

STRONG REVENUE GROWTH; SECOND CONSECUTIVE PROFITABLE QUARTER

January–March 2018: Net sales growth 56.5 % compared to previous year and quarter profit was positive. Cash flow was positive, quarter end cash position was strong.

- Net sales totaled EUR 4.8 million, up by 56.5 % year on year (EUR 3.1 million in 1–3/2017).
- Operating profit was EUR 0.1 million (EUR -1.7 million in 1–3/2017). Profit was EUR 0.0 million (EUR -1.8 million)
- Earnings per share EUR -0.01 (EUR -0.06).

Equity ratio remained good 86.3 % (73.4 %). Liquid assets were EUR 12.6 million (EUR 6.5 million).

KEY FIGURES

EUR million	1-3/2018	1-3/2017	Change %	1-12/2017
Net sales	4.8	3.1	56.5	16.2
Operating profit/loss	0.1	-1.7	106.7	-1.7
% of net sales	2.3	-53.8	104.3	-10.5
Profit/loss before taxes	0.0	-1.8	100.5	-2.2
Profit/loss	0.0	-1.8	100.4	-2.2
Return on equity, %	0.1	-25.8	100.2	-21.2
Return on investment, %	0.1	-25.6	100.3	-21.0
Liquid assets	12.6	6.5	92.5	13.5
Gearing (%)	-103.2	-113.4	9.0	-104.5
Equity ratio (%)	86.3	73.4	17.5	82.9
Earnings per share, EUR	-0.01	-0.06	90.3	-0.09
Shareholders' equity per share, EUR	0.32	0.17	90.6	0.34

CEO's review

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

I'm pleased with the solid start to the year from both the financial and operational point of view. During the first quarter of 2018, we continued on a strong year-on-year growth path with a 56.5% increase in revenue compared to previous year. A part of that growth is attributable to the cross-licensing deal with Sony we announced in February but the underlying organic growth was also strong on a broad basis.

In addition to the positive revenue numbers, we recorded our second consecutive profitable quarter. While we are not yet satisfied with the profit level, the nearly EUR 2 million improvement in our quarterly bottom line year-on-year is further proof that we are on the right track and the execution of our new strategy is already producing measurable results. Consequently, our cash flow remained strong and we ended the quarter with EUR 0.4 million positive cash flow from operations. This shows we have maintained healthy business fundamentals in our execution throughout our businesses.

We inked two key Universal SSH Key Manager® (UKM) wins with leading global financial service companies. The first deal was recognized fully in this quarter while the second deal will be recognized in the next two quarters. The second win was also our first major deal for UKM Analyze™, our newest module in the UKM product line.

Both UKM and CryptoAuditor® sales grew compared to the same quarter last year. Tectia® Client/Server revenue was stable and recurring revenue remained robust.

The digital sales of PrivX® were started on schedule during the quarter and initial customer response has been positive with several dozen customer trials ongoing. However, as reported earlier, we do not expect a major revenue impact in 2018 but this is an extremely important initiative for our future.

We still expect volatility in license sales and the timing of large deals may have a clear effect on the stability of quarterly revenue growth and profit levels. Our ongoing transition towards subscription-based deals helps reduce this volatility but does not entirely remove it.

Americas performance declined slightly from 2017 while both EMEA and APAC improved clearly compared to the same quarter last year.

We settled our UK and German litigation processes with Sony and signed a cross-licensing agreement which contributed to the revenue growth in the quarter, further establishing the significance and strength of our IPR portfolio. We continue other licensing negotiations with numerous global players with full force.

The firewall product is undergoing the final certification process. First binding customer orders and deliveries are pending the completion of the certification.

We launched version 2.2 of PrivX which enables online sales and paves the way for us to enter the SaaS world. We also launched the new UKM Analyze, UKM Comply, and UKM Automate modules in the UKM product line. We have further developed and fine-tuned our R&D processes, enabling us to significantly increase the pace of new releases.

In April, we announced a significant strategic Alliance with AppViewX – a global leader in the management, automation and orchestration of network services – regarding their Cert+ Digital Certificate Management and Automation product that enables us to offer a one-stop certificate management solution to our customers. The addition of certificate management to our portfolio helps us provide a more strategic offering to our customer and improves our position vis-à-vis major competitors.

We started bringing out our new look and feel and more focused messaging during the quarter. The most visible part of this was the launch of our new website in early March. Early results from the renewal process are good: we have increased both the raw visitor numbers and – even more importantly – significantly increased the number of business visitors from the segments we are targeting. In tandem with the web site renewal, we have increased our analytic capabilities to track how different messages resonate with customers and learn from visitor and customer behavior.

