



ANNUAL REPORT 2012

*Encrypted
Channel
Monitoring*

*Secure Shell
Data-in-Transit*

*Content
Awareness
& DLP Enablement
for Encrypted Networks*

***Securing the path
to your information assets***

*Centralized
SSH Key Management*

*Identity
& Access
Governance*



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SSH COMMUNICATIONS SECURITY IN BRIEF

- *SSH Communications Security is the company that invented the SSH protocol – the gold standard protocol for data-in-transit security solutions.*
- *Today, over 3,000 customers across the globe, including 7 of the Fortune 10, trust our Information Assurance Platform to secure the path to their information assets.*
- *We enable and enhance business for thousands of customers in multiple industries in the private and public sectors around the world with our core SSH technology, key management, and auditing solutions.*
- *We operate in the Americas, Europe, and APAC regions.*

Key Figures

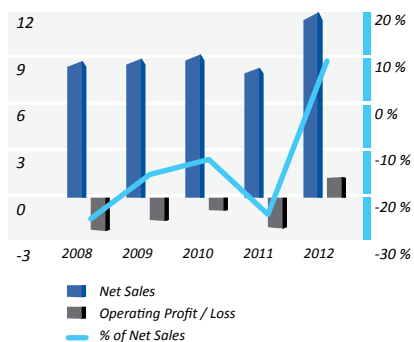
		2012	2011
Net sales	KEUR	11,920	8,059
Operating profit/loss	KEUR	1,083	-2,036
% of net sales	%	9.1	-25.3
Profit / loss before taxes	KEUR	1,130	-2,173
Earnings per share	EUR	0.04	-0.07
Gearing	%	-105	-230
Equity ratio	%	70	36
Personnel (year end)		70	52

YEAR 2012 IN BRIEF

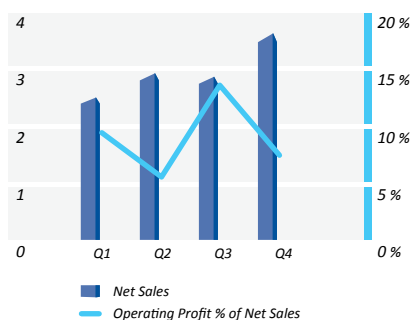
Year 2012 was a year of turnaround for SSH Communications Security

- Strong growth every quarter; FY2012 +48%, Q4 +81%.
- Positive EBIT and net profit every quarter; full year EBIT 9%, net profit 9%.
- Positive operative and total cash flow.
- Re-established presence in SSH encryption business (Tectia SSH Client and Server).
- Major product launches:
 - Universal SSH Key Manager, breakthrough product for SSH key management.
 - CryptoAuditor, product for monitoring and controlling encrypted communications and data transfers.
- Strengthening the organization for future growth; personnel +35% YoY, primarily in sales and customer support in the USA, and R&D in Finland.
- Back to established brand: SSH Communications Security.

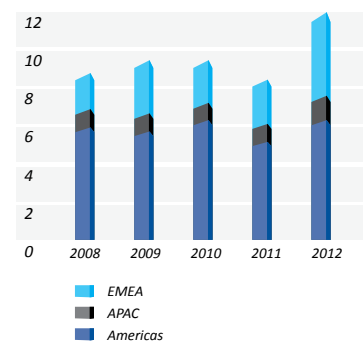
Yearly Development 2008–2012 (m€)



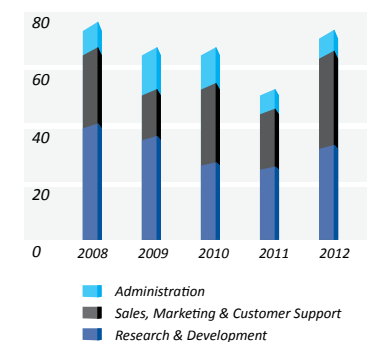
Quarterly Development 2012 (m€)



Regional Net Sales Split (m€)



Personnel 2012 (as of 31 Dec)



FINANCIAL PERFORMANCE

- Year 2012 was a year of turnaround for SSH Communications Security. The company's annual revenue was in total EUR 11.9 million (EUR 8.1 million) representing a growth of 48%. EBIT was EUR 1.1 million (EUR -2.0 million) representing 9% of revenues (-25%).
- Earnings per share was EUR 0.04 (EUR -0.07). Cash flow from operations was EUR 1.3 million positive (EUR -0.8 million).
- Total operating expenses were EUR 10.0 million (EUR 10.0 million) and at the same level than last year, but at that time, there were EUR 1.1 million of extraordinary costs versus EUR 0.4 million in 2012.
- In 2012, the sales were geographically divided as follows: Americas 51% (60%), EMEA 36% (24%), and APAC 13% (16%), each area growing year-on-year.
- Further information on the key financial figures is presented in the Financial Statements section of this Annual Report.

SALES AND MARKETS

Year 2012 showed significant improvement in contrast to 2011. The year focused on achieving three primary targets: identify and acquire the first user key management customers, re-establish connection and clean contractual arrangements for maintenance contracts with customers via the Deloitte license compliance program, and rebuild the US organization and customer base relations for an aggressive growth push in 2013. The combined effects of the license compliance program together with Deloitte and the successful acquisition of the first customers for Universal SSH Key Manager provided a good foundation for future growth, and resulted in a strong contribution to the overall 48% revenue growth achieved in 2012.

The first major delivery of Universal SSH Key Manager to a global financial institution began in September and will bring an estimated EUR 2.0 million through 2014. In addition to the strong start with Universal SSH Key Manager, which opened a new, potential, and exciting services channel, the license compliance program together with the strong and growing maintenance revenues, provided good growth in sales. Complementary to this, Tectia SSH Server for IBM z/OS provided good support to the overall growth, as two major enterprise deals were closed with major insurance companies.

The company continues working in a mixed sales model dependent upon the region. In EMEA, it runs primarily in a channel partner model, working with key integrator and value added resellers that have experience in the identity access governance and secure file transfer space and customer bases in the financial services sector. APAC works fully in a channel model via key distributors, value added resellers, and integrators to reach its key target focus markets. The Americas organization runs via a direct model for enterprise sales. It works with channel partners as required for fulfillment purposes and specialized partners for the company's mainframe offering, as well as for the government sector.

An additional channel for potential revenue growth is the professional services. Due to the unique technical skills required to manage SSH key remediation delivery projects, many customers are interested in outsourcing the service components to third party organizations that have the expertise in access management project deliveries.



TECHNOLOGIES AND PRODUCTS

SSH Communications Security develops and sells network security solutions, and our vision is to develop solutions that protect the integrity of enterprise information pathways with a focus on data-in-transit encryption, perimeter security, and internal security management controls.

Customer focus is seen across the organization all the way to the research and development. We want to develop and deliver solutions that solve real customer security challenges of today and tomorrow, not just compliance without security. Solutions we develop must provide real value for our customers by simultaneously reducing cost, eliminating risk, and driving compliance while also being minimally invasive, and easy to deploy and integrate into existing infrastructures and security and management solutions.

During 2012, the company released an LTS (Long Term Support) version for Tectia SSH Client and Server, an enterprise-grade Secure Shell solution deployed to majority of the global Fortune 1000 companies. LTS version will help our enterprise customers to unify their installation base, minimize the required upgrades and maintenance, and to fit upgrade schedules and versions to their enterprise platform roadmaps.

The company also announced two new products during the year. Universal SSH Key Manager, announced in February 2012, is a centralized management platform providing enterprises a full lifecycle management of SSH keys and key access, including environment discovery and monitoring, access and process enforcement, and automation. Universal SSH Key Manager will further develop into next generation centralized management platform for SSH and related access management.

CryptoAuditor, announced in July 2012, is a centrally managed network security enforcement appliance that enables customers to inspect, audit, and control encrypted enterprise dataflows, and provide enterprise-wide real-time visibility and preventative security measures through IPS (intrusion prevention system), DLP (data loss prevention), and SIEM (security information and event management) integration. Integration of centralized management, security enforcement, auditing, and access management modules to a single SSH Information Assurance Platform provides the company a unique positioning in the growing identity and access governance space.

MARKET VIEW

The company has positioned itself well for further sales growth in 2013 with the basis of its Information Assurance Platform, including Universal SSH Key Manager and CryptoAuditor. These products provide the company a unique entry point to the identity and access governance space with specialized and targeted area of expertise around SSH identity access management.

The company seeks to educate the market, related to the issue concerning the unique business risks due to poor SSH key management which has plagued organizations for years. It seeks to achieve this through influencing regulation and compliance drivers in both the commercial and federal space. The company recognizes in the markets a unique combination of compliance drivers, need to reduce business risks and operational costs. A complementary area of focus for 2013 is CryptoAuditor which provides unique functional capabilities and operational benefits to customers in area of monitoring and controlling encrypted communications and data transfers. CryptoAuditor has already raised interest among the financial services and telecommunication sectors. With both Universal SSH Key Manager and CryptoAuditor being available in portfolio in the beginning of the year, the company finds itself in a unique position to continue its growth path into 2013.



CEO LETTER 2012



SSH Communications Security achieved record results in 2012. Revenue growth accelerated to 81% in Q4 (48% for the full year), with 9% profit margin, positive operative cash flow, and 31% return on equity for the year. We were the best performing stock on the NASDAQ OMX Helsinki market in 2012.

The company focuses on managing complex enterprise information technology (IT) systems, particularly in relation to the ubiquitous SSH protocol that I invented 18 years ago. Today, the SSH protocol is used on every Linux and Unix computer as well as most telecommunications and networking equipment, and serves critical roles in the global information infrastructure.

As IT systems grow, more and more aspects of their operation are automated. This includes systems management, automated data transfers, application integration, and management of user accounts. Increasingly, computers automatically perform operations on other computers. This has reached a point that,

in the case of one major banking customer, over 1.5 million credentials were found granting automated access to their production servers (about ten times as many as they have employees).

Automated access is changing the whole identity and access management landscape, and is becoming a necessity to address. It has a deep impact on internal security barriers between systems and defense in depth. This is opening significant new business opportunities that the company is uniquely positioned to exploit as the inventor and primary commercial source of the SSH and SFTP protocols that are widely used for automated access.

The company introduced two new products for managing complex IT systems. The Universal SSH Key Manager product manages SSH keys for automated access and was successfully deployed on critical production servers in one of the world's top ten banks and some other large enterprises. The CryptoAuditor

product enables controlling encrypted communications and encrypted SFTP file transfers within enterprises, providing auditability for system administration and inspection of encrypted data transfers exiting the organization.

Existing Tectia SSH client/server solution saw good demand driven by synergies with key management and control of encrypted connections, and two of the top ten insurance companies in the United States deployed the products throughout their IBM mainframe infrastructure. Mainframes are an important component of the IT systems of many larger enterprises, and securing mainframe file transfers and key management are essential for many organizations.

Finally, sales of Tectia MobileID, two-factor authentication solution, grew 191% with solid profit. This is due to the market's realization that passwords alone provide inadequate security and they are a frequent target of attacks and malware-based password capture tools.

The company is working with government and industry representatives to develop best practice standards for managing automated access. This cooperation is important, because automated access and SSH keys have been ignored for too long, and somebody must take responsibility for properly managing them before any disaster happens.

The company has invested substantially in patenting throughout its history. It holds several patents believed to be essential



for key security protocols, and has filed a number of new patent applications around its new product concepts.

The company is well funded, profitable, growing fast, and has interesting products that meet key emerging trends in IT security. This is something to build on going forward!

I thank our employees, partners, and customers for making this happen.

Tatu Ylönen, CEO

BOARD OF DIRECTORS

The Annual General Meeting held on 28 March 2012, elected Päivi Hautamäki (Chairman), Sami Ahvenniemi, and Tatu Ylönen as members of the Board of Directors.



PÄIVI HAUTAMÄKI, born 1964, LL.M.

- Board member since 2012
- Chairman of the Board since 2012
- General Counsel at Eltel Group

Päivi Hautamäki has extensive experience of more than 15 years in energy, IT, and industrial field. She is the General Counsel at Eltel Group. Prior to joining the company in 2012, she was the General Counsel at Winwind Ltd, a wind turbine manufacturer, the General Counsel at F-Secure Corporation, an anti-virus and computer security and computer software company, and the Legal Counsel at Fortum Oyj, a Finnish energy company. She is also a member of the IPR committee of the Board of Central Chamber of Commerce in Finland and a Member of the Board of Finnish Industrial Lawyers. Ms. Hautamäki does not own any SSH shares.

SAMI AHVENNIEMI, born 1972, M.Sc. (Technology)

- Board member since 2012
- Co-Founder & Partner at Conor Venture Partners Ltd

Sami Ahvenniemi is Co-Founder & Partner at Conor Venture Partners, an early stage Nordic technology venture capital company. He has 15 years experience in working with technology companies having held executive positions both in Finland and in the United States. Prior to starting his venture career in

2002, he held several executive positions at SSH Communications Security between 1998 and 2002 and was, among other positions, the first founding CEO of its operation in the United States in 1998. He holds several board memberships in international growth companies, such as Neo Technology (California), Sensinode (California/Finland), and Behaviometrics (Sweden). Mr. Ahvenniemi does not own any SSH shares.

TATU YLÖNEN, born 1968, Lic.Sc. (Technology)

- Board member since 1995
- Major shareholder
- CEO since 2011

Tatu Ylönen developed the Secure Shell technology for remote access and founded SSH Communications Security in 1995. He is an internationally respected network security expert and has founded many other companies. He is a member of the IEEE (Institute of Electrical and Electronics Engineers), ACM (Association for Computing Machinery), the AFCEA (Armed Forces Communications and Electronics Association), and ACL (Association for Computational Linguistics). He has authored several articles in national and international journals and periodicals. Mr. Ylönen owns 17,727,698 SSH shares directly and through his company Clausal Computing Oy.

