

## SSH COMMUNICATIONS SECURITY CORPORATION FINANCIAL STATEMENT RELEASE, JANUARY 1 – MARCH 31, 2014

January-March 2014: Net sales growth flat, losses due to timing of sizeable deals and investments to future growth. Cash flow from operations positive and cash position remained strong.

- Net sales totaled EUR 2.9 million, down by -1.3% year on year (EUR 2.9 million in 1-3/2013).
- Operating profit decreased to EUR -0.9 million (EUR 0.1 million in 1-3/2013). There were no non-recurring items on reporting period. Loss was EUR -0.9 million (profit EUR 0.1 million)
- Earnings per share were EUR -0.03 (EUR 0.00).

In 2014, SSH Communications Security estimates its revenue to grow significantly and profitability to improve from 2013. During the first half of the year the sales growth can be smaller with possibilities to losses due to timing of sizeable deals.

KEY FIGURES	1-3/ 2014	1-3/ 2013	Change %	1-12/ 2013
Net sales (MEUR)	2.9	2.9	-1.3	13.3
Operating profit/loss (MEUR)	-0.9	0.1	-1 726.4	0.2
% of net sales	-31.1	1.9	-1 750.6	1.3
Profit/loss before taxes (MEUR)	-0.9	0.1	-1 144.3	0.2
Profit/loss (MEUR)	-0.9	0.1	-1 247.2	0.2
Return on equity, %	-13.5	5.2	-359.6	2.2
Return on investment, %	-13.0	7.0	-284.3	1.9
Liquid assets	5.8	7.8	-25.3	6.0
Gearing (%)	-89.2	-121.9	-26.8	-80.1
Equity ratio (%)	75.5	74.0	0.1	76.6
Earnings per share (EUR)	-0.03	0.00	-1 222.3	-0.00
Shareholders' equity per share (EUR)	0.21	0.21	1.19	0.24

## CEO'S REVIEW

The first quarter was challenging, as previously predicted. Major customers were not yet ready to purchase, and many customers were too busy dealing with even more pressing security problems.

Despite the challenges, outlook going forward remains positive. Focusing on encryption and server access control has put the company in an excellent position to solve pressing data security problems in the enterprise. The company continues to invest in market creation, technology leadership, quality, and customer success stories for new products.

Many countries have painfully realized that information systems are widely used for espionage and that vendors in certain countries have been made to insert backdoors into their products. Cybersecurity solutions from trusted sources are in high need, and the company's deep expertise in encryption, key management, authentication, and distributed systems opens major new growth opportunities in government markets.

The company's intellectual property portfolio is ready for commercial licensing. This revenue source will be developed in the coming year and technology licensing may contribute significantly to the company's growth in the coming years.

The company's products address an important problem that customers must eventually solve, the products are still 1-2 years ahead of competition, and the market is awakening. Several major customers have budgeted for significant purchases of the

company's solutions for this year. In view of these factors, the company is well positioned for faster growth and higher profitability in the future, although the first half is continuing to be challenging.

Tatu Ylönen  
CEO

## NET SALES

Consolidated net sales for January-March totaled EUR 2.9 million (EUR 2.9 million), down by -1.3%, year on year.

Sales growth was weak due to small amount of new licence deals. Complexity of customer needs and longer than anticipated sales cycles impacted license sales growth. Negative development in maintenance revenue was mainly caused by cleaning customer maintenance contracts during Q1 2013 (additional maintenance revenue in Q1 2013) and the weakening of USD.

The Americas, the Europe, Middle East and Africa market area and the Asia Pacific region accounted for 43.2% (44.2%), 43.8% (41.2%) and 13.0% (14.6%) of reported net sales, respectively.

SSH NET SALES				
EUR Million	1-3/ 2014	1-3/ 2013	Change %	1-12/ 2013
<b>BY SEGMENT</b>				
AMERICAS	1.3	1.3	-3.6	5.3
APAC	0.4	0.4	-12.2	1.5
EMEA	1.3	1.2	4.9	6.6
SSH Group Total	2.9	2.9	-1.3	13.3
<b>BY OPERATION</b>				
License sales	0.7	1.0	-28.5	4.6
Consulting	0.8	0.5	58.4	3.0
Maintenance	1.4	1.5	-3.1	5.6
Total	2.9	2.9	-1.3	13.3

The majority of company's invoicing is U.S. dollar based. During the report period, the U.S. dollar's average exchange rate weakened -2.2% on comparison to euro.

## RESULTS AND EXPENSES

Operating loss for January-March was EUR -0.9 million (EUR 0.1 million), with net loss totaling EUR -0.9 million (EUR 0.1 million). Profitability was influenced by higher share of service sales in addition to investments to sales and product development and delays of closing sizeable deals.