During the first quarter, there were two changes in our Executive Management team. As announced earlier, Tatu Ylönen stepped down from the Executive management team and continues working as a Strategic Advisor and the Executive Chairman of SSH, Inc. Additionally, Niklas Nordström joined SSH as our new CFO during the quarter. We further strengthened our Executive Management team after the review period with the nomination of Sami Ahvenniemi as our new Vice President of Global Sales.

The Annual General meeting elected a new Board of Directors with two new members: Anne Marie Zettlemoyer and Sam Curry who bring deep cybersecurity industry expertise and customer understanding to our board.

The macro outlook in the cybersecurity segment remains good and we see growth opportunities in all the market segments we are in. We are well-positioned to reap the benefits of this growth and I am looking for an active and eventful rest of the year.

Kaisa Olkkonen
CEO

NET SALES

Consolidated net sales for January–March totaled EUR 4.8 million (EUR 3.1 million), up by 56.5 %, year on year.

The Americas accounted for 36.4 % (61.0 %), the Europe, Middle East and Africa 29.7 % (25.1 %) and the Asia Pacific region 13.2 % (13.9 %) of reported net sales. Global royalty income accounted for 20.6 % of reported net sales.

CONSOLIDATED NET SALES

EUR million	1-3/2018	1-3/2017	Change %	1-12/2017
BY SEGMENT				
AMERICAS	1.8	1.9	-6,5	8.3
APAC	0.6	0.4	48.0	2.3
EMEA	1.4	0.8	85.8	3.5
Global royalty income	1.0	0.0	-	2.1
Total	4.8	3.1	56.5	16.2
BY OPERATION				
Software fees	1.8	0.6	184.8	4.0
Professional services & other	1.0	0.4	176.2	3.9
Recurring revenue	2.1	2.1	-2.2	8.3
Total	4.8	3.1	56.5	16.2

The majority of the company's invoicing is U.S. dollar based. With comparable exchange rates, net sales growth would have been 68.7 % compared with 2017 corresponding period.

RESULTS AND EXPENSES

Operating profit for January–March was EUR 0.1 million (EUR -1.7 million), with net profit totaling EUR 0.0 million (EUR -1.8 million).

Selling, marketing and customer support expenses for the January–March reporting period amounted to EUR -2.3 million (EUR -2.4 million), while research and development expenses totaled EUR -1.3 million (EUR -1.8 million) and administrative expenses EUR -0.7 million (EUR -0.4 million). Operating expenses decreased by 4.7 % compared to previous year.

BALANCE SHEET AND FINANCIAL POSITION

The financial position of SSH Communications Security was good during the reporting period. The consolidated balance sheet total on March 31, 2018 stood at EUR 20.7 million (31.3.2017 EUR 15.4 million; 31.12.2017 EUR 23.2 million), of which liquid assets accounted for EUR 12.6 million (31.3.2017 EUR 6.5 million; 31.12.2017 EUR 13.5 million), or 60.7 % of the balance sheet total). On March 31, 2018, gearing, or the ratio of net liabilities to shareholders' equity, was -103.2 % (31.3.2017 -113.4 %; 31.12.2017 -104.5 %) and the equity ratio stood at 86.3 % (31.3.2017 73.4 %; 31.12.2017 82.9 %).

The reported gross capital expenditure for the period totaled EUR 0.5 million (EUR 0.4 million). The reported financial income and expenses amounting in total to EUR -0.1 million (EUR -0.1 million) consisted mainly of exchange rate gains or losses and interest expense on the advances from customers with a significant financing component.

During January–March, SSH Communications Security reported a cash flow of EUR 0.4 million (EUR -0.1 million) from business operations, and investments showed a cash flow of EUR -0.5 million (EUR -0.4 million). Cash flow from financing totaled EUR -0.8 million (EUR -0.8 million). Total cash flow from operations, investments and financing was negative EUR -0.9

million (EUR -1.3 million). Total cash flow was negative mainly due to the settlement of the annually payable hybrid instrument interest totaling EUR 0.9 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 -1.3 million (EUR -1.8 million), the equivalent of 26.9 % of net sales (57.2 %). During January–March, the company has capitalized new product R&D costs EUR 0.5 million (EUR 0.3 million). Depreciation from R&D capitalization assets was EUR -0.5 million (EUR -0.4 million).

HUMAN RESOURCES AND ORGANIZATION

At the end of March, the Group had 81 employees on its payroll (March 31, 2017: 80; December 31, 2017: 80). The number of employees increased by 1 person from the previous year and from the year end (1.3 %).

At the end of the period, 39.5 % (38.8 %) of the employees worked in sales, marketing and customer services, 43.2 % (41.3 %) in R&D, and 17.3 % (20.0 %) in corporate administration.

