATED PARTY TRANSACTIONS

In the directed share issue issued by the company on June 15, 2017, Member of the Board Tatu Ylönen subscribed for 243,500 shares and Member of the Board Timo Syrjälä through his controlled company for 728,500 shares.

As announced earlier, SSH entered into a patent cross license agreement with a global technology company including a one-time license fee payment. According to the agreement between SSH and Clausal Computing Ltd., SSH will pay to Clausal Computing EUR 462,000 of the license revenue as a royalty fee in Q1 2018.

In January 2018, SSH entered into marketing service agreement with Ari Vanttinen, whereupon Ari Vanttinen is no longer an independent board member.

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

EVENTS AFTER THE BALANCE SHEET DATE

SSH Communications Security has entered into a patent cross license and settlement agreement with Sony on 5 February 2018. The agreement resolves all disputes between the parties. SSH estimates that after taxes, costs and royalty fee paid to Clausal Computing Ltd, this patent license and settlement agreement will have a moderate positive impact in SSH's net profit for the first quarter of 2018.

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 financial statement release. Effects of the changes in the standards are presented in the Annual Report. The full-year information presented in this financial statement release has been audited.

TABLES

COMPREHENSIVE INCOME STATEMENT

EUR million	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Net sales	6.4	4.1	16.2	15.1
Cost of goods sold	-0.7	-0.9	-1.5	-1.9
Gross margin	5.6	3.1	14.7	13.2
Other operating income	0.0	0.0	0.0	0.0
Sales, marketing and customer support costs	-2.4	-3.8	-8.8	-12.0
Research and development expenses	-1.2	-3.0	-5.6	-9.5
Administrative expenses	-0.7	-0.9	-2.1	-2.4
Operating profit/loss	1.4	-4.6	-1.7	-10.8
Financial income and expenses	-0.1	0.2	-0.5	-0.3
Profit/loss before taxes	1.3	-4.4	-2.2	-11.0
Taxes	-0.0	0.0	-0.0	-0.0
Net profit/loss for the financial period	1.3	-4.4	-2.2	-11.1
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	0.0	0.7	0.4	0.4
Total comprehensive income	1.3	-3.6	-1.9	-10.6
Net profit/loss attributable to:				
Owners of the Company	1.3	-3.6	-1.9	-10.6
Non-controlling interest	0.0	0.0	0.0	0.0
EARNINGS PER SHARE				
Earnings per share (EUR)	0.03	-0.13	-0.09	-0.36
Earnings per share diluted (EUR)	0.02	-0.13	-0.09	-0.36

BALANCE SHEET

EUR million	31.12.2017	31.12.2016
ASSETS		
Non-current assets		
Tangible assets	0.1	0.2
Intangible assets	4.8	5.2
Investments	0.0	0.0
Total non-current assets	5.0	5.5
Current assets		
Trade and other receivables	4.8	8.5
Short-term financial assets	0.0	0.0
Cash and cash equivalents	13.5	7.8
Total current assets	18.2	16.4
Total assets	23.2	21.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Attributable to parent company shareholders	12.9	8.3
Non-controlling interest	0.0	0.0
Shareholders' equity, total	12.9	8.3
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	10.3	13.6
Liabilities, total	10.3	13.6
Total equity and liabilities	23.2	21.8

CASH FLOW STATEMENT

EUR million	1-12/2017	1-12/2016
Cash flow from business operations	1.3	-8.1
<i>whereof change in working capital</i>	0.9	0.4
Cash flow from investments	-1.5	-2.5
Cash flow from financing	6.1	7.1
Increase(+) / decrease(-) in cash	5.9	-3.5
Cash at period start	7.8	11.3
Effect of exchange rate	-0.2	0.1
Cash at period end	13.5	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	0.1		0.4	8.1	-0.8	7.9
Net profit					-11.1	-11.1
Shareholders' equity 31.12.2016	1.0	12.0	-1.7	15.0	-18.0	8.3
Change	0.1		0.4	7.2	-0.8	6.9
Net profit					-2.2	-2.2
Shareholders' equity 31.12.2017	1.2	12.0	-1.3	22.1	-21.1	12.9

KEY FIGURES AND RATIOS

EUR million	1-12/2017	1-12/2016
Net sales	16.2	15.1
Operating profit/loss	-1.7	-10.8
% of net sales	-10.5	-71.1
Profit/loss before items affecting comparability	-2.2	-11.0
% of net sales	-13.7	-72.9
Profit/loss before taxes	-2.2	-11.0
% of net sales	-13.7	-72.9
Return on equity (%)	-21.2	-112.1
Return on investment (%)	-21.0	-111.8
Interest-bearing net liabilities	-13.5	-7.8
Equity ratio (%)	82.9	63.1
Gearing (%)	-104.5	-94.8
Gross capital expenditure	1.5	2.5
% of net sales	9.5	16.2
R&D expenses	-5.6	-9.5
% of net sales	34.3	62.5
Personnel, period average	82	111
Personnel, period end	80	84

Calculation for key figures and ratios are presented in 2016 financial statement and annual report. There have been no changes in calculation rules.

PER SHARE DATA

EUR	1-12/2017	1-12/2016
Earnings per share undiluted*	-0.09	-0.36
Earnings per share diluted*	-0.09	-0.36
Equity per share	0.34	0.24
No. of shares at period average (thousand)	36,570	32,983
No. of shares at period end (thousand)	38,441	34,561
Share performance		
Average price	2.11	2.84
Low	1.72	1.86
High	2.59	4.39
Share price period end	1.77	1.94
Market capitalization period end (EUR million)	68.0	67.0
Volume of shares traded (million)	5.6	6.5
Volume of shares traded as % of total	15.2	19.6
Value of shares traded (EUR million)	11.7	18.3
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

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

CONTINGENT LIABILITIES

EUR million	31.12.2017	31.12.2016
Interest on hybrid capital securities	0.7	0.7
Rent security deposits	0.1	0.1
Leasing commitments outside the balance sheet		
Maturing within 1 year	0.3	0.5
Maturing between 1 and 5 years	0.3	0.4

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SSH Communications Security Corporation will release its interim report of the first quarter of the year in April 19th, 2018.

Helsinki, February 7th, 2018

SSH COMMUNICATIONS SECURITY CORPORATION

Board of Directors

Kaisa Olkkonen
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