

## SSH COMMUNICATIONS SECURITY FINANCIAL STATEMENT RELEASE, JANUARY 1 – DECEMBER 31, 2015

October–December 2015: net sales decreased by -36.8 % compared to Q4 last year, losses due to delays in closing software deals and continued investments to future growth. Cash flow from operations positive, cash position remained strong.

- Net sales totaled EUR 4.3 million, decrease by -36,8 % year on year (EUR 6.7 million in 10–12/2014).
- Operating loss amounted to EUR -1.3 million (EUR 2.2 million in 10–12/2014). Loss was EUR -0.9 million (EUR 2.3 million)
- Earnings per share EUR -0.04 (EUR 0.07).

January–December 2015: +16.4 % net sales growth, losses due to delays in closing software deals, investments to future growth and high share of lower margin service business. Cash flow from operations positive. Cash position strengthened strongly due to convertible capital securities.

- Net sales totaled EUR 18.9 million, up by 16.4 % year on year (EUR 16.2 million in 1–12/2014).
- Operating loss amounted to EUR -4.4 million (EUR 0.2 million in 1–12/2014). Loss was EUR -3.9 million (EUR 0.3 million)
- Earnings per share EUR -0.15 (EUR -0.00).
- Cash flow from operations was positive EUR +0.3 million (EUR 1.8 million), total cash flow was positive EUR 5.1 million (EUR 2.1 million).

Equity ratio was good, being 66.8 % (63.3 %). Liquid assets were EUR 11.3 million (EUR 6.1 million).

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

KEY FIGURES					
	10-12/ 2015	10-12/ 2014	1-12/ 2015	1-12/ 2014	Change %
Net sales (MEUR)	4.3	6.7	18.9	16.2	16.4
Operating profit/loss (MEUR)	-1.3	2.2	-4.4	0.2	-2,243.4
% of net sales	-29.5	32.7	-23.2	1.3	-1,941.4
Profit/loss before taxes (MEUR)	-0.9	2.3	-3.9	0.4	-1,051.8
Profit/loss (MEUR)	-0.9	2.3	-3.9	0.3	-1,292.3
Return on equity, %			-40.4	4.3	-1,045.6
Return on investment, %			-39.9	2.7	-1,603.7
Liquid assets			11.3	6.1	85.3
Gearing (%)			-98.8	-77.3	-27.8
Equity ratio (%)			66.8	63.3	5.6
Earnings Per Share (EUR)	-0.04	0.07	-0.15	-0.00	14,398.5
Shareholders' equity per share (EUR)	0.36	0.25	0.36	0.25	43.2

## CEO'S BUSINESS REVIEW

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

I want to extend my congratulations to you all on your contribution to increasing security and stability in your respective roles during a challenging year.

Financially the year 2015 was challenging, with two major deals shifting away from the year. We continued major R&D efforts and invested in creating a market, creating success stories in SSH key management, and increasing delivery capability. We also invested substantially in enforcing our patents. Nevertheless, cash flow and cash position remained strong. Our sales pipeline looks promising and there is more customer interest on SSH key management than ever.

We successfully completed a major, multi-year key remediation at one of the world's largest banks. We are now in early stages of key remediation projects with several other major global financial institutions. We continue to be the leader in SSH key management. We see the market evolving but still being at an early stage.

We continued to invest in building our sales and support channel by making key recruitments in the United States and Asia by opening an office in Japan and certifying CryptoAuditor with multiple partners, including RSA Security Analytics, McAfee, VCE vBlock System and Fujitsu. CryptoAuditor and SSH key management support each other in the Identity and Access Management market, e.g., in relation to securing 3rd party access. We will continue to expand our role in that market through partnerships.

The overall political development has opened a market in governmental segment for a supplier from a neutral country. We are aiming to enter this segment during 2016 with a next generation firewall product for protecting critical infrastructure. In the past, we have supplied packet processing and encryption technology for 100+ firewall, VPN, and telecom vendors.

We continue enforcement of our patent rights. We are expecting the first rulings this year.

During 2015, SSH Communications Security celebrated 20 years of success as the inventor of the SSH protocol. The way the world is developing, the protocol is more relevant today than ever. We could say that during 2015, cyber security became an infinite game and a part of daily life. During 2016, the understanding of the need to manage SSH keys in a proper manner will continue to spread to auditors and board rooms. This is supported by NIST (US National Institute of Standards and Technology) recommendations on how to manage your SSH keys.