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

Sales, marketing and customer support expenses for the January-March reporting period amounted to EUR -1.8 million (EUR -1.4 million), while research and development expenses totaled EUR -0.9 million (EUR -0.7 million) and administrative expenses EUR -0.5 million (EUR -0.4 million).

## BALANCE SHEET AND FINANCIAL POSITION

The financial position of SSH Communications Security remained at a healthy level during the reporting period. The consolidated balance sheet total on March 31, 2014 stood at EUR 12.2 million (31.3.2013 EUR 12.7 million; 31.12.2013 EUR 13.5 million), of which liquid assets accounted for EUR 5.8 million (31.3.2013 EUR 7.8 million; 31.12.2013 EUR 6.0 million, or 47.6% of the balance sheet total). On March 31, 2014, gearing, or the ratio of net liabilities to shareholders' equity, was -89.2% (31.3.2013 -121.9%; 31.12.2013 -80.1%) and the equity ratio stood at 75.5% (31.3.2013 74.0%; 31.12.2013 76.6%).

The reported gross capital expenditure for the period totaled EUR 0.5 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 totaled EUR 0.0 million (EUR 0.0 million).

During January-March, SSH Communications Security reported a positive cash flow of EUR 0.4 million (EUR 1.5 million) from business operations, and investments showed a negative cash flow of EUR -0.5 million (EUR -0.4 million). Cash flow from financing totaled EUR 0.0 million (EUR -2.0 million). Total cash flow from operations, investments and financing was negative EUR -0.1 million (EUR -1.0 million).

Fair value of short term investment is determined from quoted prices available from markets. Financial investment belongs to level 1 according to IFRS 7. Market value of financial investment was EUR 2.0 million and nominal value EUR 2.0 million.

## RESEARCH AND DEVELOPMENT

Research and development expenses for January-March totaled EUR 0.9 million (EUR -0.7 million), the equivalent of 31.3% of net sales (22.6%). During January-March, the company has capitalized new product R&D costs EUR 0.5 million (EUR 0.4 million).

## HUMAN RESOURCES AND ORGANIZATION

At the end of March, the Group had 101 employees on its payroll. The amount of employees increased by 21 persons from the previous year (+26%) and from year end by 2 persons due to investments in sales and product development.

At the end of the period, 42.6% of the employees worked in sales, marketing and customer services, 45.5% in R&D, and 11.9% in corporate administration.

## BOARD AND AUDITORS

At the Annual General Meeting, March 20, 2014 Timo Syrjälä was elected and Päivi Hautamäki and Tatu Ylönen were re-elected to directors of the company. Timo Syrjälä 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 shares totaled 1 229 912 shares (valued at EUR 3 751 323). The highest quotation was EUR 3.74 and the lowest EUR 2.71. The trade-weighted average share price for the period was EUR 3.05 and the share closed at EUR 3.20 (March 31, 2014).

Company's principal owner Tatu Ylönen holds directly and through his company, Clausal Computing Oy, 57.7% of the company's shares, Assetman Oy holds 10.8% and Timo Syrjälä directly and through companies under his control Maijos Oy, Ekobrokers Oy and Timo Syrjälä & co 5.0%. More information about the shareholding can be obtained from the company's web site.

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

## SHARE CAPITAL AND BOARD AUTHORIZATIONS

The company's registered share capital on March 31, 2014 was EUR 922 529 consisting of 30 750 983 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 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, it can be either issuing of new shares or transfer of own shares which the company possibly has in its possession. Based on the authorization, the Board of Directors shall have the same rights as the Annual General Meeting to decide upon the issuing of shares against payment and special rights (including stock options) in accordance with Chapter 10 Section 1 of the Finnish 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 upon who are entitled to the shares and/or stock options or special rights in accordance with Chapter 10 Section 1 of the Finnish Companies Act as well as upon the related compensation, subscription and payment periods and upon the registering of the subscription price into the share capital or invested non-restricted equity fund within the limits of the Finnish Companies Act.

The authorization will be valid until the next Annual General Meeting, but will however expire at the latest on June 30th 2015.

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 own shares of the company with assets belonging to the company's non-restricted equity. This amount corresponds approximately to 6.50% of all the shares of the company. The shares can also be acquired otherwise than in proportion to the holdings of the existing shareholders (targeted repurchase). 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 proposed that the authorization for the acquiring of the company's own shares would be used, inter alia, in order 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 shall decide upon 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 2015.