The majority of the Board members have no dependence on the company. Päivi Hautamäki and Sami Ahvenniemi are deemed to be independent Board members. Tatu Ylönen directly and through his company Clausal Computing Oy owns 57.65% of the total number of SSH shares and is therefore classified as not independent Board member of the company.

EXECUTIVE MANAGEMENT TEAM



TATU YLÖNEN, born 1968, Lic.Sc. (Technology)
President and Chief Executive Officer

Tatu Ylönen developed the Secure Shell technology for remote access and founded SSH Communications Security in 1995. He is an internationally respected network security expert and has founded many other companies. He is a member of the IEEE (Institute of Electrical and Electronics Engineers), ACM (Association for Computing Machinery), the AFCEA (Armed Forces Communications and Electronics Association), and ACL (Association for Computational Linguistics). He has authored several articles in national and international journals and periodicals. Mr. Ylönen owns 17,727,698 SSH shares directly and through his company Clausal Computing Oy.

MATTHEW MCKENNA, born 1973, B.A., MBA
**Chief Operating Officer & Executive Vice President,
 Global Sales and Marketing**

Matthew McKenna is responsible for sales and marketing globally. Prior to joining the company, Mr. McKenna served as a member of executive management team of ADP Dealer Services Nordic and Automaster Oy where he was responsible for international channel operations and manufacturer relations. In addition, he was responsible for key accounts including Mercedes Benz, General Motors, and Scania CV. Mr. McKenna owns 25,000 SSH shares directly, 7,000 SSH shares through holding of interest parties, and has 200,000 option rights.



JYRKI LALLA, born 1964, M.Sc. (Economics)
Chief Financial Officer (CFO)

Jyrki Lalla is responsible for financial management, treasury, human resources, corporate development, and corporate governance. He also acts as Secretary to the Board of Directors. Prior to joining the company in February 2012, Mr. Lalla held several senior financial management positions at Nokia Corporation and Nokia Siemens Networks. Mr. Lalla owns 100,000 SSH shares and has 100,000 option rights.

KALLE JÄÄSKELÄINEN, born 1977, B.A. (Science)
**Vice President and Head of Research
 and Development**

Kalle Jääskeläinen is responsible for Research and Development and Customer Services globally. He has previously held several key management positions in product management and has over ten years of experience in the information security and communications network industry. Mr. Jääskeläinen owns 10,000 SSH shares and has 100,000 option rights.



A background photograph of a woman and a man in business attire. The woman, on the left, is smiling and looking towards the man. The man, on the right, is leaning in and looking at a tablet computer held by the woman. They appear to be in a meeting or collaborative work environment.

FINANCIAL STATEMENTS 2012

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REPORT OF THE BOARD OF DIRECTORS FOR 1 JAN–31 DEC 2012

NET SALES EUR million	10–12/ 2012	7–9/ 2012	4–6/ 2012	1–3/ 2012	1–12/ 2012	10–12/ 2011	1–12/ 2011
GEOGRAPHICAL SEGMENT							
Americas (AMER)	1.8	1.6	1.5	1.1	6.0	1.1	4.8
Asia and the Pacific (APAC)	0.4	0.5	0.5	0.3	1.6	0.4	1.3
Europe and the rest of the world (EROW)	1.5	0.8	0.9	1.2	4.3	0.5	1.9
SSH Communications Security Group total	3.6	2.8	2.9	2.6	11.9	2.0	8.1
BY OPERATION							
License sales	1.4	1.2	1.4	1.2	5.0	0.7	2.8
Consulting	0.6				0.6		
Maintenance	1.6	1.7	1.5	1.4	6.3	1.3	5.3
Total	3.6	2.8	2.9	2.6	11.9	2.0	8.1

FUTURE OUTLOOK

SSH Communications Security estimates its revenue to grow significantly from 2012 driven by strong need for its products and services. The company continues to invest heavily in products, sales, and marketing, which will impact profitability in the first half of the year 2013. Nevertheless, the company estimates the year 2013 to be profitable.

Upside possibilities include patent revenue and better than expected customer demand. Downside risks include delays in product development and closing new business, competition, and macroeconomic challenges.

NET SALES

Consolidated net sales for January–December totaled EUR 11.9 million (EUR 8.1 million), up by 47.9%, year on year.

The majority of SSH Communications Security's invoicing is U.S. dollar based. During the reporting period, the U.S. dollar's average exchange rate to euro strengthened approximately +4.1% compared to the same period a year ago. With comparable exchange rates, 2012 net sales growth would have been +42.1% compared with 2011 corresponding period.

PROFIT AND PROFITABILITY TRENDS

Operating profit for January–December amounted to EUR 1.1 million (EUR -2.0 million), with net profit totaling EUR 1.1 million (EUR -2.2 million).

Sales, marketing, and customer support expenses for the January–December reporting period amounted to EUR -5.9 million (EUR -5.4 million), while research and development expenses

totaled EUR -2.7 million (EUR -2.5 million), and administrative expenses EUR -1.4 million (EUR -2.0 million).

Non-recurring items during January–December 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 SSH Communications Security Oyj shares, and due to the personnel related changes.

BALANCE SHEET AND FINANCIAL POSITION

The financial position of SSH Communications Security improved clearly during the reporting period. The consolidated balance sheet total on 31 December, 2012 stood at EUR 12.5 million (EUR 6.4 million), of which liquid assets accounted for EUR 6.6 million (EUR 2.4 million), or 52.9% of the balance sheet total. On 31 December, 2012, gearing, or the ratio of net liabilities to shareholders' equity, was -105.2% (-230.0%) and the equity ratio stood at 70.0% (36.2%). Balance sheet was strengthened by hybrid capital securities in December as announced on 21 December, 2012.

The reported gross capital expenditure for the period totaled EUR 1.2 million (EUR 0.7 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 -0.1 million).

During January–December, SSH Communications Security reported a positive cash flow of EUR 1.3 million (EUR -0.8 million) from business operations, and investments showed a negative cash flow of EUR -1.2 million (EUR -0.7 million). Cash flow from financing totaled EUR 4.1 million (EUR 2.5 million). Total cash flow from operations, investments, and financing was EUR 4.2 million (EUR 0.9 million) during the period.

RESEARCH AND DEVELOPMENT

Research and development expenses for January-December totaled EUR -2.7 million (EUR -2.5 million), the equivalent of 22.7% of net sales (31.3%).

In the reporting period, the research and development cost capitalizations amount to EUR 1.1 million (EUR 0.6 million).

RISKS AND UNCERTAINTIES

The largest risks that might impact the profitability of the company are listed below. Other risks, which are currently either unknown or considered immaterial to the company may, however, become material in the future. The 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 the 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 the U.S. dollar so possible large fluctuation in the U.S. dollar rates during 2013 could have unpredictable effects for profitability that are at the time difficult to estimate. Currently the U.S. dollar position is not hedged, and the company decides hedging of the U.S. dollar based contracts case by case.

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

HUMAN RESOURCES AND ORGANIZATION

The group had 70 (52) employees as at the end of December, up by 18 persons or 34.6% on the previous year. Of the employees, 45 were based in Finland, 19 in the USA, and 6 in Hong Kong.

The average age of the employees was 39.4 years. 21% of the employees were women and 79% men. At the end of the period under review, 46% of the employees worked in research and development, 41% in sales, marketing, and customer support, and 13% in corporate administration.

Tatu Ylönen is the CEO. As separately announced by the company on 10 February 2012, Jyrki Lalla, M.Sc. (Econ.), was appointed the new CFO of the company as of 1 April 2012.

At the end of the reporting period, the parent company had 45 (35) employees on its payroll, on average 40 (44) employees during the period under review. Parent company salaries, bonuses, and other personnel expenses during the financial period totaled EUR 3.4 million (3.8 million).

BOARD AND AUDITORS

The Annual General Meeting (AGM) on 28 March 2012 elected Päivi Hautamäki, Sami Ahvenniemi, and Tatu Ylönen as the members of the Board of 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, authorized public accountant, as the principal auditor.

PRINCIPAL PROVISIONS OF THE ARTICLES OF ASSOCIATION

According to the Articles of Association, the highest decision-making power in the company is wielded by the shareholders at the shareholders' meeting. The Annual General Meeting is held within six months of the completion of the company's financial period, at a time decided by the Board. The AGM decides the number of members of the Board of Directors and elects them. Additionally, under the Finnish Limited Liability Companies Act, the AGM has the authority to amend the company's Articles of Association, adopt the financial statements, approve the amount of dividend, and select the company's auditors. Each SSH Communications Security share convey one vote at the shareholder's meeting. Under the Articles of Association, the CEO is appointed by the Board of Directors.

CORPORATE GOVERNANCE

SSH Communications Security complies with NASDAQ OMX Helsinki Ltd, and the joint recommendations of the NASDAQ OMX Helsinki Ltd, the Helsinki Chamber of Commerce, and the Confederation of Finnish Industries regarding corporate governance of publicly listed companies.

More information on corporate governance is available on the company website at www.ssh.com, together with a description of the corporate governance system.

SHARES, SHAREHOLDING, AND CHANGES IN GROUP STRUCTURE

The reported trading volume of SSH Communications Security Corporation shares totaled 6,366,775 (valued at EUR 3,202,446). The highest quotation was EUR 0.90 and the lowest EUR 0.30.

The trade-weighted average share price for the period was EUR 0.50 and the share closed at EUR 0.76 (28 December 2012).

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

The company's principal owner Tatu Ylönen holds directly and through his company, Clausal Computing Oy, now 57.7% of the company's shares, Assetman Oy holds 13.0% and SSH Management Investment Corp 4.7%. More information about the shareholding can be obtained from the company's website.

The company has the subsidiaries SSH Communications Security Inc. in the USA, SSH Communications Security Ltd in Hong Kong, and SSH Communications Security Operations Oy and SSH Communications Security Solutions Oy in Finland. SSH Communications Security Operations Oy has a branch in Germany. Two Group companies were closed during the financial period: SSH Communications Security Licensing S.A R.L (Luxembourg) and SSH Communications Security Operations Oy branch in the United Kingdom.

SSH Management Investment Corp is part of the SSH Communications Security Group consolidated financial statements according to its shareholder agreement. More information on related party transactions concerning this arrangement is available in note 29 in the consolidated financial statements.

INFORMATION ON SHAREHOLDERS

Distribution of Ownership by Sector

Type of sector	No. of shares	Percentage of shares and votes, %
Companies	11,563,831	37.61
Financial and insurance institution	223,279	0.73
Households and private individuals	18,820,662	61.20
Non-profit organizations	80,500	0.26
Foreign shareholders	62,711	0.20
Total	30,750,983	100.00

Distribution of Holdings by Number of Shares

Shares	No. of shareholders	Percentage of shareholders, %	Total no. of shares	Percentage of shares, %
1–100	1,377	43.91	78,020	0.25
101–500	656	20.94	201,450	0.66
501–1,000	342	10.92	291,081	0.95
1,001–5,000	521	16.63	1,288,001	4.19
5,001–10,000	114	3.64	7,886,858	2.56
10,001–50,000	98	3.13	1,500,767	4.88
50,001–100,000	9	0.29	543,225	1.77
100,001–500,000	10	0.32	1,242,524	4.04
500,001–999,999,999	6	0.19	24,818,657	80.71
Total	3,133	100.00	30,750,983	100.00
of which nominee-registered	5		171,503	0.56

The Ten Largest Shareholders as of 31 December 2012, Excluding Nominee-Registered

	%	Shares
Ylönen Tatu	45.26	13,919,048
Assetman Oy	13.01	4,000,000
Clausal Computing Oy	12.39	3,808,650
SSH Management Investment Oy	4.66	1,433,750
Gaselli Capital Oy	3.74	1,150,000
Siltanet Oy	1.65	507,209
Autocarrera Oy Ab	1.07	330,115
Nordea Bank Finland Plc	0.52	158,629
Poutanen Jukka Tapani	0.49	150,000
Altonen Manu Veikko	0.44	136,400
Total	83.23	25,593,801
Nominee-registered	0.56	171,503

SHARE CAPITAL AND BOARD AUTHORIZATIONS

The registered share capital of SSH Communications Security Corporation as of 31 December 2012 was EUR 922,529, divided into 30,750,983 shares.

Share Subscriptions Using Option Certificates from the Company Stock Option Plans in 2012 and 2011 (no. of shares):

	2012	2011
I/1999 option plan class C option certificates		250
I/1999 option plan class D option certificates		250
I/1999 option plan class E option certificates	375	
I/1999 option plan class F option certificates	1,525	500
I/1999 option plan class G option certificates	1,650	
I/1999 option plan class H option certificates	925	
Total	4,475	1,000

The stock option subscriptions led to an increase of EUR 134.25 (EUR 30.00) in share capital.

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 30 June 2013 at the latest. The Board of Directors decided on 27 July 2012 an option plan I/2012 of maximum 2,000,000 options, each of which entitles to subscribe one share at a price of EUR 0.65. The Board of Directors decided on 4 December 2012, upon a share issue directed to personnel, from which 197,300 shares were subscribed increasing the shareholder's equity with EUR 5,919.

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% 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.

SHARE-BASED PAYMENTS

The share-based payments of SSH Communications Security are stock options. Stock option programs have been in effect in the reporting period or in the comparison year from the years 1999, 2000, 2002, and 2012.

