

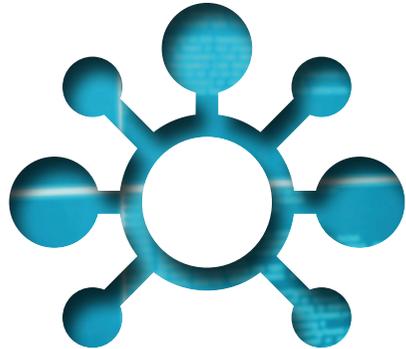


# Annual Report **2016**

**ssh.**   
communications  
security



“We monitor, control, and automate trusted access to **THE MOST CRITICAL DATA**”



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# SSH Communications Security in Brief

SSH Communications Security is a leading provider of enterprise cybersecurity solutions that monitor, control, and automate trusted access to critical data. The company's long track record of innovation includes Secure Shell (SSH) – one of the world's most widely used network security protocols. Customers worldwide trust our flagship Universal SSH Key Manager®, CryptoAuditor®, and other solutions to manage access and monitor encrypted channels, while greatly reducing costs and compliance risks. The Company sells direct through offices in North America, Europe and Asia and through a global network of certified partners. The company's shares (SSH1V) are quoted on the NASDAQ OMX Helsinki. For more information, visit [www.ssh.com](http://www.ssh.com).

KEY FIGURES		2016	2015
Net sales	kEUR	15,122	18,867
Operating profit/loss	kEUR	-10,753	-4,373
% of net sales	%	-71.1	-23.2
Profit/loss before taxes	kEUR	-11,017	-3,855
Earnings per share	EUR	-0.36	-0.15
Equity ratio	%	63.1	66.8
Gearing	%	-94.8	-98.8
Number of personnel 31 Dec		84	109



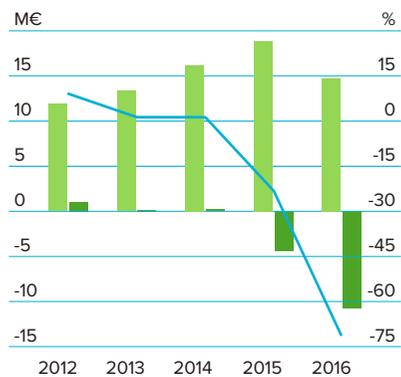
# YEAR 2016 in BRIEF

DURING 2016, SSH COMMUNICATIONS SECURITY CONTINUED TO MAKE INROADS WITH SOME OF THE LARGEST FINANCIAL AND RETAIL COMPANIES IN THE WORLD TO HELP THEM MONITOR, CONTROL, AND AUTOMATE TRUSTED ACCESS TO THEIR MOST CRITICAL DATA.

Software  
subscription  
sales growth  
**+206%**

- Several key customer wins from the finance and retail segments
- Strong license and subscription sales growth. License sales growth: FY2016 +20 %; subscription sales growth +206%, delivering revenue also for the future.
- New products showing strength; CryptoAuditor sales growth: FY2016 +223%; Tectia z/OS sales growth: +44%; UKM license sales growth +21 %
- Much less reliance on lower-margin service business
- Delays in patent licensing and firewall/VPN revenue
- Disappointing financial performance: negative EBIT and net profit; full year EBIT -71 % and net profit -73 %, Q4 EBIT -114 %
- A successful funding round in June kept cash position strong despite of the negative cash flow from operations
- Restructuring in Q4 to return company to profitability

Yearly Development 2012–2016



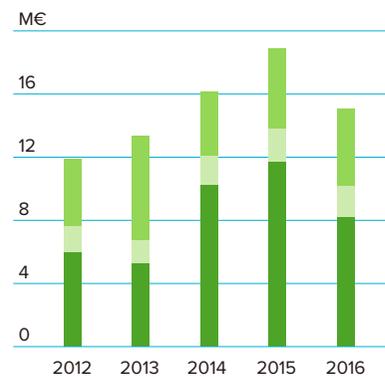
■ Net Sales  
■ Operating Profit / Loss  
— % of Net Sales

