

January–March 2016: Net sales declined and losses are due to delays in closing software deals and continued investments to future growth. Cash flow was negative, cash position remained strong.

Net sales totaled EUR 2.6 million, down by -61.1 % year on year (EUR 6.8 million in 1–3/2015). The same quarter last year included an exceptionally large consultancy deal.

Operating loss was EUR -2.2 million (EUR -0.4 million in 1–3/2015). There were no non-recurring items on the reporting period. Loss was EUR -2.6 million (EUR -0.4 million)

Earnings per share EUR -0.09 (EUR -0.02).

Equity ratio remained good 68.4 % (69.7 %). Liquid assets were EUR 8.5 million (EUR 18.9 million).

In 2016, SSH Communications Security estimates its revenue to grow significantly compared with 2015.

KEY FIGURES				
	1-3/ 2016	1-3/ 2015	Change %	1-12/ 2015
Net sales (MEUR)	2.6	6.8	-61.1	18.9
Operating profit/loss (MEUR)	-2.2	-0.4	-500.4	-4.4
% of net sales	-84.0	-5.4	-1,444.8	-23.2
Profit/loss before taxes (MEUR)	-2.6	-0.3	-687.7	-3.9
Profit/loss (MEUR)	-2.6	-0.4	-637.4	-3.9
Return on equity, %	-26.4	-2.7	-888.6	-40.4
Return on investment, %	-26.0	-2.7	-847.7	-39.9
Liquid assets	8.5	18.9	-54.8	11.3
Gearing (%)	-99.0	-99.6	0.5	-98.8
Equity ratio (%)	68.4	69.7	-1.8	66.8
Earnings Per Share (EUR)	-0.09	-0.02	-456.5	-0.15
Shareholders' equity per share (EUR)	0.27	0.61	-55.3	0.36

CEO's review

The year started very slowly. We closed SSH key management deals with one of the largest banks in Spain, a significant US bank, and a well-known technology company in the US. These initial deals were relatively small and could not be fully recognized in the first quarter. Outlook for the rest of the year is still good.

Activity and interest in SSH key management is increasing and we are focusing on educating IT security auditors to speed up the emergence of the market. SSH keys grant access to production servers similar to user names and passwords. They are very frequently used for automating data transfers between information systems.

We recently successfully completed a major SSH key management project with one of the largest banks in the world. Reviewing several hundred of their most critical business applications and over 10,000 servers, we found and brought under management over two million SSH keys. Each key granted access to some user account and server.

SSH keys have not been properly addressed in identity and access management projects. Many companies are finding 90% of all access codes to their servers unmanaged. The analyst firm IDC titled this “a gaping hole in your IAM strategy”.

We intend to maintain our position as the leader in the SSH key management market. We intend to have the best technology, best service, and overall the best solution for customers to solve the problem. We will build a network of partners to help gain access to and deploy our solutions at leading customers.

We started our market penetration from financial organizations, but are now expanding to government, technology, health care, retail and other industries. A lot of our investment in the near future will go into expanding our sales and marketing capability.

Additionally interest in monitoring third party access into information systems is growing. We are seeing more large deals in the pipeline around our CryptoAuditor product. Our next generation firewall and encryption products are generating significant interest with initial customers. Our patent enforcement activities are progressing.

I look forward to developing the company further with world leading technology into an emerging large market.

Tatu Ylönen, CEO

NET SALES

Consolidated net sales for January–March totaled EUR 2.6 million (EUR 6.8 million), down by 61.1 %, year on year.

The Americas, the Europe, Middle East and Africa market area and the Asia Pacific region accounted for 66.2 % (60.4 %), 18.4 % (35.9 %) and 15.4 % (3.7 %) of reported net sales, respectively.

SSH NET SALES				
EUR million	1-3/ 2016	1-3/ 2015	Change %	1-12/ 2015
BY SEGMENT				
AMERICAS	1.7	4.1	-57.5	11.7
APAC	0.4	0.3	58.8	2.1
EMEA	0.5	2.4	-80.1	5.0
SSH Group Total	2.6	6.8	-61.1	18.9
BY OPERATION				
Software fees	0.7	1.9	-60.3	5.1
Professional services & other	0.1	3.1	-97.4	6.1
Recurring revenue	1.8	1.9	-3.2	7.6
Total	2.6	6.8	-61.1	18.9

The majority of the company's invoicing is U.S. dollar based. With comparable exchange rates, net sales decline would have been -61.7 % compared with 2015 corresponding period.