## RISKS AND UNCERTAINTIES

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

- continuing uncertainty of the macroeconomic environment
- delays on product development and closing new business
- competitiveness of the product portfolio including intellectual property (IPR)
- litigation, especially in U.S. market
- competitive dynamics in the industry
- ability of the organization to scale up operations with the growth
- large portion of the company revenue is invoiced in USD currency so possible large fluctuation in USD currency rates during 2014 could have unpredictable effects for profitability that are at the time difficult to estimate. Currently USD currency position is not hedged, and 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).

## FUTURE OUTLOOK

In 2014, SSH Communications Security estimates its revenue to grow significantly and profitability to improve from 2013. During the first half of the year the sales growth can be smaller with possibilities to losses due to timing of sizeable deals.

## RELATED PARTY TRANSACTIONS

Clausal Computing Oy, a fully owned company of SSH Communications Security's CEO Tatu Ylönen, has delivered the company mainly R&D services valued in total EUR 0.1 million during January-March 2013. During the reporting period there have not been any other significant related parties. Hybrid capital securities (EUR 4.0 million) of the company was subscribed by CEO Tatu Ylönen in 2012.

## EVENTS AFTER THE BALANCE SHEET DATE

As announced on March 11 2014, Erkki Yli-Juuti has been appointed as Vice President Intellectual Property as of April 7, 2014. Erkki Yli-Juuti is a member of the Group Management Team and reports to Tatu Ylönen, CEO of SSH Communications Security. 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 reporting period have been adopted. These changes have no material impact on the interim report. The information presented in this interim report has not been audited.

## TABLES

COMPREHENSIVE INCOME STATEMENT			
EUR million	1-3 /2014	1-3 /2013	1-12 /2013
Net sales	2.9	2.9	13.3
Cost of goods sold	-0.6	-0.4	-1.9
Gross profit	2.3	2.5	11.4
Other operating income	0.0	0.0	0.1
Sales, marketing and customer support costs	-1.8	-1.4	-6.9
Product development expenses	-0.9	-0.7	-3.0
Administrative expenses	-0.5	-0.4	-1.5
Operating profit/loss	-0.9	0.1	0.2
Financial income and expenses	0.0	0.0	-0.0
Profit/loss before taxes	-0.9	0.1	0.2
Taxes	-0.1	0.0	-0.0
Net profit/loss for the financial period	-0.9	0.1	0.2
Minority Interest	0.0	0.0	0.0
Other profit and loss account items:			
Items which might be later transferred to P/L statement			
Foreign subsidiary translation differences	0.0	0.0	-0.0

	Net change in fair value of available-for-sale financial assets	0.0	0.0	0.0
	Total comprehensive income	-0.9	0.1	0.2
	Net profit/loss attributable to:			
	Owners of the Company	-0.9	0.1	0.2
	Non-Controlling interest	0.0	0.0	0.0
	EARNINGS PER SHARE			
	Earnings per share (EUR)	-0.03	0.00	-0.00
	Earnings per share, diluted (EUR)	-0.03	0.00	-0.00

BALANCE SHEET				
EUR million				
		31.3.2014	31.3.2013	31.12.2013
	<b>ASSETS</b>			
	Non-current assets			
	Tangible assets	0.2	0.1	0.2
	Intangible assets	3.3	2.3	3.1
	Investments	0.0	0.0	0.0
	Total non-current assets	3.5	2.5	3.4
	Current assets			
	Trade and other receivables	2.9	2.4	4.1
	Short-term financial assets	0.0	2.0	0.0
	Cash and cash equivalents	5.8	5.8	6.0
	Total current assets	8.7	10.2	10.1
	Total assets	12.2	12.7	13.5
	<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
	Shareholders' equity			
	Equity attributable to the parent company shareholders total	6.5	6.1	7.4
	Non-controlling interest	0.0	0.2	0.0
	Shareholders' equity total	6.5	6.4	7.4
	Non-current liabilities			
	Provisions	0.0	0.1	0.1
	Non-current interest-bearing liabilities	0.0	0.0	0.0
	Total long-term liabilities	0.0	0.1	0.1
	Current liabilities	5.7	6.2	6.0
	Liabilities total	5.7	6.4	6.1
	Total equity and liabilities	12.2	12.7	13.5

CASH FLOW STATEMENT			
EUR million	1-3/2014	1-3/2013	1-12/2013
Cash flow from business operations	0.4	1.5	0.4
Cash flow from investments	-0.5	-0.4	-2.0
Cash flow from financing	0.0	-2.0	-1.2
Increase(+) / decrease (-) in cash	-0.1	-1.0	-2.8
Cash at period start	3.8	6.6	6.6
Effect of exchange rate	0.0	0.0	0.0
Cash at period end	3.7	5.7	3.8