Each option gives the right to subscribe to one new share at a price and at a time specified in the terms of the stock option plan. The option rights will be canceled in case the employee

leaves the company before the subscription time has begun. There are no other conditions to the beginning of the option rights.

The shares subscribed with the granted option rights include the rights to any dividend payable for the reporting period during which the shares were subscribed. Other shareholder rights commence as soon as the increase in the share capital has been registered in the Trade Register. The stock option plan (I/1999) class G and H certificates are also traded on the NASDAQ OMX Helsinki.

More information on stock option plans is given in note 20 in the consolidated financial statements.

RELATED PARTY TRANSACTIONS

Clausal Computing Oy, a wholly-owned company of SSH Communications Security Corporation's CEO Tatu Ylönen, has delivered the company mainly R&D services valued in total EUR 0.4 million during January-December 2012. As announced on 21 December 2012, hybrid capital securities were subscribed by Tatu Ylönen. During the reporting period, there has not been any other significant transactions with related parties.

EVENTS AFTER THE BALANCE SHEET DATE

The company management is not aware of any significant transactions after the reporting period.

DIVIDEND AND OTHER DISTRIBUTION OF ASSETS

The SSH Communications Security Board of Directors will propose to the AGM that no dividend or return of capital be distributed. It is proposed that the profit for the financial period shall be entered under equity in the balance sheet.

FINANCIAL INDICATORS

	1 Jan 2012– 31 Dec 2012	1 Jan 2011– 31 Dec 2011	1 Jan 2010– 31 Dec 2010
Net sales, EUR	11,919,987	8,058,571	9,099,750
Operating profit/loss, EUR	1,083,333	-2,036,349	-717,676
% of net sales	9.1	-25.3	-7.9
Profit/loss before taxes, EUR	1,130,209	-2,172,958	-454,391
% of net sales	9.4	-27.0	-5.0
Return on equity, %	30.9	-110.0	-12.8
Return on investments, %	28.1	-99.6	-10.5
Net interest-bearing debt, EUR	-6,577,651	-2,495,335	-3,995,216
Gearing, %	-105.2	-230.0	-121.0
Equity ratio, %	70.0	36.2	69.1
Gross investments in tangible and intangible assets, EUR	1,185,655	709,944	97,800
% of net sales	10.0	8.8	1.2
Research and development costs, EUR	2,703,540	2,518,805	2,314,400
% of net sales	22.7	31.3	25.2
Research and development costs without investments, EUR	3,646,148	3,092,979	2,314,400
% of net sales	30.5	38.3	25.2
Personnel on average	61	61	68
Personnel at the end of the period	70	52	70
Salaries and fees, EUR	4,338,157	5,040,780	4,890,580

INDICATORS PER SHARE

	1 Jan 2012– 31 Dec 2012	1 Jan 2011– 31 Dec 2011	1 Jan 2010– 31 Dec 2010
Earnings per share, EUR	0.04	-0.07	-0.02
Earnings per share, considering dilution effect, EUR	0.04	-0.07	-0.02
Equity per share, EUR	0.20	0.03	0.10
Dividends, EUR	0	0	-
Dividends per share, EUR	0.00	0.00	0.00
Dividend pay-out ratio, %	-	-	-
Effective dividend yield, %	0.0	0.0	0.0
Return of capital, EUR	0.0	0.0	1,494,922
Return of capital per share, EUR	0.00	0.00	0.05
Adjusted average number of shares during the period, 1,000	30,552	30,549	29,900
Adjusted average number of shares at the end of the period, 1,000	30,751	30,549	30,548
Adjusted average number of shares considering dilution effect, 1,000	30,754	30,563	30,585
Price per earnings ratio (P/E)	19.5	-4.2	-52.1
Market capitalization at the end of the period, EUR million	23.4	9.2	24.8
	1 Jan 2012– 31 Dec 2012	1 Jan 2011– 31 Dec 2011	1 Jan 2010– 31 Dec 2010
Share performance on the Helsinki Stock Exchange, EUR			
Average price	0.50	0.51	0.91
Share price, year end	0.76	0.30	0.83
Lowest quotation	0.30	0.29	0.76
Highest quotation	0.90	0.89	1.15
Volume of shares traded, millions	6.4	2.3	4.5
Volume of shares traded, % of total number	20.7	7.5	15.1
Volume of shares traded, EUR million	3.2	1.2	4.1

CALCULATION OF FINANCIAL RATIOS

Return on Equity, % (ROE)	$\frac{\text{Profit / loss for the financial period}}{\text{Equity (average during the financial period)}} \times 100$
Return on Investment, % (ROI)	$\frac{\text{Profit / loss before taxes + interest and other financial costs}}{\text{Balance sheet total - non - interest bearing debts (average during financial period)}} \times 100$
Equity Ratio, %	$\frac{\text{Equity}}{\text{Balance sheet total - advance payments received}} \times 100$
Earnings Per Share (EPS)	$\frac{\text{Profit / loss for the financial period}}{\text{Average number of outstanding shares during the financial period}}$
Diluted EPS	$\frac{\text{Profit / loss for the financial period - interest from hybrid capital securities}}{\text{Adjusted average number of shares considering dilution effect}}$
Dividend Per Share	$\frac{\text{Dividend}}{\text{Number of outstanding shares during the financial period}}$
Dividend Pay-out Ratio, %	$\frac{\text{Divident per share}}{\text{Earnings per share}} \times 100$
Equity Per Share	$\frac{\text{Equity}}{\text{Number of outstanding shares on the financial statement date, adjusted for share issue}}$
Gearing, %	$\frac{\text{Interest bearing debt - liquid assets}}{\text{Equity}} \times 100$

A photograph of two business professionals, a woman and a man, in an office setting. The woman, on the left, has short brown hair and is wearing a white blazer over a white shirt. She is holding a black pen and pointing at a document on a clipboard. The man, on the right, has short brown hair and is wearing a light blue button-down shirt. He is looking down at the document. The background is bright and slightly blurred, suggesting an office environment with large windows.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED COMPREHENSIVE
INCOME STATEMENT

EUR	Note*	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
NET SALES	4	11,919,987	8,058,572
Cost of goods sold		939,873	139,772
GROSS MARGIN		10,980,113	7,918,800
Other operating income	5	1,169	1,536
Sales and marketing costs	6, 7	5,885,169	5,418,678
R&D costs	6, 7	2,703,540	2,518,805
Administrative costs	6, 7	1,309,240	2,019,202
OPERATING PROFIT/LOSS		1,083,333	-2,036,349
Financial income	8	187,330	71,154
Financial costs	9	140,454	207,815
PROFIT/LOSS BEFORE TAXES		1,130,209	-2,173,010
Income tax	10	7,635	21,234
PROFIT/LOSS FOR THE FINANCIAL PERIOD		1,122,574	-2,194,244
OTHER COMPREHENSIVE INCOME/COSTS			
Translation differences		- 133,644	73,170
COMPREHENSIVE PROFIT/LOSS FOR THE FINANCIAL PERIOD		988,930	-2,121,074
Profit/loss for the financial period attributable to:			
equity holders of the parent company		1,135,036	-2,177,230
non-controlling interest		-12,462	-17,014
Comprehensive profit/loss for the financial period attributable to:			
equity holders of the parent company		1,001,392	-2,104,060
non-controlling interest 1)		-12,462	-17,014
Earnings per share (undiluted)	11	0.04	-0.07
Earnings per share (diluted)	11	0.04	-0.07

* The notes constitute an essential part of the financial statement.

- 1) The portion of the profit/loss and comprehensive profit/loss attributed to non-controlling interest is attributed to SSH Management Investment Oy.

CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEET

EUR	Note*	31 Dec 2012	31 Dec 2011
ASSETS			
NON-CURRENT ASSETS			
Tangible assets	12		
Machinery & equipment		128,465	141,367
Other tangible assets		153	1,090
Tangible assets, total		128,618	142,457
Intangible assets	13		
Immaterial rights		2,054,548	1,302,701
Intangible assets, total		2,054,548	1,302,701
Investments			
Other shares		11,000	14,467
Investments, total		11,000	14,467
NON-CURRENT ASSETS, TOTAL		2,194,165	1,459,626
CURRENT ASSETS			
Short-term receivables			
Accounts receivable	14	3,109,627	2,090,774
Other receivables	15	391,701	332,557
Prepaid expenses and accrued income	16	199,836	59,826
Current receivables, total		3,701,164	2,483,157
Cash and cash equivalents	17	6,613,742	2,414,681
CURRENT ASSETS, TOTAL		10,314,907	4,897,838
ASSETS, TOTAL		12,509,073	6,357,464

* The notes constitute an essential part of the financial statement.

CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEET

EUR	Note*	31 Dec 2012	31 Dec 2011
SHAREHOLDERS' EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY SHAREHOLDERS			
Share capital		922,529	916,476
Fair value and other reserves		225,058	151,682
Translation differences		-1,314,739	-1,181,095
Unrestricted invested equity fund		4,561,663	4,429,472
Other fund		85,000	85,000
Other equity fund		3,974,346	-
Fund for own shares		-980,240	-980,240
Retained earnings		-1,441,689	-2,576,725
		6,031,928	844,570
NON-CONTROLLING INTEREST			
Non-controlling interest 1)		221,738	234,200
EQUITY, TOTAL	18	6,253,666	1,078,770
NON-CURRENT LIABILITIES			
Financial liabilities	21	130,082	121,652
NON-CURRENT LIABILITIES, TOTAL		130,082	121,652
CURRENT LIABILITIES			
Capital loan		36,091	115,688
Advances received	22	3,579,281	3,373,604
Accounts payable	23	546,382	496,253
Accrued expenses	24	1,410,626	906,263
Tax liabilities	24	29,320	32,084
Other liabilities	25	523,625	233,149
CURRENT LIABILITIES, TOTAL		6,125,325	5,157,041
LIABILITIES, TOTAL		6,255,407	5,276,003
EQUITY AND LIABILITIES, TOTAL		12,509,073	6,357,464

* The notes constitute an essential part of the financial statement.

1) The portion attributed to non-controlling interest consists of the holding of SSH Management Investment Oy in SSH Communications Security Corporation.

CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED CASH FLOW STATEMENT

EUR	Note*	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Cash flow from business operations			
Sales revenue	4,14,22	10,907,655	8,623,700
Revenue from other business operations		1,169	1,536
Costs of business operations	6,7,23,24,25	-9,595,805	-9,348,864
Interest and payments on other financial costs of business operations		-124,888	-117,049
Interest and other financial revenue from business operations		167,309	6,401
Taxes paid		-6,556	-5,604
Cash flow from business operations		1,348,885	-839,880
Cash flow from investing activities			
Investments in tangible and intangible assets	12,13	-1,208,605	-693,897
Cash flow from investing activities		- 1,208,605	-693,897
Cash flow from financing activities			
Proceeds from short-term financial investments		4,000,000	2,452,744
Paid liabilities		-79,597	-
Proceeds from issuance of share capital		134	30
Personnel share issue	20	138,244	-
Cash flow from financing activities		4,058,781	2,452,744
Change in liquid assets		4,199,061	918,997
Liquid assets at beginning of period	19	2,414,681	1,495,684
Exchange rate adjustment			
Change in liquid assets		4,199,061	918,997
Liquid assets at end of period	19	6,613,742	2,414,681

* The notes constitute an essential part of the financial statement.

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

EUR	Note	Share capital	Fair value and other reserves	Other fund	Other equity fund	Translation differences	Unrestricted invested equity fund	Fund for own shares	Retained earnings	Non-controlling interest	Equity total
Equity 1 Jan 2011		916,446	139,150	85,000		-1,254,265	4,429,472	-980,240	-399,496	251,214	3,187,282
Comprehensive profit/loss											
Profit/loss for the period									-2,177,230	-17,014	-2,194,244
Other comprehensive items											
Translation differences						73,170					73,170
Comprehensive profit/loss for financial period, total						73,170			-2,177,230	-17,014	-2,121,287
Shares subscribed on option rights	20	30									30
SSH Management Investment Oy			12,532								12,532
Transactions with shareholders, total		30	12,532								12,562
Equity 31 Dec 2011		916,476	151,682	85,000		-1,181,055	4,429,472	-980,240	-2,576,725	234,200	1,078,770
Equity 1 Jan 2012		916,476	151,682	85,000		-1,181,095	4,429,472	-980,240	-2,576,725	234,200	1,078,770
Comprehensive profit/loss											
Profit/loss for the period									1,135,036	-12,462	1,122,574
Other comprehensive items											
Translation differences						-133,644					-133,644
Comprehensive profit/loss for the financial period, total		0	0	0		-133,644	0	0	1,135,036	-12,462	988,930
Hybrid capital securities					3,974,346						3,974,346
Shares subscribed on option rights	20	134									134
Share issue		5,919					132,191				138,110
SSH Management Investment Oy			73,376								73,376
Transactions with shareholders, total		6,053	73,376			0	132,191	0	0		4,185,966
Equity 31 Dec 2012		922,529	225,058	85,000	3,974,346	-1,314,739	4,561,663	-980,240	-1,441,689	221,738	6,253,666

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

SSH Communications Security Corporation (formerly Tectia Corporation) is the company that invented the SSH protocol – the gold standard protocol for data-in-transit security solutions. Today, over 3,000 customers across the globe, including 7 of the Fortune 10, trust our Information Assurance Platform to secure the path to their information assets. We enable and enhance business for thousands of customers in multiple industries in the private and public sectors around the world with our core SSH technology, key management, and auditing solutions. SSH Communications Security solutions are sold as licensed software with maintenance and support agreements.