RESULTS AND EXPENSES

Operating loss for January–March was EUR -2.2 million (EUR -0.4 million), with net loss totaling EUR -2.6 million (EUR -0.4 million). Profitability was influenced by delays in sales growth vs increased operational costs after continuous investments to sales and product development to realize the market opportunity.

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

Sales, marketing and customer support expenses for the January–March reporting period amounted to EUR -2.6 million (EUR -2.1 million), while research and development expenses totaled EUR -1.7 million (EUR -1.2 million) and administrative expenses EUR -0.6 million (EUR -0.4 million).

BALANCE SHEET AND FINANCIAL POSITION

The financial position of SSH Communications Security remained strong during the reporting period. The consolidated balance sheet total on March 31, 2016 stood at EUR 17.1 million (31.3.2015 EUR 32.0 million; 31.12.2015 EUR 21.8 million), of which liquid assets accounted for EUR 8.5 million (31.3.2015 EUR 18.9 million; 31.12.2015 EUR 11.3 million, or 49.9 % of the balance sheet total). On March 31, 2016, gearing, or the ratio of net liabilities to shareholders' equity, was -99.0 % (31.3.2015 -99.6 %; 31.12.2015 -98.8 %) and the equity ratio stood at 68.4 % (31.3.2015 69.7 %; 31.12.2015 66.8 %).

The reported gross capital expenditure for the period totaled EUR 0.7 million (EUR 0.5 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 -0.4 million (EUR 0.0 million).

During January–March, SSH Communications Security reported a negative cash flow of EUR -1.2 million (EUR 1.7 million) from business operations, and investments showed a negative cash flow of EUR -0.7 million (EUR -0.5 million). Cash flow from financing totaled EUR -0.9 million (EUR 11.7 million). During comparison period convertible capital securities of EUR 12 million were issued. Total cash flow from operations, investments and financing was negative EUR -2.8 million (EUR 12.8 million).

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

RESEARCH AND DEVELOPMENT

Research and development expenses for January–March totaled EUR -1.7 million (EUR -1.2 million), the equivalent of 63.8 % of net sales (18.2 %). During January–March, the company has capitalized new product R&D costs EUR 0.6 million (EUR 0.4 million).

HUMAN RESOURCES AND ORGANIZATION

At the end of March, the Group had 112 employees on its payroll, up by 17 persons from the previous year, an increase of 17.9 %. Compared to year end, the number of employees increased by 3 persons.

At the end of the period, 39.3 % (37.2 %) of the employees worked in sales, marketing and customer services, 50.9 % (47.9 %) in R&D, and 9.8 % (14.9 %) in corporate administration.

BOARD AND AUDITORS

At the Annual General Meeting, April 20, 2016 Kaisa Olkkonen and Harri Koponen were elected and Timo Syrjälä, Tatu Ylönen and Jukka Manner were re-elected to directors of the company. Kaisa Olkkonen was elected as the Chairman of the Board of Directors in 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 782,955 shares (valued at EUR 2,747,785). The highest quotation was EUR 4.30 and the lowest EUR 2.92. The trade-weighted average share price for the period was EUR 3.51 and the share closed at EUR 3.49 (March 31, 2016).

Company's principal owner Tatu Ylönen holds directly and through his company, Clausal Computing Oy, 55.5 % of the company's shares, Juha Mikkonen holds directly and through his company under his control, Assetman Oy 8.0 % and Timo Syrjälä holds directly or through his companies 6.7 %. 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, 2016 was EUR 941,108.49 consisting of 31,370,283 shares.

