

SSH COMMUNICATIONS SECURITY CORPORATION (PREVIOUSLY TECTIA CORPORATION) INTERIM REPORT, JANUARY 1 - SEPTEMBER 30, 2012

SUMMARY

Strong growth of sales continued, profitability improved and was good.

July-September

- Net sales totaled EUR 2.8 million, up by +46.2% year on year (EUR 1.9 million in 7-9/2012).
- Operating profit amounted to EUR 0.4 million (EUR -0.9 million in 7-9/2012) including EUR 0.0 million of non-recurring costs (EUR -0.7 million). Net profit EUR 0.4 million (loss EUR -1.0 million)
- Earnings per share EUR 0.01 (EUR -0.03).
- Deliveries of the new product Universal SSH Key Manager started
- Company changed its official name to SSH Communications Security

January-September

- Net sales totaled EUR 8.3 million, up by +36.2% year on year (EUR 6.1 million in 1-9/2011).
- Operating profit amounted to EUR 0.8 million (EUR -2.0 million in 1-9/2011) including EUR -0.4 of non-recurring costs (EUR -1.1 million). Net profit EUR 0.8 million (loss EUR -2.1 million)
- Earnings per share EUR 0.03 (EUR -0.07).
- Operative cash flow positive EUR 0.1 million (EUR -0.6 million). Total Cash Flow was EUR -0.7 million negative (EUR 1,5 million)

The company's equity ratio improved further 50.9% (38.6%) and liquid assets weakened to EUR 1.8 million (EUR 3.0 million). Weakening of liquid assets was caused by exceptionally high accounts receivable at the time of the interim report, of which significant part has already been received after the reporting period.

KEY FIGURES						
EUR millions	7-9/ 2012	7-9/ 2011	1-9/ 2012	1-9/ 2011	Change %	1-12/ 2011
Sales	2.8	1.9	8.3	6.1	36.0	8.1
Operating profit/loss	0.4	-0.9	0.8	-2.0	140.3	-2.0
% of sales	13.9	-48.4	9.7	-33.3		-25.3
Profit before taxes	0.4	-1.0	0.9	-2.1	140.7	-2.2
Net profit	0.4	-1.0	0.8	-2.1	140.4	-2.2
ROE, %			60.4	-130.8		-110.0
ROI, %			50.1	-436.4		-99.6

Liquid assets			1.8	3.0	-39.1	2.5
Gearing, %			-94.6	-251.9		-230.0
Equity share, %			50.9	38.6		36.2
Profit/share, EUR	0.01	-0.03	0.03	-0.07		-0.07
Equity/share, EUR	0.06	0.04	0.06	0.04		0.03

## CEO's BUSINESS REVIEW

The company continued to develop favorably with net sales for the quarter growing 46% year-on-year and EBIT margin reaching 14% despite fast growth.

As the original inventors of the SSH protocol, the company focuses on providing cost-savings, security, and regulatory compliance to its customers, especially in relation to managing large IT environments where the SSH protocol is widely used for system administration, file transfers and automation.

The first major deal of the new Universal SSH Key Manager solution with a global top-10 bank was announced in September. The value of the deal is estimated at EUR 2 million (USD 2.5m) and includes software and services delivered during 2012-2014. Only a small part of the deal is therefore included in third quarter revenue. The company expects to announce several additional sales of the solution to other large enterprises during the coming months. The company also closed an enterprise wide deal with a top-10 US insurance company on securing its IBM mainframe file transfers using Tectia SSH for z/OS for automatic FTP-to-SFTP conversion.

SSH protocol is used for automating operations in large IT environments while it has turned out that the SSH keys used by the protocol are not being properly managed in most organizations. Mismanaged, these keys provide a way for viruses to spread quickly throughout an organization's server infrastructure and provide a way for rogue system administrators to leave backdoors into production servers, bypassing normal privileged access management and auditing systems. Many large organizations appear to be non-compliant with Sarbanes-Oxley, PCI, FISMA, and/or HIPAA security standards and laws for failing to properly control who can access their servers using SSH keys and failing to ensure termination of key-based access when an employee leaves or changes roles.