The SSH Communications Security Group consists of SSH Communications Security Corporation and its wholly-owned subsidiaries. SSH Communications Security Corporation is domiciled in Helsinki, Finland and is a publicly traded company. The subsidiaries of SSH Communications Security are SSH Communications Security Inc. (USA), SSH Communications Security Ltd. (Hong Kong), SSH Communications Security Solutions Oy, and SSH Communications Security Operations Oy, which has operations in Finland and Germany. SSH Communications Security Corporation has its registered office at address Takomotie 8, 00380 Helsinki, Finland.

The SSH Communications Security Board of Directors approved this financial statement for publication at its meeting on 13 February 2013. Under the Finnish Limited Liability Companies Act, the shareholders can accept or reject the financial statement at the AGM held after its publication. The AGM is also entitled to alter the financial statement. A copy of the financial statements is published as a part of the company's

annual report. The annual report is available on the company website at www.ssh.com, or at the head office of SSH Communications Security Corporation. All stock exchange bulletins are available on the company website.

2. ACCOUNTING PRINCIPLES

Basis of Preparation

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) including the International Accounting Standard (IAS) and International Financial Reporting Standards (IFRS) as well as the interpretations by Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) in force as of 31 December 2012. The aforementioned standards are the standards and interpretations thereof approved for use in the EU pursuant to Regulation (EC) No. 1606/2002 implemented in the Finnish Accounting Act and legislation based thereon. The notes to the consolidated financial statements are also compliant with Finnish accounting and company legislation.

The consolidated financial statements are based on original acquisition costs unless otherwise noted in the accounting principles. The consolidated financial statements are presented in full euros unless otherwise stated.

In November 2009, the former Management Group and former CEO of the Group set up a company named SSH Management Investment Oy (SMI), through which the management incentive scheme has been implemented. The company owns 1,433,750 shares in the parent company. This arrangement is

explained in more detail under note 29 'Group companies and related party transactions' to the consolidated financial statement. The parent company holds a controlling interest in SSH Management Investment Oy pursuant to the terms and conditions of the shareholders' agreement, and accordingly the company is incorporated in the consolidated financial statements. The shares in the parent company held by SSH Management Investment Oy are deducted from the Group's unrestricted equity. The deduction from equity is recognized under the fund for own shares. The investments made in the company by the shareholders of SSH Management Investment Oy are recognized as non-controlling interest in the consolidated balance sheet.

Subsidiaries

The consolidated accounts include the parent company SSH Communications Security Corporation and all its subsidiaries. Subsidiaries are companies in which the Group has a controlling interest. A controlling interest is created when the Group owns more than half of the votes in a company or the Group otherwise exercises control over a company. Potential voting powers are also taken into account when evaluating a controlling interest if the instruments in which the potential voting powers are vested are realizable at the time of analysis. A controlling interest means having the right to issue orders concerning a company's finances and business principles in order to benefit from its operations.

Group-internal share ownership is eliminated using the purchase method. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date on which that control ceases. All Group-

internal transactions, receivables and debts, unrealized profit, and profit distribution have been eliminated.

Converting Foreign Currency Transactions

Items of each subsidiary included in the consolidated financial statements are measured using the currency of the operating environment of that subsidiary ('functional currency'). The consolidated financial statements are presented in euros, which is the functional and reporting currency of the parent company.

Transactions in Foreign Currency

Foreign currency denominated transactions are recognized at the exchange rate of the functional currency on the transaction date. In practice, the exchange rate used is approximately the rate of the transaction date. Outstanding receivables and liabilities in foreign currencies are measured using the exchange rates on the balance sheet date. Exchange rate gains and losses on financing are included in financing income and costs.

Translation of Financial Statements of Foreign Subsidiaries

The comprehensive income statements of subsidiaries whose functional currency is other than EUR are translated into euros using the exchange rate of the transaction dates. In practice, the translations are done once a month using the monthly average exchange rate. Balance sheet items are translated into euros with the exchange rate of the balance sheet date. The translation of the comprehensive profit/loss for the financial period using different exchange rates in the comprehensive income statement on the one hand and in the balance sheet on the other causes a translation difference recognized under Group equity under other comprehensive profit/loss items.

Translation differences generated through elimination of the acquisition costs of foreign subsidiaries and translation of equity items accrued after acquisition are recognized under other comprehensive profit/loss items. When a subsidiary is sold, accumulated translation differences are recognized in the income statement as part of the gain or loss on the sale.

Revenue Recognition

SSH Communications Security net sales derive mainly from software license sales and maintenance fees. Net sales comprise the invoiced value for the sale of goods and services adjusted with any discounts given, sales taxes, and exchange rate differences.

The revenue from product sales is recognized at the time when significant risks and rewards of the product or the right of use of the product have been transferred to the buyer and there is a binding contract between the parties, the delivery has taken place in accordance with the contract, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will accrue to the company.

Maintenance agreements are recognized evenly on an accrual basis throughout the contract period. Revenues from services are recognized when the service has been delivered and it is probable that the economic benefits associated with the transaction will accrue to the company.

Government Grants

Government grants, for example, grants received from the government for a purchase of tangible assets, are entered as a deduction of the book value of the asset when there is reasonable assurance that the company will receive the grant and will com-

ply with the conditions attaching to the grant. Grants are recognized as income over the life of a depreciable asset by way of a reduced depreciation. Government grants that are intended to compensate costs are recognized as income over the same period as the related costs are recognized. These government grants are presented under other operating income. The company has an R&D capital loan from TEKES (the Finnish Funding Agency for Technology and Innovation) which was transferred as part of the Siltanet business operations transaction in 2010. This loan is not of a significant magnitude.

Property, Plant, and Equipment

The property, plant, and equipment of Group companies are measured in the balance sheet at cost less accumulated straight-line depreciation and eventual impairment losses. When a part of a current assets item is treated as a separate asset, expenses related to its replacement are capitalized and any remaining book value is written off. Expenses incurring at a later date are included in the class of property, plant, and equipment only if it is probable that the property will provide future economic benefits to the Group and that the acquisition cost can be reliably determined. Other repair and maintenance expenses are recognized in profit/loss as and when incurred.

Depreciation is calculated on a straight-line basis to reduce the purchase value of each asset item to its residual value over its estimated useful life.

- Machinery and equipment: 5 years from month of acquisition.
- Computer hardware: 3 years from month of acquisition.
- Leased assets based on finance leasing agreements: 3–5 years from month of acquisition, depending on the depreciation period for corresponding items.

- Major renovations of rental premises: According to length of the rental agreement, though no more than 7 years from year of acquisition.

The residual value and useful life of assets are reviewed for each financial statement and, if necessary, adjusted to indicate changes expected in the assets' economic benefits.

The depreciation on property, plant, and equipment is ceased when the asset is classified as held for sale in accordance with standard IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Capital gains and losses are determined by comparing proceeds received with the book value of sold assets. Impairment losses incurred through transfer are recognized under other operating costs.

Intangible Assets

Research and Development Costs

Research costs are recognized as costs in the income statement. Development costs (related to the design and testing of new or improved products) are recognized as intangible assets if capitalization criteria are fulfilled and if it is probable that their economic benefits will accrue to the company pursuant to IAS 38. The most significant development costs to be capitalized constitute R&D personnel costs and sub-contracting costs. Other development costs are recognized directly as costs. Development costs once recognized as costs are not capitalized in subsequent financial periods.

Depreciation begins when an asset is ready for use. Incomplete assets are tested annually for impairment. After initial recognition, capitalized development costs are measured at

cost less accumulated depreciation and impairment losses. Capitalized development costs are depreciated on a straight-line basis over their economic lifetime, estimated at 3–5 years.

Software

Software includes acquired software licenses. These assets are entered in the balance sheet at cost and depreciated on a straight-line basis over their economic lifetime. The residual value and useful life of assets are reviewed for each financial statement and, if necessary, adjusted to indicate changes expected in the assets' economic benefits. The economic lifetime does not generally exceed 5 years. The depreciation period for software acquired for internal use is 3–5 years.

Other Immaterial Rights

Immaterial rights include obtained technology patents, trademarks, customer registers, and technology rights. These are entered in the balance sheet at cost and depreciated on a straight-line basis over their economic lifetime. The residual value and useful life of assets are reviewed for each financial statement and, if necessary, adjusted to indicate changes expected in the assets' economic benefits. The economic lifetime does not generally exceed 5 years.

Impairment of Tangible and Intangible Assets

The Group will review on each balance sheet date whether there is any indication of an impaired asset. Whenever indicators of impairment exist, the book value of such an asset is compared with its recoverable amount. The recoverable amount is the fair value of the asset less the costs of its sale, or its value in use, whichever is the higher. The value in use is the present value of the future cash flows expected to be derived from an

asset or cash-generating unit. The discount rate used to calculate the above is pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

Whenever the book value of an asset exceeds its recoverable amount, an impairment loss will be recognized for that asset. The impairment loss is recognized immediately in the income statement. After the recognition of an impairment loss, the economic lifetime of an asset subject to depreciation is re-evaluated. An impairment loss recognized in prior periods for an asset other than goodwill will be reversed if there is a change in the estimates that have been used in assessing the recoverable amount of that asset.

Financial Assets and Liabilities

Financial Assets

The Group has classified its financial assets into the following categories: investments held to maturity, and loans and receivables. The assets are classified when originally acquired. The assets are initially recognized at fair value. Transaction costs are included in the original book value of an asset if the asset is not to be recognized at fair value in profit/loss. Financial assets are written off from the balance sheet when the contractual right to cash flows from an asset included in financial assets ends or when the significant risks and rewards related to the asset are transferred outside the Group. All asset purchases and sales are recognized on the date of the transaction.

Investments held to maturity are financial assets other than derivative assets whose payments are made according to a fixed plan, which mature on a defined date and which the Group can

and intends to keep until they mature. These are measured at amortized acquisition cost and recognized under current assets.

Loans and other receivables are assets other than derivative assets and with a fixed or definite series of payments. These assets are unlisted and not held for trading. They are measured at amortized acquisition cost. They are recognized under current or non-current financial assets in the balance sheet depending on their nature: assets expiring in more than 12 months are recognized under non-current assets.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances, short-term deposits with banks, and other short-term liquid investments with maturity up to 3 months at the time of acquisition.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is, the impairment will immediately be entered in the income statement. If an impairment on an interest instrument is later reversed, this will be recognized in profit/loss.

The Group recognizes an impairment loss on trade receivables when there is objective evidence that a receivable is not fully collectible. Significant financial difficulties, likelihood of bankruptcy, neglect of payments or delay of payment by more than 90 days on part of a debtor may be considered to constitute such evidence for an impairment loss on trade receivables. The impairment loss recognized in the income statement is the difference between the book value and current value of esti-

mated future cash flows of a receivable discounted at the effective interest rate. If impairment loss is decreased during any later period and the basis for this can objectively be related to an event occurred after the original impairment, the reversal will be recognized in profit/loss in the income statement.

Financial Liabilities

The Group's financial liabilities are classified into financing liabilities recognized at fair value in profit/loss and other financial liabilities (financing liabilities recognized at amortized acquisition cost). A financial liability is classified as current if the Group does not have the absolute right to postpone repayment to at least 12 months from the end of the period under review. A financial liability (or part thereof) will not be written off the balance sheet until it has ceased to exist, i.e., when the obligation specified in the agreement has been discharged or reversed and its period of validity has expired.

In the SSH Communications Security Group, financial liabilities recognized at fair value in profit/loss includes the derivative instruments which do not fulfill the criteria for hedging accounting and which are not warrants (currency derivatives). Unrealized and realized profits/losses due to changes in the fair value of these derivatives are recognized in profit/loss in the financial period during which they are generated.

Other financial liabilities (financing liabilities recognized at amortized cost) include, most significantly, the Group's finance leasing liabilities and accounts payable. They are initially recognized at fair value. After the original recognition, other financial liabilities are measured at amortized acquisition cost using the effective interest rate method.

Leases

Lease liabilities on tangible assets which expose the Group to significant risks and rewards inherent in holding such assets are classified as finance leases. Finance leasing agreements are capitalized at the beginning of the lease at the fair value of the leased asset or the current value of the minimum lease payments, whichever is lower. An asset based on a finance leasing agreement will be depreciated over its useful life or within the lease term, whichever is shorter. Lease payments are apportioned between the finance charge and repayment on the outstanding liability over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Rental obligations are included in interest-bearing liabilities.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as other operating leases. Payments made under operating leases, included in other operating expenses, are recognized in the income statement on a straightline basis over the period of the lease.

Earnings Per Share

The diluted earnings per share is calculated by dividing the net profit/loss for the financial year by the weighted average number of ordinary shares outstanding during the financial year. Treasury shares held by the Group are not included in the number of outstanding shares. A dilutive effect caused by stock options exists when the subscription price of a share is lower than the fair value of the share. In the calculation of diluted earnings per share, stock options are only considered dilutive when their conversion to ordinary shares would decrease earnings per share or increase the loss per share from continuing

operations. In other words, when the Group declares a loss, no dilutive effect will be calculated.

Share Capital

Ordinary shares are presented as share capital. Dividends paid on ordinary shares are deducted from equity in the period during which the decision to distribute dividends is made.

Share Issue Costs

Costs directly related to an issue of new shares, other than costs attributable to a business combination, are deducted, net of tax, from the proceeds recognized under equity. Share issue costs directly attributable to business combinations are included in acquisition costs.

Own Shares

If SSH Communications Security Corporation or its subsidiaries purchase SSH shares, the compensation paid, including any related incremental external costs, net of tax, is deducted from total equity as own shares until the shares are canceled or transferred. If own shares are subsequently sold, any compensation received will be recognized under equity.