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon the issuing of a maximum of 6,000,000 shares as a share issue against payment or by giving stock options or other special rights entitling to shares, in accordance with Chapter 10 Section 1 of the Finnish Limited Liability Companies Act, either according to the shareholders' pre-emptive right to share subscription or deviating from this right, in one or more tranches. Based on the authorization, either new shares can be issued or own shares, which the company possibly has in its possession, can be transferred. Based on the authorization, the Board of Directors has the same right as the Annual General Meeting to decide on the issuing of shares against payment and special rights (including stock options) in accordance with Chapter 10 Section 1 of the Finnish Limited Liability Companies Act. Thereby, the authorization to be given to the Board of Directors includes, inter alia, the right to deviate from the shareholders' pre-emptive rights with directed issues providing that the company has a weighty financial reason for the deviation in respect of the share issue against payment.

Furthermore, the authorization includes the Board of Directors' right to decide who are entitled to the shares and/or stock options or special rights in accordance with Chapter 10 Section 1 of the Finnish Limited Liability Companies Act as well as on the related compensation, subscription and payment periods and on the registering of the subscription price into the share capital or invested non-restricted equity fund within the limits of the Finnish Limited Liability Companies Act.

The authorization will be valid until the next Annual General Meeting, but will however expire at the latest on June 30th 2017.

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon the acquiring of a maximum of 2,000,000 shares of the company with assets belonging to the company's non-restricted equity. The shares can also be acquired otherwise than in proportion to the holdings of the existing shareholders (directed acquisition). The maximum compensation to be paid for the acquired shares shall be the market price at the time of purchase, which is determined in the public trading.

The Board of Directors proposes that the authorization for the acquiring of the company's own shares would be used, inter alia, to strengthen the company's capital structure, to finance and realize corporate acquisitions and other arrangements, to realize the share-based incentive programs of the company or otherwise to be kept by the company, to be transferred for other purposes or to be cancelled. The acquisition of shares reduces the company's distributable non-restricted equity.

Decision concerning the acquiring of own shares cannot be made so that the combined amount of the own shares which are in the possession of, or held as pledges by, the company or its subsidiaries exceeds one-tenth of all shares. The Board of Directors decides on all other matters related to the acquisition of shares.

The authorization will be valid until the next Annual General Meeting, but will however expire at the latest on June 30th 2017.

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
- cybercrime
- 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 2016 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.

Utilization of the company's patent portfolio may have significant positive and/or negative impacts.

Principles and organization of risk management of SSH Communications Security can be read from company's webpage: www.ssh.com.

FUTURE OUTLOOK

In 2016, SSH Communications Security estimates its revenue to grow significantly from 2015.

RELATED PARTY TRANSACTIONS

Clausal Computing Oy, a fully owned company of SSH Communications Security's Chief Executive Officer Tatu Ylönen, has delivered the company mainly R&D services valued in total EUR 0.1 million during January–March 2016. Chief Executive Officer Tatu Ylönen subscribed EUR 0.5 million of the hybrid capital securities issued by the company on March 30th 2015. During the reporting period, there have not been any other significant transactions with related parties.

EVENTS AFTER THE BALANCE SHEET DATE

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

REPORTING

This financial statement release is prepared according to IAS 34. Financial statement release follows the same principles and standards as the previous financial statement release. Additionally the effective changes in IAS/IFRS standards during the reporting period have been adopted. These changes have no material impact on the interim report. The information presented in this interim report has not been audited.

TABLES

COMPREHENSIVE INCOME STATEMENT			
EUR million	1-3/ 2016	1-3/ 2015	1-12/ 2015
Net sales	2.6	6.8	18.9
Cost of goods sold	0.0	-3.3	-6.5
Gross profit	2.7	3.4	12.4
Other operating income	0.0	0.0	0.0
Sales, marketing and customer support costs	-2.6	-2.1	-10.0
Product development expenses	-1.7	-1.2	-5.1

Administrative expenses	-0.6	-0.4	-1.6
Operating profit/loss	-2.2	-0.4	-4.4
Financial income and expenses	-0.4	0.0	0.5
Profit/loss before taxes	-2.6	-0.3	-3.9
Taxes	-0.0	0.0	-0.1
Net profit/loss for the financial period	-2.6	-0.4	-3.9
Non-controlling 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	0.3	-0.4	-0.4
Net change in fair value of available-for-sale financial assets	0.0	0.0	0.0
Total comprehensive income	-2.3	-0.7	-4.3
Net profit/loss attributable to:			
Owners of the Company	-2.3	-0.7	-4.3
Non-controlling interest	0.0	0.0	0.0
EARNINGS PER SHARE			
Earnings per share (EUR)	-0.09	-0.02	-0.15
Earnings per share diluted (EUR)	-0.09	-0.01	-0.15

