

SSH COMMUNICATIONS SECURITY CORPORATION FINANCIAL STATEMENT RELEASE, JANUARY 1 – JUNE 30, 2016

April–June 2016: +12.4 % net sales growth, losses due to investments to future growth and patent enforcement expenses. Cash flow was positive, cash position remained strong.

- Net sales totaled EUR 4.7 million, up by 12.4 % year on year (EUR 4.2 million in 4–6/2015).
- Operating loss was EUR -1.6 million (EUR -1.8 million). Loss was EUR -1.6 million (EUR -1.6 million).
- Earnings per share EUR -0.06 (EUR -0.05).

January–June 2016: Overall net sales declined, but license sales grew +47.5 % year on year. Losses are due to delays in closing software deals, continued investments to future growth, and patent enforcement expenses. Cash flow was positive, cash position remained strong.

- Net sales totaled EUR 7.4 million, down by -33.0 % year on year (EUR 11.0 million in 1–6/2015). The same period last year included an exceptionally large consultancy deal.
- Operating loss was EUR -3.8 million (EUR -2.1 million). Loss was EUR -4.2 million (EUR -2.0 million)
- Earnings per share EUR -0.15 (EUR -0.08).

Equity ratio remained good 79.6 % (64.5 %) and liquid assets were EUR 11.5 million (EUR 11.3 million).

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

KEY FIGURES						
	4-6/ 2016	4-6/ 2015	1-6/ 2016	1-6/ 2015	Change %	1-12/ 2015
Net sales (MEUR)	4.7	4.2	7.4	11.0	-33.0	18.9
Operating profit/loss (MEUR)	-1.6	-1.8	-3.8	-2.1	-78.2	-4.4
% of net sales	-33.1	-41.6	-51.3	-19.3	-165.8	-23.2
Profit/loss before taxes (MEUR)	-1.6	-1.6	-4.2	-1.9	-117.3	-3.9
Profit/loss (MEUR)	-1.6	-1.6	-4.2	-2.0	-115.9	-3.9
Return on equity, %			-32.1	-18.4	-74.3	-40.4
Return on investment, %			-31.7	-18.0	-75.4	-39.9
Liquid assets			11.5	11.3	1.4	11.3
Gearing (%)			-76.8	-86.2	10.9	-98.8
Equity ratio (%)			79.6	64.5	23.5	66.8
Earnings Per Share (EUR)	-0.06	-0.05	-0.15	-0.08	-97.5	-0.15
Shareholders' equity per share (EUR)	0.44	0.43	0.44	0.43	0.6	0.36

CEO'S REVIEW

We increased our sales over 80 % compared to Q1/2016 and 12 % compared to Q2/2015. We closed an EUR 3.2 million Universal SSH Key Manager deal with a leading global financial institution. We also closed several smaller yet significant CryptoAuditor deals with leading service providers.

Our focus on increasing license sales is starting to pay off – H1/2016 license sales were nearly 50 % higher than H1/2015. We expect this trend to continue as we focus on license and subscription sales that bring in higher margin revenue than services.

However, the large size of individual deals compared to our total revenue makes quarterly revenue forecasting challenging for the time being.

Despite these improvements, neither our revenue nor especially profitability are satisfactory yet. We keep relentlessly focusing on building our sales team and improving our sales execution. We keep focusing on increasing license sales, yet we also further build our service capability to be able to provide comprehensive solutions to some of the leading companies of the world. In the short term, our focus is on growth and market share, even at the expense of profitability.

During the quarter, we divested our MobileID business which provided two-factor authentication solutions. While this business was sound, it was not a good fit with our core focus. The divestment does not have a material effect on our quarterly or annual results.

We kept improving our products with new releases of our CryptoAuditor and our flagship Universal SSH Key Manager product. These new releases answer the growing needs of our customers and further solidify the technology leadership of SSH Communications Security.

The development of our next generation firewall and encryption products continues and discussions with initial customers are proceeding well. Our patent enforcement activities are progressing with initial rulings expected during the second half of the year.

We significantly improved our cash position by successfully completing an EUR 8 million share offering in June. The offering was oversubscribed in a few hours and brought in two new major institutional investors, reflecting the faith investors are placing in our future prospects. I humbly thank the new investors and welcome them on board.

The outlook for the rest of the year remains strong. We are seeing a growing pipeline, several large new deals are in negotiations, and we are seeing increasing interest in our products across the board.

There are new uncertainties in the macro environment that we are monitoring closely. The key change, obviously, was the UK voting for "Brexit". This has impacted exchange rates and may lengthen the decision-making processes of some customers, especially in the financial sector.

All in all, we are now better than ever positioned to answer the cybersecurity challenges of both our existing and new customers. I look forward to an exciting and work-filled rest of the year.