Gross Margin

Gross margin is equal to net sales less the acquisition costs of materials and services.

Operating Profit/Loss

Operating profit/loss is equal to earnings before interest and taxes.

Income Tax

Tax expenses in the income statement comprise tax based on taxable income for the period and deferred tax. Income tax is recognized in the income statement except for taxes related to items recognized under comprehensive profit/loss or directly under equity, in which case the tax impact will be incorporated in the aforementioned items. Tax based on taxable income for the period is calculated using the corporate income tax rate effective in each country, adjusted for any tax from previous periods.

Deferred taxes are calculated on all temporary differences between the book value and taxable value. The largest temporary differences arise from the financial leasing agreements and unused tax losses which are deductible at a later date. Company didn't have significant financial leasing agreements in 2012 and 2011.

Deferred taxes are calculated using the statutory tax bases or the tax bases whose confirmed content has been announced by the closing date. Deferred tax assets are recognized to the extent that it is probable that taxable income against which the temporary difference can be applied will materialize in the future. Deferred tax liabilities are recognized at full value in the balance sheet.

Employee Benefits

Pensions

The Group's pension schemes comply with the relevant regulations and practices in each relevant country. Pension security for Group personnel is handled through external pension insurance companies. The Group applies defined-contribution pen-

sion plans, in which the Group pays fixed contributions to an outside unit. The Group has no obligation to make additional payments in case the recipient of the aforementioned contributions cannot discharge its pension payment obligations. Contributions under the defined-contribution plan are recognized in the income statement for the financial period during which the contributions were made.

Equity-Based Benefits

Option rights have been issued to the Group management (excluding the CEO) and personnel. Option rights are issued with a fixed subscription price determined in the terms and conditions of the option plan.

Option rights are measured at fair value on their date of issue and recognized as a cost in the income statement on a straight-line basis over the vesting period. The expense determined at the time of issuing the stock options is based on the Group's estimate of the number of stock options to which it is assumed that rights will vest by the end of the vesting period. The fair value is determined using the Black-Scholes pricing model. The non-market criteria are not included in the fair value of the option but taken into account in the number of stock options that are assumed to vest at the end of the vesting period. On the date of each financial statement, the Group updates its estimate of the final amount of the stock options that will vest, and changes in this estimate are recognized in the income statement. When the option rights are exercised, the proceeds received, net of any transaction costs, are recognized under share capital and the share premium account.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, when it is probable that expenditure will be required to settle the obligation, and when a reliable estimate of the amount can be made. If the Group expects an obligation to be partly reimbursed by a third party, the reimbursement is recognized as a separate asset but only when the reimbursement is certain in practical terms. The Group recognizes a provision on loss-making agreements when the expected benefits of an agreement are less than the unavoidable costs of meeting the obligations under the agreement.

Provisions are measured at the current value of the costs required to discharge the obligation. The discount rate is determined to reflect current market assessments of the time value of money and the risks specific to the obligation.

New or Amended IFRS Standards

The following standards, interpretations, and amendments that entered into force during the 2012 financial period did not have a substantial impact on the Group's financial statement:

- Amendments to IFRS 7 Financial Instruments: Disclosures (effective for financial periods beginning on or after 1 July 2011): Enhancing disclosures about transfers of financial assets, disclosures about fair value and liquidity risk, and their impact on a company's financial position, especially in the case of securitization of financial assets. The changes have impact on the notes of the Group's financial statements.

The following, already published new or amended by IASB, standards and interpretations have not yet been applied by SSH Communications Security. The Group will introduce these as of the effective date of each standard or interpretation or, if the

effective date is not the first day of the financial period, from the beginning of the financial period following the effective date.

* = This amendment has not yet been accepted for application in the EU.

Financial period 2013

- Amendments to IAS 1 Presentation of Financial Statements (effective for financial periods beginning on or after 1 July 2012): The key change here is the requirement to revise the way items under other comprehensive income are presented depending on whether they may later be recognized in profit/loss if certain criteria are fulfilled. The amendments have impact on the presentation of the Group's other comprehensive income/cost.
- Amendments to IAS 19 Employee Benefits (effective for financial periods beginning on or after 1 January 2013): In the future, all actuarial gains and losses will be recognized immediately under other items in the comprehensive income statement, i.e., the 'pipe method' will be abandoned and the financing cost will be determined on an offset basis.
- IFRS 13 Fair Value Measurement (effective for financial periods beginning on or after 1 January 2013): IFRS 13 is a compilation of the requirements for measuring fair value and for presenting related information in financial statements, together with a new definition of 'fair value'. The application of fair value is not extended, but the standard provides instructions on how to determine fair value when it is applicable or required under another standard. The standard is not estimated to have an impact on the Group's consolidated financial statements.
- Annual Improvements to IFRSs 2009-2011, May 2012* (effective for financial periods beginning on or after 1 January 2013): The Annual improvements procedure gathers all minor and less urgent amendments into one collection implemented once a year. The amendments concern five standards and vary by standard, but they do not have substantial impact.

tive for financial periods beginning on or after 1 January 2013): The Annual improvements procedure gathers all minor and less urgent amendments into one collection implemented once a year. The amendments concern five standards and vary by standard, but they do not have substantial impact.

- Amendments to IFRS 7 Financial Instruments: Disclosures (effective for financial periods beginning on or after 1 January 2013): The revised standard requires disclosure of any information related to the impact of offsetting arrangements in the balance sheet. The notes required by these amendments must be presented retroactively. The changes are not estimated to have an impact on the Group's consolidated financial statements.

Financial period 2014

- IFRS 10 Consolidated Financial Statements (effective for financial periods beginning on or after 1 January 2014): In accordance with current principles, IFRS 10 defines controlling interest as the key factor for deciding whether to incorporate a company in the consolidated financial statement. The standard also provides further instructions on how to determine a controlling interest in situations where it is difficult to estimate. The new standard is not estimated to have a substantial impact on the Group's consolidated financial statements.
- IFRS 11 Joint Arrangements (effective for financial periods beginning on or after 1 January 2014): IFRS 11 describes the accounting for joint arrangements with joint control. There are two forms of joint arrangements: joint operations and joint ventures. The reporting of the joint ventures is required to be done using one unified method, the equity method,

and the former proportionate consolidation is no longer permitted. The new standard is not estimated to have a substantial impact on the Group's consolidated financial statements.

- IFRS 12 Disclosure of Interests in Other Entities (effective for financial periods beginning on or after 1 January 2014): IFRS 12 is a compilation of the requirements for information to be presented in financial statements. These have to do with holdings in other entities, including associated companies, joint ventures, structured units, and other off-balance-sheet entities. The new standard expands the notes the Group presents concerning its holdings in other entities. The new standard is not estimated to have a substantial impact on the Group's consolidated financial statements.
- IAS 27: Separate Financial Statements (re-issued in 2011) and the amendments thereto (effective for financial periods beginning on or after 1 January 2014): The re-issued standard outlines the accounting and disclosure requirements, that remained when consolidation requirements were moved to IFRS 10, for 'separate financial statements'. The re-issued standard has no impact on the Group's consolidated financial statements.
- IAS 28: Investments in Associates (re-issued in 2011) (effective for financial periods beginning on or after 1 January 2014): The standard was re-issued due to issuing IFRS 11. The standard outlines the accounting for investments in associates and joint ventures, and includes the requirements for using the equity method. The re-issued standard is not estimated to have an impact on the Group's consolidated financial statements.
- Amendments to IAS 32 Financial Statements: Presentation

(effective for financial periods beginning on or after 1 January 2014): These amendments clarify the requirements pursuant to regulation of offsetting financial assets and liabilities in the balance sheet. The amended standard must be applied retroactively. The changes are not estimated to have an impact on the Group's consolidated financial statements.

Financial period 2015

- IFRS 9 Financial Instruments* and amendments thereto (the effective date from 1 January 2013 to 1 January 2015): The new standard is intended to replace the existing IAS 39 Financial Instruments: Recognition and Measurement and will be published in three stages. Amendments in the first stage (published in March 2009) have to do with the classification, recognition, and measurement of financial assets and liabilities. Different measurement methods are retained but they have been simplified. Financial assets are divided into two classifications based on their measurement: financial assets measured at amortized cost and financial assets measured at fair value. The classification (published in October 2010) depends on the company's business model and the contractual provisions of the instrument. Regarding financial liabilities, the majority of the provisions of IAS 39 have been incorporated in the new standard without changes. The incomplete amendments of IFRS 9 are related to depreciations of financial assets and to hedge accounting. In addition, IASB considers certain amendments to classification and valuation principles of the financial assets. The part concerning macro hedge accounting has been differentiated to a separated pro-

ject from IFRS 9. Because IFRS 9 amendments are still not complete, no estimates on the impacts on the Group's consolidated financial statements can be given at this point.

Management Judgment in Applying the Most Significant Accounting Policies and Other Key Sources of Estimation Uncertainty

When preparing the financial statement, the Group management has to make estimates and assumptions influencing the content of the financial statement. The management must also exercise its judgment regarding the application of accounting policies. These estimates are based on the management's best knowledge of current events and actions at the time. Potential effects of changes in estimates and assumptions are recorded in the income statement and balance sheet for the financial period during which these estimates and assumptions are adjusted, and also in all subsequent financial periods.

The most important of these estimates and assumptions are related to business combination of business, R&D activations, the credit risk of trade receivables, and the utilization of deferred tax assets.

3. SEGMENT INFORMATION

The Group has three segments which are reported as operating segments. These segments are defined as geographical areas. They are based on the Group's internal structure and internal financial reporting. The company's highest operative executive is the CEO. Assessing the profitability of these segments is mainly based on operating profit/loss and gross margin. The nature of the market and its risks are different in each segment.

Segment assets are items which are used by the segment in its business or which can be allocated to the segment. Unallocated items include items shared by the Group. Net sales and equity of segments are based on location of customers and operations.

The Group's operating segments are:

- North and South America (AMERICAS)
- Europe and Rest of World (EROW), and
- Asia and the Pacific (APAC)

The Group operates globally with the same operating model, so that products and services are delivered same way in all operating segments.

Geographical Distribution of Net Sales

Segment	2012	2011
Finland	1,086,374	351,303
EROW (excl. Finland)	3,222,660	1,579,671
AMERICAS	6,034,700	4,812,710
APAC	1,576,253	1,314,888
Total	11,919,987	8,058,572



INCOME STATEMENT, EUR

2012	EROW	AMERICAS	APAC	Unallocated costs*	Group total
NET SALES	4,309,034	6,034,700	1,576,253		11,919,987
Cost of goods sold	-804,809	-135,065	0		-939,873
GROSS MARGIN	3,504,225	5,899,635	1,576,253		10,980,113
Other operating income				1,169	1,169
Segment costs and depreciations	-251,950	-3,491,660	-756,673	-5,397,665	-9,897,948
OPERATING PROFIT/LOSS	3,252,275	2,407,974	819,580	-5,396,496	1,083,333
Financial income					187,996
Financial costs					-140,454
PROFIT/LOSS BEFORE TAXES					1,130,209
Income tax					-7,635
PROFIT/LOSS FOR THE FINANCIAL PERIOD					1,122,574
Segment assets	965,122	2,360,551	437,388	8,746,012	12,509,073
2011	EROW	AMERICAS	APAC	Unallocated costs*	Group total
NET SALES	1,930,974	4,812,710	1,314,888		8,058,572
Cost of goods sold	-139,772				-139,772
GROSS MARGIN	1,791,202	4,812,710	1,314,888		7,918,800
Other operating income					1,536
Segment costs and depreciations	-833,198	-2,797,994	-498,240	-5,827,252	-9,956,685
OPERATING PROFIT/LOSS	958,003	2,104,716	816,647	-5,827,252	-2,036,348
Financial income					71,154
Financial costs					-207,815
PROFIT/LOSS BEFORE TAXES					-2,172,958
Income tax					-21,234
PROFIT/LOSS FOR THE FINANCIAL PERIOD					-2,194,244
Segment assets	512,981	1,846,362	417,727	3,580,394	6,357,464

Revenue share of any customer was less than 10%.

* Group-level costs consist mainly of Group R&D and Group administration costs.

4. NET SALES, EUR

	2012	2011
Income from license sales	4,867,537	2,738,064
Income from maintenance	6,381,896	5,272,267
Consulting and other income	670,553	48,239
Total	11,919,986	8,058,572

5. OTHER OPERATING INCOME, EUR

	2012	2011
Sales of fixed assets	1,169	1,536
Total	1,169	1,536

6. OTHER OPERATING COSTS

Employee Benefits, EUR

	2012	2011
Wages and salaries	4,854,008	5,028,248
Pensions, defined-contribution plan	548,852	502,896
Other ancillary personnel costs	234,941	257,528
Stock options issued	73,375	12,532
Total	5,711,176	5,801,204

Personnel	2012	2011
Average during the financial period	61	61
At the end of the financial period	70	52

Personnel distribution by business area on 31 Dec

	2012	2011
Sales, marketing, and customer support	29	22
Research and development	32	24
Administration	9	8
Total	70	52

Research and development costs recognized as costs, EUR

	2012	2011
Total	2,703,540	2,518,805

Other operating costs, EUR

	2012	2011
External services	2,132,259	1,464,192
Other costs	2,690,264	579,343
Total	4,822,523	2,034,625

Auditor's fees

Auditor's fees by service category in 2012 were as follows:

- Audit: Group KPMG EUR 19,000 (EUR 18,000), others EUR 8,599 (EUR 6,314).
- Tax counselling: Group KPMG EUR 2,065, others EUR 13,462 (KPMG EUR 7,180, others EUR 31,416).
- Other services: Group KPMG EUR 3,887 (EUR 8,751).