BALANCE SHEET			
EUR million			
	31.3.2016	31.3.2015	31.12.2015
ASSETS			
Non-current assets			
Tangible assets	0.3	0.2	0.3
Intangible assets	4.9	3.9	4.6
Investments	0.0	0.0	0.0
Total non-current assets	5.2	4.2	4.9
Current assets			
Trade and other receivables	3.4	8.9	5.5
Short-term financial assets	0.0	0.0	0.0
Cash and cash equivalents	8.5	18.9	11.3
Total current assets	11.9	27.8	16.8

Change		0.1	11.7	-0.4				11.5
Net profit							-0.4	-0.4
Shareholders' equity Mar 31, 2015	0.9	1.0	15.8	-2.0	0.0	0.0	3.3	19.0
Change	0.0	0.3	-4.1	-0.1			-0.1	-3.9
Net profit							-3.6	-3.6
Shareholders' equity Dec 31, 2015	0.9	1.4	11.7	-2.1	0.0	0.0	-0.5	11.4
Change		0.1		0.3			-0.6	-0.2
Net profit							-2.6	-2.6
Shareholders' equity Mar 31, 2016	0.9	1.5	11.7	-1.8	0.0	0.0	-3.7	8.6

KEY FIGURES AND RATIOS			
EUR million	1-3/ 2016	1-3/ 2015	1-12/ 2015
Net sales	2.6	6.8	18.9
Operating profit/loss	-2.2	-0.4	-4.4
Operating profit/loss as % of net sales	-84.0	-5.4	-23.2
Profit/loss before extraordinary items and taxes	-2.6	-0.3	-3.9
Profit/loss before extraordinary items and taxes as % of net sales	-98.9	-4.9	-20.4
Profit/loss before taxes	-2.6	-0.3	-3.9
Profit/loss before taxes as % of net sales	-98.9	-4.9	-20.4
Return on equity (%)	-26.4	-2.7	-40.4
Return on investment (%)	-26.0	-2.7	-39.9
Interest-bearing net liabilities	-8.5	-18.9	-11.3
Equity ratio (%)	68.4	69.7	66.8
Gearing (%)	-99.0	-99.6	-98.8
Gross capital expenditure	0.7	0.5	2.6
% of net sales	25.9	8.1	13.7
R&D expenses	1.7	1.2	5.1
% of net sales	63.8	18.2	26.9
Personnel period average	111	95	102
Personnel period end	112	95	109

Calculation for key figures and ratios are presented in 2015 financial statement and annual report. There have not been changes in calculation rules after that.

PER SHARE DATA			
EUR	1-3/ 2016	1-3/ 2015	1-12/ 2015
Earnings per share undiluted*	-0.09	-0.02	-0.15
Earnings per share diluted*	-0.09	-0.01	-0.15
Equity per share	0.27	0.61	0.36
No. of shares at period average (thousand)	31,370	30,974	31,068
No. of shares at period end (thousand)	31,370	30,974	31,370
Share performance			
Average price	3.51	3.71	4.50
Low	2.92	2.52	2.52
High	4.30	4.73	6.32
Share price period end	3.49	4.73	3.02
Market capitalization period end (EUR million)	109.5	146.5	94.7
Volume of shares traded (million)	0.8	1.4	8.4
Volume of shares traded as % of total	2.5	4.5	27.0
Value of shares traded (EUR million)	2.7	5.1	37.7
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 unpaid interest of hybrid capital securities

CONTINGENT LIABILITIES			
EUR million	31.3.2016	31.3.2015	31.12.2015
Hybrid Loan, Interest	0.0	0.7	0.7
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	0.5	0.8	0.5

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SSH Communications Security will release its next interim report for the period January 1 – June 30, 2016 on July 21st, 2016.

Helsinki, April 21st, 2016

SSH COMMUNICATIONS SECURITY

Board of Directors

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