This means committing ourselves even more resolutely to advancing the adoption of secure solutions and practices in the public and private sector, as well as devoting significant resources to innovation and product development.

An indication of our growing commitment is the assignment of our founder Tatu Ylönen as the Chief Operations Officer of SSH Communications Security. His vision, experience and leadership qualities provide us with a unique opportunity to apply scientific discovery and inquiry for the everyday benefit of our customers and society in general.

In summary, I have great confidence in and expectations for the year ahead. May it prove inspiring, secure and prosperous for us all.

Harri Koponen  
CEO

## NET SALES

Consolidated net sales for October–December totaled EUR 4.3 million (EUR 6.7 million), decrease by 36.8 %, year on

year.

Consolidated net sales for January–December totaled EUR 18.9 million (EUR 16.2 million), up by 16.4 %, year on year. Net sales grew in all regions. Recurring revenue and especially professionally services grew strongly. Due to delays in closing sw deals, sw fee declined. Share of service business was exceptionally high.

The Americas; Europe, Middle East and Africa market area; and the Asia Pacific region accounted for 62.1 % (63.2 %), 26.7 % (25.7 %) and 11.2 % (11.2 %) of reported net sales, respectively.

SSH NET SALES					
EUR million	10-12/ 2015	10-12/ 2014	1-12/ 2015	1-12/ 2014	Change %
BY SEGMENT					
AMERICAS	2.1	4.6	11.7	10.2	14.3
APAC	0.9	0.5	2.1	1.8	16.6
EMEA	1.3	1.7	5.0	4.2	21.0
SSH Group Total	4.3	6.7	18.9	16.2	16.4
BY OPERATION					
Software fees	1.6	3.4	5.1	5.8	-12.2
Professional services & other	0.6	1.7	6.1	4.1	50.5
Recurring revenue	2.0	1.7	7.6	6.3	20.8
Total	4.3	6.7	18.9	16.2	16.4

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 16.5 % compared to the same period a year ago. With comparable exchange rates 2014, net sales growth would have been 4.3 % compared with the year 2014.

## RESULTS AND EXPENSES

Operating loss for October–December amounted to EUR -1.3 million (EUR 2.2 million), with net loss totaling EUR -0.9 million (EUR 2.3 million).

Operating loss for January–December amounted to EUR -4.4 million (EUR 0.2 million), with net loss totaling EUR -3.9 million (EUR 0.3 million). Continued investments to sales and product development and delays of closing sizeable deals influenced profitability in addition to high share of professional service sales.

Sales, marketing and customer support expenses for the October–December reporting period amounted EUR -3.3 million (EUR -1.8 million), while research and development expenses totaled EUR -1.0 million (EUR -1.0 million) and administrative expenses EUR -0.6 million (EUR -0.3 million).

Sales, marketing and customer support expenses for the January–December reporting period amounted EUR -10.0 million (EUR -7.3 million), while research and development expenses totaled EUR -5.1 million (EUR -4.0 million) and administrative expenses EUR -1.6 million (EUR -1.3 million).

## BALANCE SHEET AND FINANCIAL POSITION

The financial position of SSH Communications Security remained strong during the reporting period. The consolidated

balance sheet total on December 31, 2015 stood at EUR 21.8 million (EUR 17.5 million; December 31, 2014), of which liquid assets accounted for EUR 11.3 million (EUR 6.1 million), or 51.6 % of the balance sheet total. On December 31, 2015, gearing, or the ratio of net liabilities to shareholders' equity, was -98.8 % (-77.3 %) and the equity ratio stood at 66.8 % (63.3 %). The capital securities of EUR 4 million issued in December 2012 and interests were paid in April. During March, convertible capital securities of EUR 12 million were issued.

The reported gross capital expenditure for the period totaled EUR 2.6 million (EUR 1.9 million). The reported financial income and expenses consisted mainly of exchange rate gains or losses. Financial income and expenses totaled EUR 0.5 million (EUR 0.2 million).

During January–December, SSH Communications Security reported positive cash flow of EUR 0.3 million (EUR 1.8 million) from business operations, and investments showed a negative cash flow of EUR -2.6 million (EUR -1.8 million). Cash flow from financing totaled EUR 7.4 million (EUR 2.1 million). Total cash flow from operations, investments and financing was positive EUR 5.1 million (EUR 2.1 million).