BOARD AND AUDITORS

The Annual General Meeting of SSH Communications Oyj was held on March 28, 2018. The Annual General Meeting approved the financial statements and discharged the Board of Directors and CEO from liability for the financial year 2017. In the meeting it was decided that the Board of Directors would consist of five members. Tatu Ylönen, Timo Syrjälä and Petri Kuivala were re-elected and Sam Curry and Anne Marie Zettlemoyer were elected as new members of the Board of Directors. Petri Kuivala 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 Erkka 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 1,426,973 shares (valued at EUR 2,911,489). The highest quotation was EUR 2.22 and the lowest EUR 1.72. The trade-weighted average share price for the period was EUR 2.04 and the share closed at EUR 2.10 (March 31, 2018).

The company's principal owner Tatu Ylönen holds directly and through his company, Clausal Computing Oy 47.7 %, 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 March 31, 2018 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 30th, 2019.

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, 2019.

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:

- uncertainty of the macroeconomic environment
- cybercrime, including e.g. ransomware
- delays in product development and closing new business as well as phasing of new business cases
- ability to execute the strategy
- ability to retain and recruit key personnel
- maintaining the ability to innovate and develop the product portfolio including intellectual property rights (IPR)
- IPR litigation and utilization of the 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

SSH Communications Security Oyj entered into a patent cross license and settlement agreement with Sony in February 2018. The agreement resolved all disputes between the parties. Royalty fee of EUR 220,000 was paid to Clausal Computing Ltd from this agreement.

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

EVENTS AFTER THE BALANCE SHEET DATE

Mr. Sami Ahvenniemi was appointed as the Vice President of Global Sales and member of the Executive Management Team of SSH Communications Security starting April 16, 2018.

Executive Management Team of SSH Communications Security consists of:

Kaisa Olkkonen, Chief Executive Officer
Sami Ahvenniemi, Global Sales
Simo Karkkulainen, Chief Digital Officer
Jussi Löppönen, Head of PrivX Business Program and Product Management
Jussi Mononen, Business Development
Niklas Nordström, Chief Financial Officer
Markku Rossi, Chief Technology Officer
Joe Scaff, USA Operations and Customer Services

REPORTING

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting. The interim report does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2017. The information presented in this interim report is unaudited.

The accounting policies adopted for this interim report are consistent with those applied in 2017 consolidated financial statements except for the adoption of new standards effective as of January 1, 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 15 Revenue from Contracts with Customers

SSH Communications Security Corporation is a leading provider of cyber security solutions for controlling trusted access to information systems and data. SSH technology secures the infrastructure of the digital world. The Group's revenue from contracts with customers generally include software licenses and subscriptions, related support and maintenance fees, and consulting services. The revenue from product sales is recognized at the point of time when control of the asset is transferred to the customer, generally on delivery with the contract. Support and maintenance fees are recognized over time, evenly on an accrual basis. Revenues from services continue to be recognized when the service has been delivered to the customer.

Generally, the Group receives short-term advances from its customer but from time to time also major long-term advance payments for subscriptions or maintenance and support services. In those cases, the financing component is taken into consideration and interest expense is recognized over the duration of the advance payment.

The Group adopted IFRS 15 standard using the modified retrospective approach. The cumulative impact of the adoption was recognized in retained earnings on January 1, 2018 and the comparatives were not restated. Upon adoption of IFRS 15, the Group recognized EUR 0.1 million Contract liabilities for the interest on the advances received from customers with a significant financing component and charged this to Retained earnings.

The other standards did not have any impact on the group's accounting policies and did not require retrospective adjustments.

TABLES

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

EUR million	1-3/2018	1-3/2017	1-12/2017
Net sales	4.8	3.1	16.2
Cost of sales	-0.4	-0.2	-1.5
Gross margin	4.4	2.9	14.7
Other operating income	0.0	0.0	0.0
Selling, marketing and customer support expenses	-2.3	-2.4	-8.8
Research and development expenses	-1.3	-1.8	-5.6
Administrative expenses	-0.7	-0.4	-2.1
Operating profit/loss	0.1	-1.7	-1.7
Financial income and expenses	-0.1	-0.1	-0.5
Profit/loss before taxes	0.0	-1.8	-2.2
Taxes	-0.0	-0.0	-0.0
Profit/loss for the period	0.0	-1.8	-2.2
Non-controlling interest	0.0	0.0	0.0
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign subsidiary translation differences	0.1	0.0	0.4
Total comprehensive income	0.1	-1.8	-1.9
Attributable to:			
Owners of the parent company	0.1	-1.8	-1.9
Non-controlling interest	0.0	0.0	0.0
Earnings per share			
Basic earnings per share (EUR)	-0.01	-0.06	-0.09
Diluted earnings per share (EUR)	-0.01	-0.06	-0.09