Quarterly Development 2016



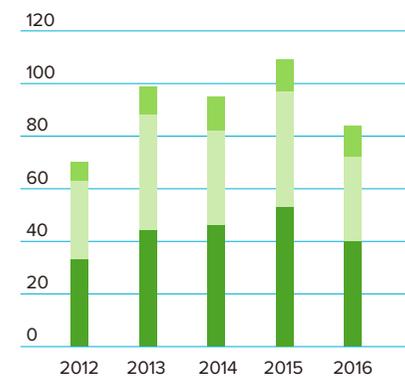
■ Net Sales  
— Operating Profit % of Net Sales

Regional Net Sales Split



■ Europe & Others  
■ APAC  
■ Americas

Personnel (as of 31 Dec)



■ Administration  
■ Sales, Marketing & Customer Support  
■ Research & Development



# “Product License **SALES GROWTH** in FY2016: **+20%**”

## FINANCIAL PERFORMANCE

- FY 2016 was a year of contrasts: license sales grew significantly but overall revenue shrank due to completion of certain major professional services projects.
- The company's annual revenue was EUR 15.1 million (EUR 18.9 million) representing a decrease of -19.9 %. EBIT was EUR -10.8 million (EUR -4.4 million), -71.1 % of revenues (-23.2 %).
- Earnings per share was EUR -0.36 (EUR -0.15). Cash flow from operations was EUR -8.1 million (EUR 0.3 million).
- Total operating expenses were EUR 23.9 million (EUR 16.7 million), an increase of EUR 7.2 million due to further investment in future growth, one-time restructuring costs, and a significant increase in patent litigation costs.
- In 2016, sales were geographically divided into: Americas 53.9 % (62.1 %), EMEA 33.2 % (26.7 %), and APAC 12.9 % (11.2 %).
- Further information on the key financial figures is presented in the Financial Statements section of this Annual Report.

## SALES AND MARKETS

We achieved a 20 % growth in license sales and over 206 % growth in software subscription bookings. The year was characterized by a transition from relying on service sales to increasing license and subscription sales.

While the license sales of the legacy Tectia Client/Server products decreased slightly, the license sales of all new products grew. The fastest growing product was CryptoAuditor with 136 % license sale growth. Tectia z/OS mainframe sales grew by 44 % and UKM license sales grew by 21 %.

The UKM license sale growth was impacted by some customers electing to purchase multi-year software subscriptions, delaying revenue recognition. Subscription sale bookings grew by more than 206 % during the year.

The past year continued the rationalization of our product portfolio. Several legacy products were discontinued and the SSH Mobile ID product line was divested in Q2 of 2016. While these actions had a small negative effect on immediate revenue, they allow us to concentrate sales and support resources on our key products.

Service revenue was down significantly from 2015, as planned. The very large service contracts in 2014 and 2015 were necessary to clinch the initial large UKM license deals but services are not at the core of our strategy. Therefore, in 2016, we concentrated on key value adding services and will keep focusing on them while outsourcing large volume service contracts to partners for two reasons: to improve gross margin and entice major systems integrators to work with us in large customer accounts.

The overall decrease in revenue resulted from three key factors:

- Decreased professional service sales
- Customers transitioning from license deals to subscription-based deals, resulting in delayed revenue recognition
- Failure to close certain large software license deals

The company operates globally with regional headquarters in Helsinki (for EMEA) and Boston (for Americas). For EMEA, there is a support office in the Munich region. In the APAC region, company has an office in Hong Kong.

AMER total revenue in 2016 was down -30.3 %. APAC revenue was down -7.7 % in 2016. EMEA revenue decreased by -0.6 % in 2016.

The company continues to work with a mixed sales model in AMER and EMEA, while APAC is predominantly channel-driven. SSH Communications Security continues to evaluate and move forward with various OEM partnership models for both Universal SSH Key Manager and CryptoAuditor, targeting a more rapid growth curve.