Tatu Ylönen
CEO

NET SALES

Consolidated net sales for April–June totaled EUR 4.7 million (EUR 4.2 million), up by 12.4 %, year on year.

Consolidated net sales for January–June totaled EUR 7.4 million (EUR 11.0 million), down by -33.0 %, year on year. The same period last year included an exceptionally large consultancy deal. The license sales grew by +47.5 % year on year.

The Americas, the Europe, Middle East and Africa (EMEA) market area and the Asia Pacific region accounted for 50.0 % (64.1 %), 39.5 % (28.8 %) and 10.5 % (7.1 %) of reported net sales, respectively.

SSH NET SALES						
EUR million	4-6/ 2016	4-6/ 2015	1-6/ 2016	1-6/ 2015	Change %	1-12/ 2015
BY SEGMENT						
AMERICAS	2.0	2.9	3.7	7.1	-47.7	11.7
APAC	0.4	0.5	0.8	0.8	-1.8	2.1
EMEA	2.4	0.8	2.9	3.2	-8.0	5.0
SSH Group Total	4.7	4.2	7.4	11.0	-33.0	18.9

BY OPERATION						
Software fees	2.8	0.6	3.6	2.4	47.5	5.1
Professional services & other	0.1	1.8	0.1	4.9	-97.1	6.1
Recurring revenue	1.9	1.8	3.7	3.7	-1.7	7.6
Total	4.7	4.2	7.4	11.0	-33.0	18.9

The majority of company's invoicing is U.S. dollar based. With comparable exchange rates, net sales decline would have been -32.6 % compared with 2015 corresponding period.

RESULTS AND EXPENSES

Operating loss for April–June was EUR -1.6 million (EUR -1.8 million), with loss totaling EUR -1.6 million (EUR -1.6 million).

Operating loss for January–June was -3.8 million (EUR -2.1 million), with loss totaling EUR -4.2 million (EUR -2.0 million).

Sales, marketing and customer support expenses for the April–June reporting period amounted EUR -2.7 million (EUR -2.3 million), while research and development expenses totaled EUR -2.6 million (EUR -1.5 million) and administrative expenses EUR -0.5 million (EUR -0.4 million).

Sales, marketing and customer support expenses for the January–June reporting period amounted EUR -5.4 million (EUR -4.4 million), while research and development expenses totaled EUR -4.3 million (EUR -2.8 million) and administrative expenses EUR -1.0 million (EUR -0.8 million).

BALANCE SHEET AND FINANCIAL POSITION

The financial position of SSH Communications Security remained in good level during the reporting period. The consolidated balance sheet total on June 30, 2016 stood at EUR 24.2 million (June 30, 2015 EUR 24.2 million; December 31, 2015 EUR 21.8 million), of which liquid assets accounted for EUR 11.5 million (June 30, 2015 EUR 11.3 million; December 31, 2015 EUR 11.3 million), or 47.5 % of the balance sheet total. During June, new shares in a directed share issue of EUR 8 million were issued. On June 30, 2016, gearing, or the ratio of net liabilities to shareholders' equity, was -76.8 % (June 30, 2015 -86.2 %; December 31, 2015 -98.8 %) and the equity ratio stood at 79.6 % (June 30, 2015 64.5 %; December 31, 2015 66.8 %).

The reported gross capital expenditure for the period totalled EUR 1.1 million (EUR 1.2 million). The reported financial income and expenses consisted mainly of interest on deposits and exchange rate gains or losses. Financial income and expenses totalled EUR -0.4 million (EUR 0.2 million).

During January–June, SSH Communications Security reported a negative cash flow of EUR -5.5 million (EUR -0.2 million) from business operations, and investments showed a negative cash flow of EUR -1.1 million (EUR -1.2 million). Cash flow from financing totalled EUR 6.8 million (EUR 6.9 million). Total cash flow from operations, investments and financing was positive EUR 0.2 million (EUR 5.5 million).

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

RESEARCH AND DEVELOPMENT

Research and development expenses for April–June totaled EUR -2.6 million (EUR -1.5 million), the equivalent of 54.7 percent of net sales (36.5 percent). During April–June, the company has capitalized R&D costs EUR 0.3 million (EUR 0.6 million).

Research and development expenses for January–June totaled EUR -4.3 million (EUR -2.8 million), the equivalent of 57.9 percent of net sales (25.3 percent). In the reporting period, R&D cost capitalizations amounted to EUR 0.9 million (EUR 1.0 million).

HUMAN RESOURCES AND ORGANIZATION

At the end of June, the Group had 114 employees on its payroll. The amount of employees increased by 3 persons from the previous year (+3 %) and by 2 persons from the previous quarter.

At the end of the period, 43.0 % (37.8 %) of the employees worked in sales, marketing and customer services, 47.3 % (50.5 %) in R&D, and 9.7 % (11.7 %) in corporate administration.