7. DEPRECIATIONS BY ASSET CATEGORY, EUR

	2012	2011
On machinery and equipment	48,580	33,243
On financial leasing assets	0	49,182
On other tangible assets	940	865
On software	186,828	182,093
On capitalized development costs	234,247	45,791
Total	470,597	311,175

Depreciations by function

	2012	2011
Sales and marketing costs	136,404	179,623
Research and development costs	303,652	49,001
Administrative costs	30,541	82,550
Total	470,597	311,175

SSH recognized no impairments in 2012 or 2011.

8. FINANCIAL INCOME, EUR

	2012	2011
Interest revenue	9,291	48,178
Exchange rate gains, loans, and other receivables	178,039	22,975
Total	187,330	71,154

9. FINANCIAL COSTS, EUR

	2012	2011
Interest costs on financial leasing, amortized liabilities	11,450	1,752
Changes in value, currency derivatives	0	70,210
Exchange rate losses, loans, and other receivables	124,888	129,517
Other interest costs	4,116	6,337
Total	140,454	207,815

10. TAXES, EUR

	2012	2011
Income tax	7,635	-21,234
Total	7,635	-21,234

The Group's unrecognized tax losses on deferred tax assets are EUR 17.5 million (EUR 20.6 million). EUR 10.1 million (EUR 13.6 million) of the tax losses are in Finland, and EUR 7.0 million (EUR 7.0 million) in the USA. The tax losses expire in Finland between the years 2013-2018, and in the USA between the years 2020-2029. The amount of unrecognized deferred tax assets from the tax losses is EUR 5.4 million (EUR 6.4 million).

The Group's subsidiaries do not have earnings that would cause tax consequences when repatriated.

Comparison of taxes based on the valid tax rate in Finland with those recognized in the income statement:

	2012	2011
Profit/income before taxes	1,122,574	-2,172,958
Tax at 24.5%	-275,184	564,969
Effect of foreign subsidiaries' differing tax rates	- 45,125	26,104
Expenses not deductible for tax purposes	143	2,836
Tax-free revenue	0	-329,896
Use of previously unrecognized tax losses	265,106	37,445
Tax assets not recognized for reported losses	-38,982	-269,361
Impact of change in Finnish tax rate		0
Other taxes	3,843	-1,123
Tax in income statement	7,635	-21,234

Corporate tax in Finland changed from 26% to 24.5% from 1 January 2012 onwards.

11. EARNINGS PER SHARE, EUR

	2012	2011
Profit/loss attributable to shareholders of the parent company	1,135,036	-2,117,230
Weighted average number of shares in issue (1,000)	30,552	30,549
Earnings per share (undiluted) (EUR per share)	0.04	-0.07
Adjusted average number of shares considering dilution effect (1,000)	30,754	30,563
Earnings per share (diluted) (EUR per share)	0.04	-0.07

12. TANGIBLE ASSETS, EUR

Machinery and equipment	2012	2011
Acquisition cost 1 Jan	1,303,132	1,237,065
Translation difference	14,951	11,494
Increase	51,789	54,573
Decrease	27,927	
Acquisition cost 31 Dec	1,341,945	1,303,132
Accumulated depreciation 1 Jan	1,181,847	1,132,962
Translation difference	16,793	10,856
Depreciation for the financial period	48,580	38,029
Translation difference on depreciation for the financial period	0	0
Accumulated depreciation on decrease	0	0
Accumulated depreciation 31 Dec	1,213,481	1,181,847
Book value 31 Dec	128,465	121,286

Other tangible assets	2012	2011
Acquisition cost 1 Jan	4,492	7,954
Translation difference	-87	-3,462
Decrease	0	0
Acquisition cost 31 Dec	4,405	4,492
Accumulated depreciation 1 Jan	3,402	6,424
Translation difference		-3,954
Depreciation for the financial period	850	932
Accumulated depreciation on decrease	0	0
Accumulated depreciation 31 Dec	4,252	3,402
Book value 31 Dec	153	1,090

Balance sheet value of tangible assets 31 Dec	128,618	142,457
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13. INTANGIBLE ASSETS, EUR

Software

	2012	2011
Acquisition cost 1 Jan	1,935,265	1,860,836
Translation difference	-76,000	67,515
Increase	-7,195	6,914
Acquisition cost 31 Dec	1,852,070	1,935,265
Accumulated depreciation 1 Jan	1,896,151	1,817,324
Translation difference	-54,446	64,264
Depreciation for the financial period	10,777	14,563
Accumulated depreciation on decrease	0	0
Accumulated depreciation 31 Dec	1,830,928	1,896,151
Book value 31 Dec	21,141	39,114

Immaterial rights

	2012	2011
Acquisition cost 1 Jan	1,477,048	797,469
Increase	1,176,855	679,579
Acquisition cost 31 Dec	2,653,903	1,477,048
Accumulated depreciation 1 Jan	213,461	0
Depreciation for the financial period	410,298	213,461
Translation difference	-3,262	
Accumulated depreciation 31 Dec	620,497	213,461
Book value 31 Dec	2,033,406	1,263,587

Balance sheet value of intangible assets 31 Dec	2,054,548	1,302,701
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14. ACCOUNTS RECEIVABLES, EUR

	2012	2011
Accounts receivable	3,109,627	2,090,774
Accounts receivable by currency		
EUR	346,161	396,823
USD	2,951,903	1,406,093
HKD	0	3,404
GBP	188,396	403
CHF	352,199	284,051
Total (EUR)	3,109,627	2,090,774

Accounts receivable by age, EUR	2012	Impairment losses	Net value 2012	2011	Impairment losses	Net value 2011
Non-matured	1,892,849	0	1,892,849	1,630,879	0	1,630,879
Matured						
< 30 days	983,485	0	983,385	369,456	0	369,456
30–60 days	84,254	0	84,254	8,896	0	8,896
> 60 days	149,039	0	149,039	81,544	0	81,544
Total	3,109,627	0	3,109,627	2,090,774	0	2,090,774

15. OTHER RECEIVABLES, EUR

	2012	2011
Advances paid	151,768	201,645
VAT receivables	109,866	114,326
Other current receivables	130,067	16,586
Total	391,701	332,557

16. PREPAID EXPENSES AND ACCRUED INCOME, EUR

	2012	2011
Personnel-related	127,971	0
Other prepaid expenses and accrued income	71,866	59,826
Total	199,836	59,826

17. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES, EUR

The table shows the book value for each financial assets and liabilities item; this is essentially similar to their fair value. Annual closing of 2012 does not include any financial assets and liabilities valued at fair value.

	Note	2012	2011
Financial assets			
Other financial assets		6,613,742	2,414,681
Investments held to maturity	14,15	3,109,608	2,090,774
Total:		9,723,350	4,505,455
Financial liabilities			
Finance leasing liabilities	19	0	5,964
Capital loans		36,091	115,688
Accounts payable and other liabilities	22,23	1,938,757	394,391
		1,974,878	516,043

18. NOTES TO EQUITY

According to the Articles of Association, SSH Communications Security Corporation has a minimum share capital of EUR 600,000 and a maximum share capital of EUR 2,400,000, within which limits the share capital may be raised or lowered without amending the Articles of Association. The nominal value of one share is EUR 0.03; hence, the minimum number of shares is 20 million and maximum number is 80 million. The company has one series of shares; each share entitles its holder to one vote at the shareholders' meeting. The share capital of the company, registered with the Trade Register and fully paid up as of 31 December 2012 was EUR 922,529 (EUR 916,476.24), and the number of shares was 30,750,983 (30,548,208). Balance sheet was strengthened by hybrid capital securities in December as announced on 21 December 2012.

Changes in the share capital:

	Number of shares	Share capital
31 Dec 2011	30,549,208	916,476
Subscriptions under stock option plan I/1999	4,475	134
Subscriptions under share issue	197,300	5,919
31 Dec 2012	30,750,983	922,529

DESCRIPTION OF THE EQUITY RESERVES:

Translation differences

The translation differences fund comprise the exchange rate differences arising from the translation of the financial statements of the foreign subsidiaries.

Fair value and other reserves

The item 'Fair value and other reserves' consists of three different funds: a fair value reserve for available-for-sale investments, a hedging reserve for changes in the fair value of cash flow hedging instruments, and a reserve for the costs of granted stock option rights. In the 2012 and 2011 financial periods, SSH Communications Security had no saleable financial assets and did not apply hedging.

Unrestricted invested equity fund

The unrestricted equity fund consists of the dissolved share premium fund formed by share subscriptions under option rights and includes share subscription prices insofar as not registered as share capital.

Fund for own shares

The fund for own shares comprises the purchase cost of own shares eliminated in the group consolidation of SSH Management Investment Oy, the holding company of the Group management.

Other fund

The item 'Other equity fund' is the conditional purchase price liability for the Siltanet acquisition.

Other equity fund

Other fund includes the hybrid capital securities subscribed in December 2012.

19. CAPITAL MANAGEMENT

The objective in managing Group capital is to secure the ability to continue operating. The structure of the capital can be managed, for instance, through decisions concerning dividends and other distribution of assets, purchase of the company's own shares and share issues.

Capital management concerns equity recognized in the balance sheet. There are no requirements imposed by outside parties on the Group's capital management.

The indicators depicting the capital structure are the equity ratio and gearing.

Balance sheet was strengthened by hybrid capital securities in December as announced on 21 December 2012.

Gearing, EUR	2012	2011
Interest-bearing financial liabilities	36,091	136,658
Interest-bearing receivables	0	0
Cash and cash equivalents	6,613,742	2,414,681
Net liabilities	6,577,651	-2,279,023
Equity total	6,253,666	1,078,770
Equity ratio	70.0	36.2
Gearing	-105.2	-230.0

20. SHARE-BASED PAYMENTS

In the company's industry it is common practice internationally that incentives are provided to employees in the form of equity-settled share-based instruments, like options. Personnel of the company belongs to options plans. If not working any more for the company, one loses her/his options.

On the balance sheet date, SSH Communications Security had 2,007,126 stock options outstanding (65,875), representing 6.1% of shares and 6.1% of votes. The weighted average

exercise price of outstanding stock options was EUR 0.67 (EUR 4.65). The weighted average of the remaining subscription period was 3.1 years (0.6). The exercise price varies from EUR 0.03 to EUR 13.87, and the remaining subscription period from 4 months to 4.7 years.

SSH Communications Security share-based payments consist of the following option plans:

Option plan	Option certificate	Release date	Subscription period		Subscription price, EUR	Options not exercised
			Begin	End		
I/1999	I/1999 G	5 Aug 1999	1 May 2003	1 May 2013	0.03	1,951
	I/1999 H	5 Aug 1999	1 Nov 2003	1 Nov 2013	0.03	1,675
						3,626
II/2000	II/2000D	22 Mar 2001	1 May 2003	1 May 2013	13.87	875
	II/2000E	22 Mar 2001	1 Nov 2003	1 Nov 2013	13.87	875
	II/2000F	22 Mar 2001	1 May 2004	1 May 2014	13.87	875
	II/2000G	22 Mar 2001	1 Nov 2004	1 Nov 2014	13.87	875
						3,500
I/2012	I/2012A	27 Jul 2012	1 Jun 2014	1 Sep 2017	0.65	660,000
	I/2012B	27 Jul 2012	1 Jun 2016	1 Sep 2017	0.65	660,000
	I/2012C	27 Jul 2012	1 Jun 2017	1 Sep 2017	0.65	680,000
						2,000,000

Changes in outstanding stock options and in weighted average subscription price:

	2012		2011	
	Weighted average exercise price, EUR	Number of stock options	Weighted average exercise price, EUR	Number of stock options
At the beginning of the financial period	4.65	65,875	0.65	230,615
Stock options granted	0.65	1,450,000	0	0
Stock options forfeited	0	0	0.03	0
Stock options canceled	4.73	54,274	0.03	163,740
Stock options exercised	0.03	4,475	0.03	1,000
At the end of the financial period	0.67	2,007,126	4.65	65,875
Exercisable option rights at the end of the financial period	0.67	2,007,126	4.65	65,875

The weighted average price of SSH Communications Security shares in 2012 was EUR 0.50 (EUR 0.51).

21. FINANCIAL LIABILITIES, EUR

Finance leasing liabilities – minimum lease payments

	2012	2011
Within one year	0	15,858
Within more than one year but no more than 5 years	0	6,841
Total	0	22,699

Finance leasing liabilities – current value of minimum lease payments

	2012	2011
Within one year	0	13,826
Within more than one year but no more than 5 years	0	5,964
Total	0	19,790

Future financing costs	0	2,652
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Total finance leasing liabilities

	2012	2011
Current	0	13,826
Non-current	0	5,964

The Group has leased office and IT equipment under long-term agreements. The lease agreements for IT equipment contain renewal options and purchase options at market price. The other lease agreements do not contain renewal or purchase options. All rents are at a fixed rate.

22. ADVANCES RECEIVED, EUR

	2012	2011
	3,579,281	3,373,604

23. ACCOUNTS PAYABLE, EUR

	2012	2011
	546,382	496,253

24. ACCRUED LIABILITIES AND DEFERRED INCOME, EUR

	2012	2011
Personnel-related	960,098	599,546
Restructuring provisions		352 097
Accruals	324,528	
Other accrued liabilities and deferred income	126,000	8,435
Deferred rental expense benefit	0	61,873
Total	1,410,626	1,021,951

25. OTHER LIABILITIES, EUR

	Note	2012	2011
Personnel-related		108,681	98,665
Finance leasing liabilities		0	43,220
VAT liabilities	21	2,560	5,245
Other current liabilities		412,384	97,777
Total		523,625	244,907

26. FINANCIAL RISK MANAGEMENT

The Group is exposed to financial risks in its normal business. The purpose of the Group's risk management is to minimize negative impacts of changes on financial markets to Group income.

Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange risk, the most significant currency being U.S. dollar. Transaction risks are managed based on the net position using, when required, forward contracts or options. During the period under review, the Group took action to hedge against exchange rate fluctuations against U.S. dollar. At the moment, the Group is not using hedging accounting. Any gains or losses realized through hedging actions are thus recognized in profit/loss.

Impact of U.S. dollar change on profits: +10% = +-220/-220 EUR in thousands.

Interest Rate Risk

The Group has no interest-bearing debt from financial institutions and therefore no need for debt protection. The Group's money market investments expose its cash flow to interest-rate risks, but the exposure is not significant as a whole.

Market Risk Related to Investments

The Group's cash reserves have been invested in accordance with the policy approved by the Board of Directors. At the end of the financial reporting period, almost all the assets are invested in fixed income funds and cash in financial institutions with high credit ratings.

Credit Risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

Liquidity Risk

The Group has no liquidity risks, since invested funds which are substantial compared to the Group's cash flows are available on a one-day notice.

27. OTHER RENTAL AGREEMENTS

The item 'Other rental agreements' includes lease agreements not classified as finance leasing agreements. SSH Communications Security Group acts as lessee, but is currently sub-letting its office facilities in Pasila.

The Group as lessee

Non-terminable rental agreements for office facilities – minimum rents, EUR

	2012	2011
Within one year	441,054	329,595
Within more than one year but no more than 5 years	102,819	347,245
Total	543,873	677,020

Non-terminable rental agreements for IT services – minimum rents, EUR

	2012	2011
Within one year	14,177	97,035
Within more than one year but no more than 5 years	9,451	50,979
Total	23,629	148,014

Non-terminable rental agreements for vehicles – minimum rents, EUR

	2012	2011
Within one year	6,228	32,006
Within more than one year but no more than 5 years	0	21,170
Total	6,228	53,176

The Group rents the office facilities it uses. The duration of the rental agreements is usually 3 to 5 years, and normally the agreements include options to renew past the original termination date. The index, renewal, and other terms and conditions differ from agreement to agreement. The income statement for 2012 includes rents based on rental agreements totaling EUR 398,258 (EUR 337,224). The Group sub-let part of its office facilities in the 2012 financial period.

In keeping with the Group's IT policy, the Group rents out network connections, virtual machines, harddrive capacity, software, and support and maintenance services.

The Group also rents out vehicles. Rents are at fixed rates, and the agreement period generally 3 to 4 years. The income statement for 2012 includes vehicle leasing costs totaling EUR 48,266 (EUR 76,236).

28. GUARANTEES GIVEN AND OTHER COMMITMENTS, EUR

	2012	2011
Rental guarantees (pledged)	129,824	86,619

29. GROUP COMPANIES AND RELATED PARTY TRANSACTIONS

Board and CEO belongs to related party of the company. Group management team is not considered as part of related party as they do not have direct decision making authority.

The management holding company, SSH Management Investment Oy (SMI), owns 1,433,750 company shares. Of these, 1,100,000 shares were subscribed in a separate share issue directed at the holding company. Moreover, in December 2009 SSH Management Investment Oy acquired 337,500 company shares on the open market. The acquisition of SSH shares was financed with a capital investment of EUR 266,640 made by the Group management group and a loan of EUR 792,000 granted by the parent company of the Group. The shares will be held by the SMI until it is dissolved. The dissolution of holding the SMI will be decided by 30 April 2013 as defined in share holder agreement. The interest rate on the loan granted by the parent company is the 12-month Euribor rate plus a margin of 0.65 percentage points. Interest is paid in case of dividend, otherwise interest is capitalized annually. The loan will be repaid by the date when the holding company is dissolved at the latest. The capital may be repaid in whole or in part at an earlier date. A repayment of EUR 72,000 on the loan was made after the capital return in March 2010. SSH Communications Security Corporation may call in the loan prematurely if SMI violates the terms of the loan agreement. The shares in the parent company held by the holding company form the security for the loan pursuant to the loan agreement. The AGM of SSH Communications Security Corporation on 3 March 2010 decided to authorize the Board of Directors to accept the company's own shares pledged as security.

Group companies	Domicile	Group holding, %	Votes, %
SSH Communications Security Corporation, Helsinki	Finland		
SSH Communications Security Inc., Redwood City	USA	100	100
SSH Communications Security Operations Oy, Helsinki	Finland	100	100
SSH Communications Security Ltd, Hong Kong	Hong Kong	100	100
SSH Management Investment Oy, Helsinki *	Finland	0	100
SSH Communications Security Solutions Oy, Helsinki **	Finland	100	100

* SSH Communications Security Corporation holds a controlling interest in the company pursuant to the shareholders' agreement.

** SSH Communications Security Licensing S.A R.L. was closed in 2012.

Salaries and Fees Paid to Management and Members of the Board of Directors, EUR	2012	2011
CEO / Tatu Ylönen (as of 26 Sep 2011)	225,000	0
CEO / Jari Mielonen (until 26 Sep 2011)		162,990
- Severance benefits upon dismissal		250,000
Board / Juhani Harvela (until 28 Mar 2012)	7,500	24,000
Board / Pyry Lautsuo (until 28 Mar 2012)	6,300	25 800
Chairman of the Board / Juho Lipsanen (until 28 Mar 2012)	14,500	48,000
Board / Tiia Tuovinen (until 28 Mar 2012)	6,500	27,000
Board / Juha Mikkonen (until 3 Mar 2011)		6,000
Chairman of the Board / Päivi Hautamäki (as of 28 Mar 2012)	18,000	0
Board / Sami Ahvenniemi (as of 28 Mar 2012)	13,500	0
Board / Tatu Ylönen	0	0

As of 31 December 2012, the CEO and members of the Board of Directors of SSH Communications Security owned 57.7% (45.7%) of the shares and votes in the company, either directly or indirectly through companies they own. The Board members and CEO have no option rights. The company does not have any specific pension arrangements for CEO or any other group management members.

Management group members apart from the CEO directly or indirectly held about 0.4% (1.5%) of company shares and have a total of 400,000 (0) option rights.

Salaries and fees paid to the management are also discussed in this annual report.

Related Party Transactions

Clausal Computing Oy, a company wholly-owned by Tatu Ylönen, CEO of SSH Communications Security Corporation, supplied SSH Communications Security Corporation with R&D services worth EUR 0.4 million (EUR 0.1 million) in the course of the year 2012. As announced on 21 December 2012, hybrid capital securities were subscribed by Tatu Ylönen. There were no other essential related party transactions during the period under review.

Dividend and Other Distribution of Assets

The SSH Communications Security Board of Directors will propose to the AGM that no dividend or return of capital be distributed. It is proposed that the profit for the financial period shall be entered under equity in the balance sheet.

30. EVENTS AFTER THE BALANCE SHEET DATE

The company management does not know of any essential events after the balance sheet date that would have affected the financial situation of the company.

Share and stock option holdings of Board members	31 Dec 2012 Shares	31 Dec 2012 Options	31 Dec 2011 Shares	31 Dec 2011 Options
Pyry Lautsuo (until 28 Mar 2012)	12,500	0	12,500	0
Juho Lipsanen (until 28 Mar 2012)	21,865	0	21,865	0
Tatu Ylönen (CEO)	17,727,698	0	13,919,048	0
Total	17,762,063	0	13,953,413	0

Share and stock option holdings of the management group	31 Dec 2012 Shares	31 Dec 2012 Options	31 Dec 2011 Shares	31 Dec 2011 Options
Tatu Ylönen	17,727,698	0	13,919,048	0
Kalle Jääskeläinen	10,000	100,000	0	0
Matthew McKenna	25,000	200,000	0	0
Jyrki Lalla	100,000	100,000	0	0
Mikko Karvinen*			225,653	0
Pekka Rauhala*			245,653	7,500
Total	17,862,698	400,000	14,390,354	7,500

* Includes indirect ownership through SSH Management Investment Oy.



PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY FINANCIAL STATEMENTS
PARENT COMPANY INCOME STATEMENT

EUR	Note	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
NET SALES	1	6,619,939.35	4,094,453.36
Purchasing and production costs		878,670.73	139,771.60
GROSS MARGIN		5,741,268.62	3,954,681.76
Research and development costs	2,3,6	2,703,540.29	2,540,233.67
Sales and marketing costs	2,3,6	899,482.83	2,326,961.41
Administrative costs	2,3,6	1,309,240.00	1,587,410.80
Other operating income and costs	7	-1,654.88	-1,270,368.86
OPERATING PROFIT/LOSS		830,660.38	-1,229,556.25
Financial income and costs	8		
Interest revenue and other financing costs		193,958.50	72,996.66
Interest costs and other financing costs		136,128.07	118,171.09
Financial income and costs, total		57,830.43	-45,174.43
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS		888,490.81	-1,274,730.68
Extraordinary items			
Extraordinary income	9	759,000.00	255,093.97
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES		1,647,490.81	-1,019,636.71
PROFIT/LOSS BEFORE TAXES		1,647,490.81	-1,019,636.71
PROFIT/LOSS FOR THE FINANCIAL PERIOD		1,647,490.81	-1,019,636.71

PARENT COMPANY FINANCIAL STATEMENTS
PARENT COMPANY BALANCE SHEET

EUR	Note	31 Dec 2012	31 Dec 2011
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	10		
Immaterial rights		2,048,990.40	1,294,804.26
Intangible assets, total		2,048,990.40	1,294,804.26
Tangible assets	10		
Machinery and equipment		78,488.13	105,235.81
Tangible assets, total		78,488.13	105,235.81
Investments			
Shares in Group companies	10	104,309.18	104,309.18
Other shares		11,000.00	11,000.00
Investments, total		115,309.18	115,309.18
NON-CURRENT ASSETS, TOTAL		2,242,787.71	1,515,349.25
Non-current receivables			
Receivables from Group companies	11	720,000.00	720,000.00
Non-current receivables, total		720,000.00	720,000.00
Current receivables			
Accounts receivables		226,901.97	102,027.09
Receivables from Group companies	11	1,219,186.49	110,197.17
Prepaid expenses and accrued income	12	82,253.09	29,401.98
Other receivables	13	116,415.58	101,312.31
Current receivables, total		1,644,757.13	342,938.55
Financial instruments		6,109,389.14	1,992,241.76
CURRENT ASSETS, TOTAL		8,474,146.27	3,055,180.31
ASSETS, TOTAL		10,716,933.98	4,570,529.56

PARENT COMPANY FINANCIAL STATEMENTS
PARENT COMPANY BALANCE SHEET

EUR	Note	31 Dec 2012	31 Dec 2011
EQUITY AND LIABILITIES			
EQUITY			
	14		
Share capital		922,529.49	916,476.24
Unrestricted invested equity fund		6,204,663.35	6,072,472.35
Retained profit/loss		-4,035,631.40	-3,015,994.69
Profit/loss for the financial period		1,647,490.81	-1,019,636.71
EQUITY, TOTAL		4,739,052.25	2,953,317.19
LIABILITIES			
Long-term liabilities			
Other liabilities		4,000,000.00	0.00
Current liabilities			
Subordinated loans	15	36,090.67	115,687.61
Advances received		173,757.29	82,638.11
Accounts payable		296,210.96	431,082.82
Accrued expenses and deferred income	16	1,346,240.70	914,699.90
Other liabilities	17	125,583.11	73,103.93
Currents liabilities, total		1,977,882.73	1,617,212.37
LIABILITIES, TOTAL		5,977,882.73	1,617,212.37
EQUITY AND LIABILITIES, TOTAL		10,716,934.98	4,570,529.56

PARENT COMPANY FINANCIAL STATEMENTS
PARENT COMPANY CASH FLOW STATEMENT

EUR	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Cash flow from business operations		
Sales revenue	5,533,962.45	4,453,143.92
Revenue from other business operations	1,654.88	1,535.97
Costs of business operations	-5,119,593.83	-5,547,342.59
Cash flow from business operations before financial items and taxes	416,023.50	-1,092,662.70
Interest and payments on other financial costs of business operations	-113,988.20	-20,179.26
Interest and other financial revenue from business operations	175,698.63	-37,753.30
Cash flow from business operations	477,733.93	1,150,595.26
Cash flow from investing activities		
Investments in tangible and intangible assets	-1,178,367.61	-733,562.62
Repayment on loan receivables	-	49,538.32
Other investments	-	3,467.43
Cash flow from investing activities	- 1,178,367.61	-687,491.73
Cash flow from financing activities		
Long-term loans raised	4,000,000.00	1,752,744.34
Capital loan repayment	-79,596.94	1,050,000.00
Share subscriptions	134.00	30.00
Group contribution received	759,000.00	220,074.80
Payments received from share issue	138,244.00	0.00
Cash flow from financing activities	4,817,781.06	3,022,849.14
Change in liquid assets	4,117,147.38	1,184,762.15
Liquid assets at beginning of financial period	1,992,241.76	807,479.61
Change in liquid assets	4,117,147.38	1,184,762.15
Liquid assets at end of financial period	6,109,389.14	1,992,241.76

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

The financial statement of the parent company, SSH Communications Security Corporation, is drawn up in accordance with the Finnish Accounting Standards. Figures are given to an accuracy of one cent (EUR 0.01). All items in the balance sheet are recognized at original acquisition cost. Information on financial risk management is presented in the consolidated financial statements.