The Universal SSH Key Manager helps organizations solve these SSH and OpenSSH key management issues. SSH Communications Security has been selling SSH host key management solutions since 2003 to the largest banks, retail chains, logistics companies and government agencies. The new Universal SSH Key Manager solution also manages keys used for user authentication, especially for non-interactive system accounts. The solution automates new key setups, removal of unused keys, key rotation, and prevents unauthorized backdoor creation. This brings substantial cost savings, improved security, and enables regulatory compliance.

The company's additional new solution, CryptoAuditor, enables auditing the contents of encrypted SSH and RDP (Windows Remote Desktop) connections, providing session recording and data loss prevention (DLP) for remote administration and SFTP file transfers. The product is synergistic with the company's key management strategy and Universal SSH Key Manager solution.

Going forward, the company is investing heavily in growth. This will have a negative impact on short-term profitability, but will help the company capture significant market share in SSH key management, where the company clearly leads the competition in technology. The company is also investing heavily in R&D and patenting, and is determined to utilize its substantial patent portfolio.

Tatu Ylönen  
CEO

#### FUTURE OUTLOOK

As announced on August 1, 2012, SSH Communications Security estimates its revenue for 2012 to increase significantly from 2011 mainly due to solid maintenance stream and Tectia SSH Client and Server business, and expected sales of new products, especially Universal SSH Key Manager. Company is investing heavily in growth which will impact profitability in the short term. SSH Communications Security continues to estimate full year 2012 to be profitable. The company estimates its liquidity to improve before year end as large customer receivables will be collected.

Risks to the estimate include delays in product development, sales ramp-up, and deliveries, as well as general economic uncertainty.

#### NET SALES

Consolidated net sales for July–September totaled EUR 2.8 million (EUR 1.9 million), up by 46.2%, year on year.

Consolidated net sales for January–September totaled EUR 8.3 million (EUR 6.1 million), up by +36.2%, year on year.

The Americas, Europe, Middle East and Africa market area and the Asia Pacific region accounted for 50.8% (60.5%), 34.4% (25.6%) and 14.8% (13.9%) of reported net sales, respectively, with each area revenue growing year-on-year.

NET SALES						
EUR Million	7-9/ 2012	7-9/ 2011	1-9/ 2012	1-9/ 2011	Change %	1-12/ 2011

BY SEGMENT						
Americas	1.6	1.2	4.2	3.7	14.4	4.8
APAC	0.5	0.3	1.2	0.8	44.4	1.3
EMEA	0.8	0.5	2.9	1.6	83.1	1.9
Total	2.8	1.9	8.3	6.1	36.2	8.1
BY OPERATION						
Licence sales	1.2	0.6	3.8	2.0	83.1	2.8
Maintenance	1.7	1.3	4.5	4.1	11.8	5.3
Total	2.8	1.9	8.3	6.1	36.2	8.1

The majority of SSH Communications Security's invoicing is U.S. dollar based. During the report period, the U.S. dollar's average exchange rate to euro strengthened approximately +5.4% compared to the same period a year ago. With comparable exchange rates 2012 net sales growth would have been +29.9% compared with 2011 corresponding period.

#### RESULTS AND EXPENSES

Operating profit for July-September amounted to EUR 0.4 million (EUR -0.9 million) including EUR 0.0 million non-recurring costs (EUR -0.7 million), with net profit totaling EUR 0.4 million (EUR -1.0 million).

Operating profit for January-September amounted to EUR 0.8 million (EUR -2.0 million), with net profit totaling EUR 0.8 million (EUR -2.1 million).

Non-recurring items during January-September were EUR -0.4 million (EUR -1,1 million) due to moving the office in Helsinki, costs caused to the company due to the public tender offer of all Tectia Oyj shares and due to the personnel related changes.