BOARD AND AUDITORS

At the Annual General Meeting, April 20, 2016 Kaisa Olkkonen and Harri Koponen were elected and Timo Syrjälä, Tatu Ylönen and Jukka Manner were re-elected to directors of the company. Kaisa Olkkonen was elected as the Chairman of the Board of Directors in the board's organizing meeting.

The Authorized Public Accountants Ernst & Young Oy was elected as the auditor of the company. Ernst & Young Oy has informed that Erkkä Talvinko, Authorized Public Accountant, will act as the principle auditor.

SHARES, SHAREHOLDING AND CHANGES IN GROUP STRUCTURE

The reported trading volume of SSH Communications Security shares totaled 1,555,170 shares (valued at EUR 5,170,134). The highest quotation was EUR 4.30 and the lowest EUR 2.65. The trade-weighted average share price for the period was EUR 3.32 and the share closed at EUR 2.85 (June 30, 2016).

Company's principal owner Tatu Ylönen holds directly and through his company, Clausal Computing Oy, 52.7 % of the company's shares, Timo Syrjälä holds directly and through his companies 8.3 % and Juha Mikkonen holds directly and through his company under his control, Assetman Oy, 7.2 %. More information about the shareholding can be obtained from the company's web site.

As announced on June 1, 2016, SSH spun off its mobile authentication business.

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 June 30, 2016 was EUR 1,029,773.49, consisting of 34,325,783 shares.

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

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

The authorization will be valid until the next Annual General Meeting, but will however expire at the latest on June 30th 2017. As announced on May 27, 2016, the Board of Directors decided upon an option plan of maximum 400,000 options. As announced on June 20, 2016, a directed share issue of 2,950,000 shares were issued.

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

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

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

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

RISKS AND UNCERTAINTIES

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

Largest risks:

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

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

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

FUTURE OUTLOOK

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

RELATED PARTY TRANSACTIONS

Clausal Computing Oy, a fully owned company of SSH Communications Security's Chief Executive Officer Tatu Ylönen, has delivered the company mainly R&D services valued in total EUR 0.3 million during January–June 2016. Chief Executive Officer Tatu Ylönen subscribed for 489,200 shares and Member of Board Timo Syrjälä through his company 733,900 shares from the directed share issue issued by the company on June 20th 2016. During the reporting period, there have not been any other significant transactions with related parties.

EVENTS AFTER THE BALANCE SHEET DATE

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

REPORTING

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

TABLES

COMPREHENSIVE INCOME STATEMENT						
EUR million						
	4-6/ 2016	4-6/ 2015	1-6/ 2016	1-6/ 2015	1-12/ 2015	
Net sales	4.7	4.2	7.4	11.0	18.9	
Cost of goods sold	-0.5	-1.8	-0.5	-5.2	-6.5	
Gross profit	4.2	2.4	6.9	5.8	12.4	
Other operating income	0.0	0.0	0.0	0.0	0.0	
Sales, marketing and customer support costs	-2.7	-2.3	-5.4	-4.4	-10.0	
Product development expenses	-2.6	-1.5	-4.3	-2.8	-5.1	
Administrative expenses	-0.5	-0.4	-1.0	-0.8	-1.6	
Operating profit/loss	-1.6	-1.8	-3.8	-2.1	-4.4	
Financial income and expenses	0.0	0.2	-0.4	0.2	0.5	
Profit/loss before taxes	-1.6	-1.6	-4.2	-1.9	-3.9	
Taxes	-0.0	-0.0	-0.1	-0.0	-0.1	
Net profit/loss for the financial period	-1.6	-1.6	-4.2	-2.0	-3.9	
Non-controlling interest	0.0	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	-0.6	0.0	-0.3	-0.4	-0.4	
Net change in fair value of available-for-sale financial assets	0.0	0.0	0.0	0.0	0.0	
Total comprehensive income	-2.2	-1.6	-4.5	-2.4	-4.3	
Comprehensive profit/loss attributable to:						
Owners of the Company	-2.2	-1.6	-4.5	-2.4	-4.3	
Non-controlling interest	0.0	0.0	0.0	0.0	0.0	

EARNINGS PER SHARE						
Earnings per share (EUR)	-0.06	-0.05	-0.15	-0.08	-0.15	
Earnings per share diluted (EUR)	-0.06	-0.05	-0.15	-0.06	-0.15	