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

#### RESEARCH AND DEVELOPMENT

Research and development expenses for October–December totaled EUR -1.0 million (EUR -1.0 million), the equivalent of 23.3 % of net sales (20.5 %). During October–December company has capitalized R&D costs EUR 0.7 million (EUR 0.4 million).

Research and development expenses for January–December totaled EUR -5.1 million (EUR -4.0 million), the equivalent of 26.9 % of net sales (25.0 %). During the reporting period R&D cost capitalizations amounted to EUR 2.1 million (EUR 1.4 million). Depreciation from R&D capitalization assets was EUR -1.2 million (EUR -0.8 million).

#### HUMAN RESOURCES AND ORGANIZATION

At the end of December, the Group had 109 employees on its payroll, up by 14 persons from the previous year, an increase of 15 %. Compared with previous quarter, the number of employees stayed the same.

At the end of the period, 40 % (38%) of the employees worked in sales, marketing and customer services, 49 % (48%) in R&D, and 11 % (14%) in corporate administration.

#### BOARD AND AUDITORS

At the Annual General Meeting, March 25, 2015, Jukka Manner was elected and Päivi Hautamäki, Timo Syrjälä and Tatu Ylönen were re-elected to directors of the company. Timo Syrjälä was elected as the Chairman of the Board of Directors in the board's organizing meeting.

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

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

The reported trading volume of SSH Communications Security Corporation shares totaled 8,389,611 (valued at EUR 37,714,802). The highest quotation was EUR 6.32 and the lowest EUR 2.52. The trade-weighted average share price for the period was EUR 4.50 and the share closed at EUR 3.02 (December 30, 2015).

The company's principal owner Tatu Ylönen holds directly and through his company, Clausal Computing Oy, 55.1 % of the company's shares, Juha Mikkonen holds directly and through his company under his control, Assetman Oy, 7.8 %

and Timo Syrjälä holds directly or through his companies 6.7 %. More information about the shareholding can be obtained from the company's web site.

Two new legal units belonging to SSH Corporation were established during 2015: SSH Communications Security KK (Japan) ja SSH Technology Oy (Finland).

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

#### SHARE CAPITAL AND BOARD AUTHORIZATIONS

The company's registered share capital on December 31, 2015 was EUR 941,108.49 consisting of 31,370,283 shares.

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon the issuing of a maximum of 4,000,000 shares as a share issue against payment or by giving stock options or other special rights entitling to shares, in accordance with Chapter 10 Section 1 of the Finnish Limited Liability Companies Act, either according to the shareholders' pre-emptive right to share subscription or deviating from this right, in one or more tranches. Based on the authorization, it can be either issuing of new shares or transfer of own shares which the company possibly has in its possession. Based on the authorization, the Board of Directors shall have the same rights as the Annual General Meeting to decide upon the issuing of shares against payment and special rights (including stock options) in accordance with Chapter 10 Section 1 of the Finnish Limited Liability Companies Act. Thereby, the authorization to be given to the Board of Directors includes, inter alia, the right to deviate from the shareholders' pre-emptive rights with directed issues providing that the company has a weighty financial reason for the deviation in respect of the share issue against payment.

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

The authorization will be valid until the next Annual General Meeting, but will however expire at the latest on June 30<sup>th</sup>, 2016.

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon the acquiring of a maximum of 2,000,000 own shares of the company with assets belonging to the company's non-restricted equity. This amount corresponds approximately to 6.5 % of all the shares of the company. The shares can also be acquired otherwise than in proportion to the holdings of the existing shareholders (targeted repurchase). The maximum compensation to be paid for the acquired shares shall be the market price at the time of purchase, which is determined in the public trading.

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

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

The authorization will be valid until the next Annual General Meeting, but will however expire at the latest on June 30<sup>th</sup>, 2016.

#### DIVIDEND AND OTHER DISTRIBUTION OF ASSETS

SSH Communications Security's Board of Directors will propose to the Annual General Meeting on March 16<sup>th</sup>, 2016 that no dividend or return of capital shall be distributed. It is proposed that the loss of the financial year shall be entered to the shareholders' equity in the profit/loss account.