Sales, marketing and customer support expenses for the July-September reporting period amounted EUR -1.5 million (EUR -1.5 million), while research and development expenses totaled EUR -0.6 million (EUR -0.8 million) and administrative expenses EUR -0.3 million (EUR -0.6 million).

Sales, marketing and customer support expenses for the January-September reporting period amounted EUR -4.1 million (EUR -4.3 million), while research and development expenses totaled EUR -2.0 million (EUR -2.1 million) and administrative expenses EUR -1.0 million (EUR -1.6 million).

#### BALANCE SHEET AND FINANCIAL POSITION

The financial position of SSH Communications Security remained satisfactory during the reporting period. The consolidated balance sheet total on September 30, 2012 stood at EUR 7.5 million (September 30, 2011 EUR 5.9 million; December 31, 2011 EUR 6.4 million), of which liquid assets accounted for EUR 1.8 million

(September 30, 2011 EUR 3.0 million; December 31, 2011 EUR 2.5 million), or 24.3% of the balance sheet total. On September 30, 2012, gearing, or the ratio of net liabilities to shareholders' equity, was -94.6% (September 30, 2011 - 251.9%; December 31, 2011 -230,0%) and the equity ratio stood at 50.9% (September 30, 2011 38.6%; December 31, 2011 36.2%).

The reported gross capital expenditure for the period totaled EUR 0.7 million (EUR 0.4 million). The reported financial income and expenses consisted mainly of interest on deposits and exchange rate gains or losses. Financial income and expenses totalled EUR +0.0 million (EUR -0.1 million).

During January-September, SSH Communications Security reported a positive cash flow of EUR 0.1 million (EUR -0.6 million) from business operations, and investments showed a negative cash flow of EUR -0.8 million (EUR -0.4 million). Cash flow from financing totaled EUR -0.1 million (EUR 2.5 million). Total cash flow from operations, investments and financing was negative EUR -0.7 million (EUR 1.5 million) during the period.

#### RESEARCH AND DEVELOPMENT

Research and development expenses for July-September totaled EUR -0.6 million (EUR -0.8 million), the equivalent of 21.0 percent of net sales (42.0 percent). During July-September company has capitalized R&D costs EUR 0.2 million (EUR 0.1 million).

Research and development expenses for January-September totaled EUR -2.0 million (EUR -2.1 million), the equivalent of 24.1 percent of net sales (34.3 percent).

The company has continued R&D capitalizations during the reporting period related to Universal SSH Key Manager and Crypto Auditor according to IAS 38 standard. In reporting period R&D cost capitalizations amount to EUR 0.7 million (EUR 0.3 million).

#### HUMAN RESOURCES AND ORGANIZATION

At the end of September, the Group had 59 employees on its payroll, up by 6 persons from the previous year, an increase of +11%. Compared with previous quarter, personnel increased with 3.

At the end of the period, 41% of the employees worked in sales and marketing, 48% in R&D, and 11% in corporate administration.

#### BOARD AND AUDITORS

The Annual General Meeting (AGM) on March 28, 2012 elected Päivi Hautamäki, Sami Ahvenniemi and Tatu Ylönen as the directors of the company. Päivi Hautamäki was elected as the Chairman of the Board of Directors in the board's organizing meeting.

The Authorized Public Accountants KPMG Oy Ab was re-elected as the auditor of the company, with Kirsi Jantunen, KHT as the accountant with the main responsibility.

#### SHARES, SHAREHOLDING AND CHANGES IN GROUP STRUCTURE

The reported trading volume of SSH Communications Security Corporation shares totaled 6 167 838 (valued at EUR 3 121 483). The highest quotation was EUR 0.90

and the lowest EUR 0.30. The trade-weighted average share price for the period was EUR 0.51 and the share closed at EUR 0.85 (September 28, 2012).