# “SSH expects to release the **new platform architecture** and disruptive **new products** during **2017.**”

## RESTRUCTURING IN Q4/2016

We underwent a significant restructuring process during the fourth quarter of 2016.

The restructuring resulted in an estimated annual OPEX reduction of €6 Million which will have a significant impact on our profitability and our ability to invest in our growth areas. As a part of the restructuring process, we reorganized our R&D activities around the SSH Access Governance Platform, creating more cohesion and accelerating our R&D efforts. We also consolidated our Asia-Pacific operations into the Hong Kong office, creating efficiencies and reducing the overhead of maintaining several small offices and country subsidiaries.

The restructuring ensures SSH is stronger than ever and able to address the emerging cyber-security challenges of its customers effectively and profitably.

## TECHNOLOGIES AND PRODUCTS

In 2016, the Universal SSH Key Manager and CryptoAuditor products reached a mature stage and proved to be highly competitive with alternative solutions. Leading customers deployed both solutions at massive scale and their performance was fully proven.

The customers' transition into private, hybrid, and public cloud platforms continued during the year and is expected to further accelerate in the coming years. Especially during the second half of the year we focused on increased integration between the Universal SSH Key Manager and CryptoAuditor and started work towards creating a cohesive platform architecture and rolling out cloud transformation technologies.

Customer response to these developments has been positive and SSH expects to release the new platform architecture and disruptive new products during 2017.

The first firewall/VPN products are nearing completion and first customer installations are expected to commence during 2017.

## MARKET VIEW

SSH has been a trailblazer in identifying and addressing issues related to access governance and trusted access monitoring. Traditionally, the market awareness of these issues has been relatively low. However, the epidemic rise of security incidents along with increased publicity regarding the dangers posed is bringing these risks to the radars of C-level executives in large companies.

According to a 2016 risk survey by the Bank of England, nearly 50% of finance executives in the UK identify cyber-attacks as one of the biggest risks to the financial system. A further factor increasing the awareness of cyber security issues and

the willingness to invest in addressing them is the inclusion of cyber security risks in numerous governance and compliance frameworks, such as NIST IR 7966 (“Security of Interactive and automated Access Management Using Secure Shell (SSH)”), co-authored by SSH Founder Tatu Ylönen. In Europe, enterprises are preparing for the General European Data Protection Regulation that enters into force in May 2018 and increases the importance of building compliance by utilizing leading technologies to ensure security of any data.

A second key market dynamic working in favor of SSH is the even faster than anticipated pace of digitalization and cloud transformation among our clients. The shift from large, yet relatively static server estates to highly dynamic, just-in-time cloud deployments in which new servers can be spawned and killed almost instantaneously requires a new paradigm in access governance to overcome the inherent limitations of traditional security approaches. SSH is on the forefront of this development and works closely with some of the leading companies in the world to bring new, disruptive access governance solutions to the market in 2017.

# CEO Letter

## “2016 was a year of STARK CONTRASTS.”

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

2016 was a year of stark contrasts for SSH. While license sales (and especially the sales of our new products) grew and we won several new Fortune 100 customers, our financial performance was far from satisfactory. Due to transitioning away from services and more into a subscription model in software sales, our revenue decreased from the previous year. We continued investing in R&D and our execution capability in sales, and incurred substantial losses.

We significantly improved our cash position by successfully completing an EUR 8 million share offering in June. The offering was oversubscribed and brought in two new major institutional investors, reflecting the tremendous faith investors are placing in our prospects. We closed the year with a strong cash position.

We closed two major new subscription deals in the fourth quarter. I welcome this development even though it means revenue recognition for those deals will be spread over the term of the subscriptions. Subscription sales create solid multi-year revenue that supports our further growth and helps build long-lasting stable customer relationships. We expect this trend to continue in 2017 and beyond. During our transition to more subscription sales, bookings growth is a much more important measure for the success of our strategy than revenue growth.