STATEMENT ON CHANGES IN SHAREHOLDERS' EQUITY								
EUR million	Share Capital	Fair value reserves	Other fund + other equity fund	Translation difference	Fund for own shares	Non-Controlling interest	Unrestricted equity funds and retained earnings	Total
Shareholders' equity Jan 1, 2013	0.9	0.2	4.1	-1.3	-1.0	0.2	3.1	6.3
Change		0.1						0.1
Net profit							0.1	0.1
Shareholders' equity Mar 31, 2013	0.9	0.3	4.1	-1.3	-1.0	0.2	3.2	6.4
Change		0.1	0.0	0.0	1.0	-0.2		0.9
Net Profit							0.1	0.1
Shareholders' equity Dec 31, 2013	0.9	0.4	4.1	-1.3	0.0	0.0	3.3	7.4
Change		0.0		0.0			-0.9	-0.9
Net profit								
Shareholders' equity Mar 31, 2014	0.9	0.4	4.1	-1.3	0.0	0.0	2.4	6.5

NET SALES BY SEGMENT			
EUR million	1-3/ 2014	1-3/ 2013	1-12/ 2013
AMER	1.3	1.3	5.3
APAC	0.4	0.4	1.5
EMEA	1.3	1.2	6.6
SSH Group total	2.9	2.9	13.3

GROSS MARGIN BY SEGMENT			
EUR million	1-3/ 2014	1-3/ 2013	1-12/ 2013
AMER	1.2	1.3	5.3
APAC	0.4	0.4	1.5
EMEA	0.7	0.8	4.7
SSH Group total	2.3	2.5	11.4

OPERATING PROFIT/LOSS BY SEGMENT			
EUR million	1-3/ 2013	1-3/ 2012	1-12/ 2012
AMER	0.1	0.3	0.8
APAC	0.2	0.3	0.7
EMEA	0.4	0.8	4.0
Common Group expenses*	-1.6	-1.4	-5.4
SSH Group total	-0.9	0.1	0.2

\* 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	1-3/2014	1-3/2012	1-12/2013
Net sales	2.9	2.9	13.3
Operating profit/loss	-0.9	0.1	0.2
Operating profit/loss, as % of net sales	-31.1	1.9	1.3
Profit/loss before extraordinary items and taxes	-0.9	0.1	0.2
Profit/loss before extraordinary items and taxes, as % of net sales	-30.7	2.8	1.1
Profit/loss before taxes	-0.9	0.1	0.2
Profit/loss before taxes, as % of net sales	-30.7	2.8	1.2
Return on equity (%)	-13.5	5.2	2.2
Return on investment (%)	-13.0	7.0	1.9
Interest-bearing net liabilities	-5.8	-7.8	-6.0
Equity ratio (%)	75.5	74.0	76.6
Gearing (%)	-89.2	-121.9	-80.1
Gross capital expenditure	0.5	0.4	2.0
% of net sales	15.7	14.6	14.7
R&D expenses	0.9	0.7	3.0



% of net sales	31.3	22.6	22.3
Personnel, period average	100	75	85
Personnel, period end	101	80	99

Calculation for key figures and ratios are presented in 2012 financial statement and annual report. There have not been changes in calculation rules after that.

PER-SHARE DATA			
EUR	1-3/2014	1-3/2013	1-12/2013
Earnings per share, undiluted*	-0.03	0.00	-0.00
Earnings per share, diluted*	-0.03	0.00	-0.00
Equity per share	0.21	0.21	0.24
No. of shares at period average (thousand)	30 751	30 751	30 751
No. of shares at period end (thousand)	30 751	30 751	30 751
Share performance			
Average price	3.05	0.97	2.11
Low	2.71	0.75	0.75
High	3.74	1.11	4.50
Share price, period end	3.20	1.01	2.91
Market capitalization, period end (EUR million)	98.4	31.1	89.5
Volume of shares traded (million)	1.2	1.7	9.9
Volume of shares traded, as % of total number	3.9	5.3	33.4
Value of shares traded (EUR million)	3.8	1.6	20.8
Price per earnings ratio (P/E)	neg.		neg.
Dividend per share	0.00	0.00	0.00
Dividend per earnings, %	0.00	0.00	0.00
Effective return on dividend, %	0.00	0.00	0.00

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

CONTINGENT LIABILITIES			
EUR million	31.3.2014	31.3.2013	31.12.2013
Rent security deposits	0.1	0.1	0.1
Leasing commitments outside the balance sheet			
Maturing within 1 year	0.5	0.5	0.5
Maturing between 1 and 5 years	0.4	0.1	0.4

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SSH Communications Security will release its next interim report for period January 1 – June 30, 2014 on July 23th, 2014.

Helsinki, April 24th, 2014

SSH COMMUNICATIONS SECURITY

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