As announced May 4, 2012 Tatu Ylönen's Clausal Computing Oy acquired with public tender offer about 10.3% of all shares & votes.

The company's principal owner Tatu Ylönen holds directly and through his company, Clausal Computing Oy, now 58.0% of the company's shares, Assetman Oy holds 13.1% and SSH Management Investment Corp 4.7%. More information about the shareholding can be obtained from the company's web site.

SSH Management Investment Corp is part of the SSH Communications Security Group consolidated financial statements according to its shareholder agreement.

During reporting period no dividend or return of capital were distributed.

#### SHARE CAPITAL AND BOARD AUTHORIZATIONS

The company's registered share capital on September 30, 2012 was EUR 916,476.24 consisting of 30,552,958 shares.

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon the issuing of in total 5,500,000 shares, in one or more tranches, as share issues against payment or by giving stock options or other special rights entitling to shares, as defined in Chapter 10 Section 1 of the Finnish Companies Act, either in accordance with the shareholders' pre-emptive right to share subscription or deviating from this right. The authorization will be valid until the next Annual General Meeting, but will expire on June 30, 2013 at the latest. As announced on July 27, 2012, the Board of Directors decided an option plan of maximum 2,000,000 options.

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 of the company's own shares, in one or more tranches, with assets belonging to the company's non-restricted equity. This amount corresponds approximately to 6.55 per cent of all shares of the company. The compensation to be paid for the acquired shares shall be determined on the date of acquisition on the basis of the trading rate determined for the company's share in the public trading arranged by NASDAQ OMX Helsinki Ltd. The authorization to acquire the shares will be valid at most for eighteen (18) months after the decision of the Annual General Meeting.

#### RISKS AND UNCERTAINTIES

Short- and midterm risks impacting SSH Communications Security have not changed since 30.6.2012, neither since 31.12.2011. Largest risks impacting the profitability of the company are:

- amount of R&D investment into new still under development products, starting the delivery and sales of the new products and demand;
- continuing uncertainty of the macroeconomic environment;
- large portion of the company revenue is invoiced in USD currency so possible large fluctuation in USD currency rates during 2012 could have unpredictable effects for profitability that are at the time difficult to estimate. The company decides 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 fully owned company of SSH Communications Security Corporation's CEO Tatu Ylönen, has delivered the company mainly R&D services valued in total EUR 0.3 million during January–September 2012. During the reporting period there have not been any other significant transactions with related parties.

CEO remuneration is paid in accordance with company annual report 2011.

## EVENTS AFTER THE BALANCE SHEET DATE

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

## REPORTING

This interim report is prepared according to IAS 34. Interim report follows the same principles and standards as the previous financial statement release. Additionally the effective changes in IAS/IFRS standards during 2012 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

SHORT COMPREHENSIVE INCOME STATEMENT						
EUR million						
	7-9 /2012	7-9 /2011	1-9/ 2012	1-9/ 2011	1-12/ 2011	
Net sales	2.8	1.9	8.3	6.1	8.1	
Cost of goods sold	-0.1	0.1	-0.4	-0.1	-0.1	
Gross profit	2.8	2.0	7.9	6.0	7.9	
Other operating income	0.0	0.0	0.0	0.0	0.0	
Sales, marketing and customer support costs	-1.5	-1.5	-4.1	-4.3	-5.4	
Product development expenses	-0.6	-0.8	-2.0	-2.1	-2.5	
Administrative expenses	-0.3	-0.6	-1.0	-1.6	-2.0	
Operating profit/loss	0.4	-0.9	0.8	-2.0	-2.0	
Financial income and expenses	0.1	-0.1	0.0	-0.1	-0.1	
Profit/loss before taxes	0.4	-1.0	0.9	-2.1	-2.2	
Taxes	0.0	0.0	0.0	0.0	0.0	
Net profit/loss for the financial period	0.4	-1.0	0.8	-2.1	-2.2	
Minority Interest	0.0	-0.0	0.0	-0.0	-0.0	
Other profit and loss account						

items:						
Foreign subsidiary translation differences	0.0	0.2	0.0	0.1	0.1	
Total comprehensive income	0.4	-0.8	0.8	-2.0	-2.1	