CONDENSED CONSOLIDATED BALANCE SHEET

EUR million	March 31, 2018	March 31, 2017	Dec 31, 2017
ASSETS			
Non-current assets			
Property, plant and equipment	0.1	0.2	0.1
Intangible assets	4.9	5.2	4.8
Investments	0.0	0.0	0.0
Total non-current assets	4.9	5.4	5.0
Current assets			
Trade and other receivables	3.2	3.5	4.8
Financial assets	0.0	0.0	0.0
Cash and cash equivalents	12.6	6.5	13.5
Total current assets	15.8	10.0	18.2
Total assets	20.7	15.4	23.2
EQUITY AND LIABILITIES			
Equity			
Attributable to parent company's shareholders	12.2	5.8	12.9
Non-controlling interest	0.0	0.0	0.0
Equity total	12.2	5.8	12.9
Non-current liabilities			
Provisions	0.0	0.0	0.0
Non-current interest-bearing liabilities	0.0	0.0	0.0
Total non-current liabilities	0.0	0.0	0.0
Current liabilities			
Total current liabilities	8.5	9.6	10.3
Total equity and liabilities	20.7	15.4	23.2

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR million	Attributable to the owners of the Company					Total
	Share capital	Hybrid capital securities	Translation difference	Unrestricted invested equity fund	Retained earnings	
Equity Jan 1, 2017	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
Equity March 31, 2017	1.0	12.0	-1.6	15.0	-20.6	5.8
Change	0.1	0.0	0.3	7.1	0.0	7.6
Net profit					-0.4	-0.4
Equity Dec 31, 2017	1.2	12.0	-1.3	22.1	-21.1	12.9
Adjustment on adoption of IFRS 15					-0.1	-0.1
Equity Jan 1, 2018	1.2	12.0	-1.3	22.1	-21.2	12.8
Change			0.1	0.1	-0.8	-0.6
Net profit					0.0	0.0
Equity March 31, 2018	1.2	12.0	-1.2	22.2	-22.0	12.2

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

EUR million	1-3/2018	1-3/2017	1-12/2017
Cash flow from operations	0.4	-0.1	1.3
<i>whereof change in working capital</i>	-0.1	1.1	0.9
Cash flow from investing activities	-0.5	-0.4	-1.5
Cash flow from financing activities	-0.8	-0.8	6.1
Increase (+) / decrease (-) in cash	-0.9	-1.3	5.9
Cash at period start	13.5	7.8	7.8
Effect of exchange rate	-0.0	-0.0	-0.2
Cash at period end	12.6	6.5	13.5

CONTINGENT LIABILITIES

EUR million	March 31, 2018	March 31, 2017	Dec 31, 2017
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	0.3	0.5	0.3
Maturing between 1 and 5 years	0.2	0.4	0.3

KEY FIGURES AND RATIOS

EUR million	1-3/2018	1-3/2017	1-12/2017
Net sales	4.8	3.1	16.2
Operating profit/loss	0.1	-1.7	-1.7
% of net sales	2.3	-53.8	-10.5
Profit/loss before taxes	0.0	-1.8	-2.2
% of net sales	0.2	-58.1	-13.7
Return on equity (%)	0.1	-25.8	-21.2
Return on investment (%)	0.1	-25.6	-21.0
Interest-bearing net liabilities	-12.6	-6.5	-13.5
Equity ratio (%)	86.3	73.4	82.9
Gearing (%)	-103.2	-113.4	-104.5
Gross capital expenditure	0.5	0.4	1.5
% of net sales	10.1	13.2	9.5
R&D expenses	-1.3	-1.8	-5.6
% of net sales	26.9	57.2	34.3
Personnel, period average	82	81	82
Personnel, period end	81	80	80

PER SHARE DATA

EUR	1-3/2018	1-3/2017	1-12/2017
Basic earnings per share*	-0.01	-0.06	-0.09
Diluted earnings per share*	-0.01	-0.06	-0.09
Equity per share	0.32	0.17	0.34
No. of shares at period average (thousand)	38,441	34,590	36,570
No. of shares at period end (thousand)	38,441	34,655	38,441
Share performance			
Average price	2.04	2.23	2.11
Low	1.72	1.90	1.72
High	2.22	2.59	2.59
Share price period end	2.10	2.11	1.77
Market capitalization period end (EUR million)	80.7	73.1	68.0
Volume of shares traded (million)	1.4	1.7	5.6
Volume of shares traded as % of total	3.7	5.1	15.2
Value of shares traded (EUR million)	2.9	3.9	11.7
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 interest of hybrid capital securities accrued over the period

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SSH Communications Security will release its next interim report for the period January 1 – June 30, 2018 on July 17, 2018.

Helsinki, April 19, 2018

SSH COMMUNICATIONS SECURITY

Board of Directors

Kaisa Olkkonen
CEO

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