## RISKS AND UNCERTAINTIES

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

Largest risks:

- continuing uncertainty of the macroeconomic environment
- delays on product development and closing new business
- competitiveness of the product portfolio including intellectual property (IPR)
- litigation, especially in U.S. market
- competitive dynamics in the industry
- ability of the organization to scale up operations with the growth
- large portion of the company revenue is invoiced in USD currency so possible large fluctuation in USD currency rates during 2016 could have unpredictable effects for profitability that are at the time difficult to estimate. Currently USD currency position is not hedged, and company decides hedging of USD based contracts case by case. During 2015, USD currency positions have not been hedged.

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

Principles and organization of risk management of SSH Communications Security can be read from company's webpage: [www.ssh.com](http://www.ssh.com).

## FUTURE OUTLOOK

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

## RELATED PARTY TRANSACTIONS

Clausal Computing Oy, a fully owned company of SSH Communications Security Corporation's Chief Operating Officer Tatu Ylönen, has delivered the company mainly R&D services valued in total EUR 0.4 million during January–December 2015. Tatu Ylönen subscribed EUR 0.5 million of the hybrid capital securities issued by the company on March 30<sup>th</sup>. The interests and capital securities of EUR 4 million issued in December 2012 and subscribed by Tatu Ylönen, were paid in April. During the reporting period, there have not been any other significant transactions with related parties.

## EVENTS AFTER THE BALANCE SHEET DATE

As announced on January 4, 2016, SSH Communications Security signed a frame agreement with CINIA and introduced its new firewall solution The SSH Communications Security management is not aware of any other significant transactions after the reporting period.

## REPORTING

This financial statement release is prepared according to IAS 34. Financial statement release follows the same

principles and standards as the previous financial statement release. Additionally, the effective changes in IAS/IFRS standards during the reporting period have been adopted. These changes have no material impact on the interim report. The information presented in this interim report has not been audited.

SSH Communications has redefined sales reporting by operations. New reporting is Software (previous license sales excluding monthly subscription fees), Professional services & other (previous consulting & other) and Recurring revenue (previous maintenance and monthly subscription fees). The impact for comparison figures of 2014 and fourth quarter 2015 interim report is insignificant.

SSH Communications Security has changed the operational mode into global operational mode and ceased to report regional segments during 2015.

## TABLES

COMPREHENSIVE INCOME STATEMENT				
EUR million	10-12/ 2015	10-12/ 2014	1-12/ 2015	1-12/ 2014
Net sales	4.3	6.7	18.9	16.2
Cost of goods sold	-0.6	-1.5	-6.5	-3.3
Gross profit	3.7	5.3	12.4	12.9
Other operating income	0.0	0.0	0.0	0.0
Sales, marketing and customer support costs	-3.3	-1.8	-10.0	-7.3
Product development expenses	-1.0	-1.0	-5.1	-4.0
Administrative expenses	-0.6	-0.3	-1.6	-1.3
Operating profit/loss	-1.3	2.2	-4.4	0.2
Financial income and expenses	0.3	0.1	0.5	0.2
Profit/loss before taxes	-0.9	2.3	-3.9	0.4
Taxes	-0.0	0.0	-0.1	-0.1
Net profit/loss for the financial period	-0.9	2.3	-3.9	0.3
Non-controlling interest	0.0	0.0	0.0	0.0
Other profit and loss account items:				
Items which might be later transferred to P/L statement				
Foreign subsidiary translation differences	-0.1	-0.4	-0.4	-0.4
Net change in fair value of available-for-sale financial assets	0.0	0.0	0.0	0.0
Total comprehensive income	-1.0	1.9	-4.3	-0.1
Net profit/loss attributable to:				

Owners of the Company	-1.0	1.9	-4.3	-0.1
Non-controlling interest	0.0	0.0	0.0	0.0
EARNINGS PER SHARE				
Earnings per share (EUR)	-0.04	0.07	-0.15	-0.00
Earnings per share diluted (EUR)	-0.04	0.06	-0.15	-0.00