Net profit/loss attributable to:					
Owners of the Company	0.4	-0.8	0.8	-2.0	-2.1
Non-Controlling interest	0.0	0.0	0.0	0.0	0.0
EARNINGS PER SHARE					
Earnings per share (EUR)	0.01	-0.03	0.03	-0.07	-0.07
Earnings per share, diluted (EUR)	0.00	-0.03	0.03	-0.07	-0.07

BALANCE SHEET				
EUR million				
	30/09/2012	30/09/2011	31/12/2011	
<b>ASSETS</b>				
Non-current assets				
Tangible assets	0.1	0.1	0.1	0.1
Intangible assets	1.7	1.1	1.3	1.3
Investments	0.0	0.0	0.0	0.0
Total non-current assets	1.9	1.2	1.5	1.5
Current assets				
Trade and other receivables	3.8	1.7	2.4	2.4
Short-term financial assets	0.0	0.0	0.0	0.0
Cash and cash equivalents	1.8	3.0	2.5	2.5
Total current assets	5.7	4.7	4.9	4.9
Total assets	7.5	5.9	6.4	6.4
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Shareholders' equity				
Equity attributable to the parent company shareholders total	1.7	0.9	0.8	0.8
Non-controlling interest	0.2	0.3	0.2	0.2
Shareholders' equity total	1.9	1.2	1.1	1.1
Non-current liabilities				
Provisions	0.1	0.1	0.1	0.1
Non-current interest-bearing liabilities	0.0	0.0	0.0	0.0
Total long-term liabilities	0.1	0.1	0.1	0.1
Current liabilities				
	5.6	4.6	5.2	5.2
Liabilities total	5.7	4.7	5.3	5.3
Total equity and liabilities	7.5	5.9	6.4	6.4



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SHORT CASH FLOW STATEMENT			
EUR million	1-9/2012	1-9/2011	1-12/2011
Cash flow from business operations	0.1	-0.6	-0.8
Cash flow from investments	-0.8	-0.4	-0.7
Cash flow from financing	-0.1	2.5	2.5
Increase(+) / decrease (-) in cash	-0.7	1.5	0.9
Cash at period start	2.4	1.6	1.6
Effect of exchange rate	0.0	0.0	0.0
Cash at period end	1.7	3.0	2.4

STATEMENT ON CHANGES IN SHAREHOLDERS' EQUITY								
EUR million	Share Capital	Fair value reserves	Other Equity Fund	Translation diff	Fund for own shares	Non-Controlling interest	Unrestricted equity funds and retained earnings	Total
Shareholders' equity 1.1.2011	0.9	0.1	0.1	-1.3	-1.0	0.3	4.0	3.2
Change			0.1	0.1				0.2
Net profit							-2.1	-2.1
Shareholders' equity 30.9.2011	0.9	0.1	0.2	-1.2	-1.0	0.3	1.9	1.2
Change						-0,1		-0,1
Net profit								
Shareholders' equity 31.12.2011	0.9	0.1	0.2	-1.2	-1.0	0.2	1.9	1.1
Change			0.0	-0.0				0.0
Net Profit							0.8	0.8
Shareholders' equity 30.9.2012	0.9	0.1	0.2	-1,2	-1.0	0.2	2.7	1.9

NET SALES BY SEGMENT					
EUR million	7-9/ 2012	7-9/ 2011	1-9/ 2012	1-9/ 2011	1-12/ 2011
AMER	1.6	1.2	4.2	3.7	4.8
APAC	0.5	0.3	1.2	0.8	1.3
EMEA	0.8	0.5	2.9	1.6	1.9
Group total	2.8	1.9	8.3	6.1	8.1