BALANCE SHEET				
EUR million				
	30.6.2016	30.6.2015	31.12.2015	
ASSETS				
Non-current assets				
Tangible assets	0.3	0.3	0.3	
Intangible assets	4.9	4.2	4.6	
Investments	0.0	0.0	0.0	
Total non-current assets	5.2	4.5	4.9	
Current assets				
Trade and other receivables	7.5	8.2	5.5	
Short-term financial assets	0.0	0.0	0.0	
Cash and cash equivalents	11.5	11.6	11.3	
Total current assets	19.0	19.7	16.8	
Total assets	24.2	24.2	21.8	
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity				
Equity attributable to the parent company shareholders total	15.0	13.4	11.4	
Non-controlling interest	0.0	0.0	0.0	
Shareholders' equity total	15.0	13.4	11.4	
Non-current liabilities				
Provisions	0.0	0.0	0.0	
Non-current interest-bearing liabilities	0.0	0.0	0.0	
Total long-term liabilities	0.0	0.0	0.0	
Current liabilities				
Liabilities total	9.2	10.8	10.3	
Total equity and liabilities	24.2	24.2	21.8	

CASH FLOW STATEMENT			
EUR million	1-6/2016	1-6/2015	1-12/2015

Cash flow from business operations	-5.5	-0.2	0.3
Cash flow from investments	-1.1	-1.2	-2.6
Cash flow from financing	6.8	6.9	7.4
Increase(+) / decrease(-) in cash	0.2	5.5	5.1
Cash at period start	11.3	6.1	6.1
Effect of exchange rate	-0.2	0.2	0.1
Cash at period end	11.5	11.6	11.3

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, 2015	0.9	0.9	4.1	-1.7	0.0	0.0	3.6	7.9
Change	0.0	0.3	7.6	-0.4				7.5
Net profit							-2.0	-2.0
Shareholders' equity Jun 30, 2015	0.9	1.2	11.7	-2.0	0.0	0.0	1.6	13.4
Change	0.0	0.3		-0.1			-0.2	0.0
Net profit							-1.9	-1.9
Shareholders' equity Dec 31, 2015	0.9	1.4	11.7	-2.1	0.0	0.0	-0.5	11.5
Change	0.1	0.3	0.0	-0.3			7.7	7.7
Net profit							-4.2	-4.2
Shareholders' equity Jun 30, 2016	1.0	1.7	11.7	-2.4	0.0	0.0	3.0	15.0

KEY FIGURES AND RATIOS			
EUR million	1-6/ 2016	1-6/ 2015	1-12/ 2015

Net sales	7.4	11.0	18.9
Operating profit/loss	-3.8	-2.1	-4.4
Operating profit/loss as % of net sales	-51.3	-19.3	-23.2
Profit/loss before items affecting comparability	-4.2	-1.9	-3.9
Profit/loss before items affecting comparability as % of net sales	-56.6	-17.5	-20.4
Profit/loss before taxes	-4.2	-1.9	-3.9
Profit/loss before taxes as % of net sales	-56.6	-17.5	-20.4
Return on equity (%)	-32.1	-18.4	-40.4
Return on investment (%)	-31.7	-18.0	-39.9
Interest-bearing net liabilities	-11.5	-11.6	-11.3
Equity ratio (%)	79.6	64.5	66.8
Gearing (%)	-76.8	-86.2	-98.8
Gross capital expenditure	1.1	1.2	2.6
% of net sales	15.4	11.3	13.7
R&D expenses	4.3	2.8	5.1
% of net sales	57.9	25.3	26.9
Personnel period average	112	103	102
Personnel period end	114	111	109

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

PER SHARE DATA			
EUR	1-6/ 2016	1-6/ 2015	1-12/ 2015
Earnings per share undiluted*	-0.15	-0.08	-0.15
Earnings per share diluted*	-0.15	-0.06	-0.15
Equity per share	0.44	0.43	0.36
No. of shares at period average (thousand)	31,492	30,976	31,068
No. of shares at period end (thousand)	34,326	30,982	31,370
Share performance			
Average price	3.32	4.98	4.50
Low	2.65	2.52	2.52
High	4.30	6.32	6.32
Share price period end	2.85	4.07	3.02
Market capitalization period end (EUR million)	97.8	126.1	94.7
Volume of shares traded (million)	1.6	5.5	8.4
Volume of shares traded as % of total	4.9	17.8	27.0
Value of shares traded (EUR million)	5.2	27.5	37.7
Price per earnings ratio (P/E)	neg.	neg.	neg.
Dividend per share	0.00	0.00	0.00
Dividend per earnings, %	0.00	0.00	0.00
Effective return on dividend, %	0.00	0.00	0.00

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

CONTINGENT LIABILITIES			
EUR million	30.6.2016	30.6.2015	31.12.2015
Hybrid Loan, Interest	0.2	0.2	0.7
Rent security deposits	0.1	0.1	0.1
Leasing commitments outside the balance sheet			
Maturing within 1 year	0.5	0.4	0.5
Maturing between 1 and 5 years	0.5	0.8	0.5

DISCLAIMER

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SSH Communications Security will release its next interim report for the period January 1 – September 30, 2016 on October 20th, 2016.

Helsinki, July 21nd, 2016

SSH COMMUNICATIONS SECURITY

Board of Directors

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CEO

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