Principles of Revenue Recognition

Revenue is principally recognized in net sales once delivery has occurred or services have been rendered, an agreement has been signed with the customer or the customer has submitted a written order, and it has been assured that the customer is solvent.

Revenue from services rendered under maintenance agreements are amortized across the agreement period.

Apportioning of Costs to Functions

Costs are apportioned to functions according to the matching principle.

Rental and Leasing Agreements

The parent company has rental and leasing agreements principally concerning IT services, vehicles, and other assets. Rents and leasing payments paid pursuant to these agreements are recognized as costs over the rental or leasing period under 'Other operating costs'. Assets leased under finance leasing agreements and liabilities derived from these are not recognized in the parent company balance sheet.

Income Tax

The income tax in the income statement comprises direct taxes based on the taxable profit for the financial period and adjustments to taxes on previous financial periods. The parent company does not recognize deferred tax receivables or liabilities in its financial statement. The parent company has confirmed losses of EUR 10,5 million (13.6 million) that have not been recognized as deferred tax receivables.

Fixed Assets

Fixed assets are recognized in the balance sheet at acquisition cost less planned depreciation and any impairments. Planned depreciations are calculated on a straight-line basis according to the economic life of each asset category.

The asset categories and their depreciation periods are:

Machinery and equipment	5 years from month of acquisition
Computer hardware	3 years from month of acquisition
Immaterial rights	5 years from year of acquisition
Research and development expenses	5 years from year of capitalization
Other capitalized expenditure	5 years from year of capitalization
Major renovations of rental premises	Length of the rental agreement, though no more than 7 years, from year of capitalization

Research and Development Costs

Research and development costs are recognized as costs in the financial period in which they occurred except for those product development costs which are capitalized once certain criteria have been met. Capitalized development expenses are depreciated systematically over their useful lives.

Foreign Currency Transactions

Transactions denominated in foreign currencies are recognized at the exchange rate on the transaction date. Outstanding receivables and liabilities in foreign currencies are recognized using the exchange rates on the balance sheet date. Exchange rate gains and losses on actual business operations are considered sales adjustment items or adjustment items to materials and services. Exchange rate gains and losses on financing activities are recognized offset under income from and/or costs of financing activities.

Option Rights

Employees of the parent company and its subsidiaries have been granted option rights. The option rights entitle their holders to subscribe shares in the parent company at a fixed subscription price specified in the terms of the option plan. No costs are recognized in the income statement or balance sheet regarding the granting of option rights.

NOTES TO THE INCOME STATEMENT

1. NET SALES BY MARKET AREA, EUR

	2012	2011
Finland	1,086,374	377,521
Rest of Europe	2,256,289	844,393
North America	2,424,409	1,894,281
Other	852,867	978,258
Total	6,619,939	4,094,453

2. OPERATING COSTS, EUR

	2012	2011
Other operating costs		
External Services	1,718,825.35	1,108,722.33
Other	583,608.55	508,606.82
Total	2,302,433.90	1,396,496.56

Auditor's fees

Auditor's fees by service category were as follows:

- Audit: EUR 19,000 (EUR 18,000.00)
- Tax counselling: EUR 2,065 (EUR 10,553.40)
- Other services: EUR 3,887 (EUR 7,326.50)

3. PERSONNEL COSTS AND AVERAGE NUMBER OF EMPLOYEES**Personnel costs, EUR**

	2012	2011
Wages and salaries	2,805,036.96	3,119,733
Pension costs	548,852.74	504,979
Other ancillary personnel costs	194,894.87	164,564
Total	3,548,784.57	3,789,277

	2012	2011
Average number of employees	40	44

4. PERSONNEL DISTRIBUTION BY BUSINESS AREA AT THE END OF THE FINANCIAL PERIOD

	2012	2011
Research and development	31	24
Sales and marketing	7	6
Administration	7	5
Total	45	35

5. SALARIES AND FEES PAID TO MANAGEMENT AND MEMBERS OF THE BOARD OF DIRECTORS, EUR

See note 29 in the consolidated financial statements.

6. DEPRECIATION AND IMPAIRMENT, EUR

	2012	2011
On immaterial rights	184,582.77	180,239
On research and development costs	234,247.83	45,791
On machinery and equipment	32,098.55	25,196
Total	450,929.15	251,226

No impairments were recognized in 2012 nor 2011.

7. OTHER OPERATING INCOME AND COSTS

Other operating income for 2012 comprises an income item of EUR 1,654.88.

Other operating income for 2011 comprised rental income of EUR 1,536.

Other operating costs for 2011 included written-off bad debts from wholly-owned subsidiaries to a total of EUR 1,268,833.

8. FINANCING INCOME AND COSTS, EUR

	2012	2011
Interest revenue	16,409.31	18,425
Revenue from financial securities	4,284.18	42,770
Exchange rate gains and losses (net)	53,321.02	-102,804
Interest costs	-16,184.03	-3,566
Total	57,830.43	-45,174

9. EXTRAORDINARY INCOME, EUR

	2012	2011
Group contribution, SSH Communications Security Operations Oy	759,000	255,093

NOTES TO THE INCOME STATEMENT

10. NON-CURRENT ASSETS AND OTHER LONG-TERM INVESTMENTS, EUR

	2012	2011
Immaterial rights		
Acquisition cost 1 Jan	3,401,169	2,713,422
Increase	1,176,856	687,747
Decrease	-3,569	0
Acquisition cost 31 Dec	4,574,456	3,401,169
Accumulated depreciation 1 Jan	2,106,635	1,880,334
Depreciation for the financial period	418,830	226,031
Accumulated depreciation 31 Dec	2,525,466	2,106,365
Book value 31 Dec	2,048,990	1,294,804
Machinery and equipment		
Acquisition cost 1 Jan	1,177,654	1,127,672
Increase	20,285	49,982
Decrease	-14,934	0
Acquisition cost 31 Dec	1,183,005	1,177,654
Accumulated depreciation 1 Jan	1,072,419	1,043,056
Depreciation for the financial period	32,098	29,363
Accumulated depreciation 31 Dec	1,104,517	1,072,419
Book value 31 Dec	78,488	105,236
Investments		
Book value 1 Jan	115,309	111,842
Increase	0,00	3,467
Book value 31 Dec	115,309	115,309

11. RECEIVABLES FROM GROUP COMPANIES, EUR

	2012	2011
Accounts receivable	1,219,186.49	110,197
Loan receivables	720,000.00	720,000
Total	1,939,186.49	830,197

12. PREPAID EXPENSES AND ACCRUED INCOME, EUR

	2012	2011
Interest receivables	39,255.00	28,561
Personnel-related	42,998.00	841
Total	82,253.00	29,402

13. OTHER RECEIVABLES, EUR

	2012	2011
Advances paid	10,958.67	72,388
VAT receivables	0	28,812
Other current receivables	105,456.91	112
Total	116,415.58	101,312

14. EQUITY, EUR

	2012	2011
Share capital 1 Jan	916,476	916,446
Increase in share capital	6,053	30
Share capital 31 Dec	922,529	916,476
Unrestricted invested equity fund 1 Jan	6,072,472	6,072,472
Subscription from personnel share issue	131,191	0
Unrestricted invested equity fund 31 Dec	6,204,663	6,072,472
Retained earnings	-4,035,631	-3,015,994
Profit/loss for the financial period	1,647,490	-1,019,637
Equity total	4,739,052	2,953,317

Statement on Distributable Funds

	2012	2011
Retained earnings	-4,035,631	-3,015,994
Profit/loss for the financial period	1,647,490	-1,019,637
Unrestricted invested equity fund	6,204,663	6,072,472
Total	3,816,522	2,036,841

15. CAPITAL LOAN

Transferred as part of the Siltanet business operations transaction in 2010, the company has an R&D capital loan from TEKES (the Finnish Funding Agency for Technology and Innovation). The remaining value of the capital loan is EUR 36,090. In 2012, the interests for the capital loan were EUR 10,797. The terms of the loan correspond to the Companies Act's terms for subordinated loans.

NOTES TO THE INCOME STATEMENT

16. ACCRUED LIABILITIES AND DEFERRED INCOME, EUR

	2012	2011
Personnel-related	789,485.99	829,700
Accruals	324,528.00	27,145
Other accrued liabilities and deferred income	232,226.71	57,825
Total	1,346,240.70	914,670

17. OTHER LIABILITIES, EUR

	2012	2011
Personnel-related	108,543	70,305
VAT liabilities	17,040	2,799
Total	125,583	73,104

18. OTHER COMMITMENTS, EUR**Non-terminable rental agreements for office facilities – future rent payment**

	2012	2011
Within one year	313,510.72	202,654
Within more than one year but no more than 5 years	60,843.00	241,990
Total	374,353.72	444,644

The earliest possible termination date for the rental agreement on the office facilities is 30 June 2013.

Non-terminable rental agreements for IT services – future rent payments

	2012	2011
Within one year	14,177.72	97,035
Within more than one year but no more than 5 years	9,451.81	50,979
Total	23,629.53	148,014

Non-terminable rental agreements for vehicles – future rent payments

	2012	2011
Within one year	6,228.54	32,006
Within more than one year but no more than 5 years	-	21,170
Total	6,228.54	53,177

Non-terminable rental agreements for other assets – future rent payments

	2012	2011
Within one year	0	13,826
Within more than one year but no more than 5 years	0	5,964
Total	0	19,790

Guarantees given

	2012	2011
Rental guarantees (pledged)	105,278	69,381

19. GROUP COMPANIES

Group companies	Domicile	Group holding, %	Votes, %
SSH Communications Security Corporation, Helsinki	Finland		
SSH Communications Security Inc., Redwood City	USA	100	100
SSH Communications Security Operations Oy, Helsinki	Finland	100	100
SSH Communications Security Ltd, Hong Kong	Hong Kong	100	100
SSH Management Investment Oy, Helsinki	Finland	0	100
SSH Communications Security Solutions Oy	Finland	100	100

SIGNATURES TO THE BOARD OF DIRECTORS REPORT AND FINANCIAL STATEMENTS

HELSINKI 13 FEBRUARY 2013

PÄIVI HAUTAMÄKI
Chairman of the Board of Directors

SAMI AHVENNIEMI
Member of the board

TATU YLÖNEN
CEO

AUDITOR'S NOTE

We have today issued an auditors' report based on our audit.

Helsinki 27 February 2013

KPMG Oy Ab

KIRSI JANTUNEN
APA

List of accounting books and voucher types and method of storage

- Balance sheet book, separately bound
- Journals and general ledger, electronic archive
- Specification of accounts payable and receivable, electronic archive
- Purchasing invoices, paper documents
- Sales invoices, paper documents
- Memorandum vouchers, paper documents

AUDITOR'S REPORT

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

TO THE ANNUAL GENERAL MEETING OF SSH COMMUNICATIONS SECURITY CORPORATION

We have audited the accounting records, the financial statement, the report of the Board of Directors, and the administration of SSH Communications Security Corporation for the year ended December 31, 2012. The financial statements comprise the consolidated balance sheet, comprehensive income statement, statement of changes in equity and cash flow statement, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages toward the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU:

OPINION ON THE COMPANY'S FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 27 February 2013

KPMG OY AB

KIRSI JANTUNEN

Authorized Public Accountant

CORPORATE GOVERNANCE

SSH Communications Security abides by its Articles of Association, as well as principles of sound corporate governance and high ethical standards in its governance and decision-making. The company complies with the Finnish Companies Act and securities market legislation, the rules of NASDAQ OMX Helsinki, and the joint recommendations of NASDAQ OMX Helsinki, the Helsinki Chamber of Commerce, and the Confederation of Finnish Industries regarding Corporate Governance of publicly listed companies (Finnish Corporate Governance Code 2010). The Code entered in force on 1 October 2010 and is available at <http://cgfinland.fi/en/>

More information on governance practices of the company is available at <http://www.ssh.com/index.php/investor-relations/corporate-governance.html>. Corporate Governance Statement 2013 is also published in the same page. The tasks of the Annual General Meeting and the Board of Directors are governed by the Finnish Companies Act, the Articles of Association of the Company, decisions of the General Meetings of Shareholders, legislation regarding accounting rules and IFRS as well as the Securities Market, and the rules of the NASDAQ OMX Helsinki Ltd., and other regulations.





INFORMATION FOR SHAREHOLDERS

All published investor information including annual reports, interim reports, as well as stock exchange and press releases are available on the company's website www.ssh.com -> About -> Investor Relations. All investor information is published in English. Subscriptions for the emailing list for stock exchange releases can be made by sending your contact details to investor-relations@ssh.com. The company observes a three-week silent period before the publishing of each quarterly report.

ANNUAL GENERAL MEETING

The company's Annual General Meeting will be held at Valimontie 8, Helsinki, Finland, on Wednesday, 20 March 2013 at 10:00 am. More information on how to attend as well as the documents for the meeting are available on the company's website www.ssh.com -> About -> Investor Relations.

2013 FINANCIAL CALENDAR

The company will publish the following financial reports during 2013:

Financial Statements Bulletin for 2012	14 February
Annual Report 2012	During week 10
Interim Report 1 January to 31 March 2013	25 April
Interim Report 1 January to 30 June 2013	24 July
Interim Report 1 January to 30 September 2013	23 October

SSH COMMUNICATIONS SECURITY SHARE FACTS

Listing since 2000	NASDAQ OMX Helsinki Ltd.
Trading symbol	SSH1V
Number of shares	30,750,983

INVESTOR RELATIONS CONTACTS

For any inquiries, please contact: investor-relations@ssh.com



CONTACT INFORMATION

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