BALANCE SHEET		
EUR million		
	31.12.2015	31.12.2014
<b>ASSETS</b>		
Non-current assets		
Tangible assets	0.3	0.2
Intangible assets	4.6	3.8
Investments	0.0	0.0
Total non-current assets	4.9	4.0
Current assets		
Trade and other receivables	5.5	7.5
Short-term financial assets	0.0	0.0
Cash and cash equivalents	11.3	6.1
Total current assets	16.8	13.6
Total assets	21.8	17.5
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Shareholders' equity		
Equity attributable to the parent company shareholders total	11.4	7.9
Non-controlling interest	0.0	0.0
Shareholders' equity total	11.4	7.9
Non-current liabilities		
Provisions	0.0	0.0
Non-current interest-bearing liabilities	0.0	0.0
Total long-term liabilities	0.0	0.0
Current liabilities	10.3	9.7
Liabilities total	10.3	9.7



Total equity and liabilities	21.8	17.5
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CASH FLOW STATEMENT		
EUR million	1-12/2015	1-12/2014
Cash flow from business operations	0.3	1.8
Cash flow from investments	-2.6	-1.8
Cash flow from financing	7.4	2.1
Increase(+) / decrease(-) in cash	5.1	2.1
Cash at period start	6.1	3.8
Effect of exchange rate	0.1	0.1
Cash at period end	11.3	6.1

STATEMENT ON CHANGES IN SHAREHOLDERS' EQUITY								
EUR million	Share capital	Fair value reserves	Other fund + other equity fund	Translation difference	Fund for own shares	Non-controlling interest	Unrestricted equity funds and retained earnings	Total
Shareholders' equity Jan 1, 2014	0.9	0.4	4.1	-1.3	0.0	0.0	3.3	7.4
Change	0.0	0.4	0.0	-0.4				0.1
Net profit							0.3	0.3
Shareholders' equity Dec 31, 2014	0.9	0.9	4.1	-1.7	0.0	0.0	3.6	7.9
Change	0.0	0.5	7.6	-0.4			-0.1	7.5
Net profit							-3.9	-4.0
Shareholders' equity Dec 31, 2015	0.9	1.4	11.7	-2.1	0.0	0.0	-0.5	11.4

KEY FIGURES AND RATIOS		
EUR million	1-12/2015	1-12/2014

Net sales	18.9	16.2
Operating profit/loss	-4.4	0.2
Operating profit/loss as % of net sales	-23.2	1.3
Profit/loss before extraordinary items and taxes	-3.9	0.4
Profit/loss before extraordinary items and taxes as % of net sales	-20.4	2.5
Profit/loss before taxes	-3.9	0.4
Profit/loss before taxes as % of net sales	-20.4	2.5
Return on equity (%)	-40.4	4.3
Return on investment (%)	-39.9	2.7
Interest-bearing net liabilities	-11.3	-6.1
Equity ratio (%)	66.8	63.3
Gearing (%)	-98.8	-77.3
Gross capital expenditure	2.6	1.9
% of net sales	13.7	11.5
R&D expenses	5.1	4.0
% of net sales	26.9	25.0
Personnel period average	102	97
Personnel period end	109	95

Calculation for key figures and ratios are presented in 2014 financial statement and annual report. There have been no changes in calculation rules.

PER SHARE DATA		
EUR	1-12/ 2015	1-12/ 2014
Earnings per share undiluted*	-0.15	-0.00
Earnings per share diluted*	-0.15	-0.00
Equity per share	0.36	0.25
No. of shares at period average (thousand)	31,068	30,817
No. of shares at period end (thousand)	31,370	30,974
Share performance		
Average price	4.50	2.85
Low	2.52	2.31
High	6.32	3.74
Share price period end	3.02	2.51
Market capitalization period end (EUR million)	94.7	77.8
Volume of shares traded (million)	8.4	3.6
Volume of shares traded as % of total	27.0	11.7
Value of shares traded (EUR million)	37.7	10.3
Price per earnings ratio (P/E)	neg.	neg.
Dividend per share	0.00	0.00
Dividend per earnings, %	0.00	0.00

Effective return on dividend, %	0.00	0.00
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\* equity per share is impacted by unpaid interest of hybrid capital securities

CONTINGENT LIABILITIES		
EUR million	31.12.2015	31.12.2014
Hybrid Loan, Interest	0.7	0.6
Rent security deposits	0.1	0.1
Leasing commitments outside the balance sheet		
Maturing within 1 year	0.5	0.4
Maturing between 1 and 5 years	0.5	0.8

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SSH Communications Security Corporation will release its interim report of the first quarter of the year in April 21<sup>st</sup>, 2016.

Helsinki, February 9<sup>th</sup>, 2016

SSH COMMUNICATIONS SECURITY CORPORATION

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