GROSS MARGIN BY SEGMENT					
EUR million	7-9/ 2012	7-9/ 2011	1-9/ 2012	1-9/ 2011	1-12/ 2011
AMER	1.6	1.2	4.2	3.7	4.8
APAC	0.5	0.3	1.2	0.9	1.3
EMEA	0.6	0.5	2.4	1.4	1.8
Tectia Group total	2.8	2.0	7.8	6.0	7.9

OPERATING PROFIT/LOSS BY SEGMENT					
EUR million	7-9/ 2012	7-9/ 2011	1-9/ 2012	1-9/ 2011	1-12/ 2011
AMER	0.8	0.6	1.9	1.7	2.0
APAC	0.3	0.2	0.7	0.6	0.8
EMEA	0.5	0.1	2.2	0.5	1.0
Common Group expenses*	-1.3	-1.8	-4.1	-4.8	-5.8
Tectia Group total	0.4	-0.9	0.8	-2.0	-2.0

\* Common Group expenses include Group administration expenses (e.g. management and finance) and product management and R&D expenses for corporate headquarters.

KEY FIGURES AND RATIOS			
EUR million	1-9/2012	1-9/2011	1-12/2011
Net sales	8.3	6.1	8.1
Operating profit/loss	0.8	-2.0	-2.0
Operating profit/loss. as % of net sales	9.7	-33.3	-25.3
Profit/loss before extraordinary items and taxes	1.2	-1.0	-1.1
Profit/loss before extraordinary items and taxes. as % of net sales	14.5	-16.4	-13.3
Profit/loss before taxes	0.9	-2.1	-2.2
Profit/loss before taxes. as % of net sales	10.3	-35.1	-27.0
Return on equity (%)	60.4	-130.8	-110.0
Return on investment (%)	50.1	-407.7	-99.6

Interest-bearing net liabilities	-1.8	-3.0	-2.5
Equity ratio (%)	50.9	38.6	36.2
Gearing (%)	-94.6	-251.9	-230.0
Gross capital expenditure	0.7	0.4	0.8
% of net sales	8.4	6.6	9.9
R&D expenses	2.0	2.1	2.5
% of net sales	24.1	34.4	31.3
Personnel. period average	54	62	61
Personnel. period end	59	53	52

Calculation for key figures and ratios are presented in 2011 financial statement and annual report. There have not been changes in calculation rules after that.

PER-SHARE DATA			
EUR	1-9/2012	1-9/2011	1-12/2011
Earnings per share. Undiluted	0.03	-0.07	-0.07
Earnings per share. diluted	0.03	-0.07	-0.07
Equity per share	0.06	0.03	0.03
No. of shares at period average (thousand)	30 553	30 549	30 549
No. of shares at period end (thousand)	30 553	30 549	30 549
Share performance			
Average price	0.51	0.63	0.51
Low	0.30	0.35	0.29
High	0.90	0.89	0.89
Share price. period end	0.85	0.41	0.30
Market capitalization. period end (EUR million)	26.0	12.5	9.2
Volume of shares traded (million)	6.2	1.4	2.3
Volume of shares traded. As % of total	24.1	4.6	7.5
Value of shares traded (EUR million)	3.1	0.9	1.2
Price per earnings ratio (P/E)	-	-	-
Dividend per share	0.0	0.0	0.0
Dividend per earnings, %	0.0	0.0	0.0
Effective return on dividend, %	0.0	0.0	0.0

CONTINGENT LIABILITIES			
EUR million	30.9.2012	30.9.2011	31.12.2011
Rent security deposits	0.1	0.1	0.1
Leasing commitments outside the balance sheet			
Maturing within 1 year	0.5	0.4	0.5
Maturing between 1 and 5 years	0.6	0.4	0.4

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SSH Communications Security Corporation will release its annual report for 2012 in February 14<sup>th</sup>.

Helsinki, October 24<sup>th</sup> 2012

SSH COMMUNICATIONS SECURITY CORPORATION

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