We suffered two setbacks in our patent litigation efforts. The first instance decisions from both UK and Germany went against us and this caused a delay in realizing licensing revenue from our patents. We believe both decisions were flawed (and are supported in this view by independent outside counsel) and have appealed both decisions. We expect decisions from these appeals during 2017 and will continue our patent licensing program.



Kaisa Olkkonen, CEO

“We **must** and we **will continue** to be a **disruptive innovator** in the **market.**”

I am excited about the direction of our product development. We are combining our market-leading products into a coherent product platform that will enable us to become a more strategic vendor to our customers. Furthermore, we are working on disruptive new technologies that will support our customers in their accelerating digitalization drive and expect to make exciting new announcements during 2017.

During Q4, we worked hard to stem the losses and improve our competitiveness in 2017 and beyond. First, we completed a major reorganization and cost savings program that makes us both operationally and financially better prepared for the future.

We also strengthened our executive management team: Chris Riley and Rami Raulas bring extensive senior sales leadership experience to us and we believe they will significantly improve our sales execution. The other members of the management team, Tatu Ylönen, Markku Rossi, Kalle Jääskeläinen, Helena Kukkonen, and Jussi Mononen also bring their expertise to support our future success.

We have great assets we can build our future success on:

- several new key customers won, representing globally leading players in their fields
- highly positive feedback for our existing products
- an exciting roadmap for the future
- encouraging developments in terms of increasing license and subscription sales
- highly competent teams in R&D.

We also see positive macro developments in the global market place in the form of growing customer need for careful management of access to their most critical data assets. With the ever-tightening compliance requirements, the urgency of developing these capabilities is constantly increasing.

I am fully committed to my new position and will work relentlessly with the management team to improve the execution capability of SSH. I believe the changes we have already started and continuous development of our operations will make us a strong and recognized player in the cyber security segment. We are committed to remain a strong innovator in this industry.

Kaisa Oikkonen  
CEO

# Board of Directors

**The Annual General Meeting held in March 2016 elected Harri Koponen, Jukka Manner, Kaisa Olkkonen, Timo Syrjälä and Tatu Ylönen as members of the Board of Directors.**

Kaisa Olkkonen was elected as the Chairman of the Board of Directors. The majority of the Board members are considered independent of the company. Board Members Jukka Manner, Kaisa Olkkonen, and Timo Syrjälä were deemed to be independent Board members. Board members Harri Koponen and Tatu Ylönen are not independent of the company. Tatu Ylönen is the CEO and the largest shareholder, who owns directly and through his holdings about 52.3 % of SSH Communications Security shares.

Kaisa Olkkonen resigned as the Chairman of the Board on December 29, 2016 as she was appointed the CEO of SSH starting January 1, 2017. She will remain a member of Board of Directors. Jukka Manner was elected as the Chairman of the Board after the resignation.

Due to this appointment, the majority of the directors will temporarily not be independent of the company. This will be considered in the preparation of the proposal for the composition of the board to be given to the next Annual General Meeting, so that the independence of the next board of directors is ensured.



**Jukka Manner**  
Chairman of the Board

Jukka Manner is Professor of Networking Technology at Aalto University. He has more than 20 years of experience in networking, software engineering and distributed systems. He has contributed to standardization of Internet technologies in the Internet Engineering Task Force (IETF) since 1999. Jukka has been principal investigator and project manager for over 25 national and international research projects and has authored over 100 publications, including eleven IETF standards. Prior to joining the board of SSH Communications Security, he served on the board of Stonesoft. He has received the Cross of Merit, Signals, and the Medal for Military Merits for contributions in national defense and C4. Jukka is also a member of the board of the Nokia Foundation. Jukka has a Ph.D. degree from the University of Helsinki (Computer Science).



**Kaisa Olkkonen**  
Board Member

Kaisa Olkkonen is an experienced leader and expert in international business, legal matters, intellectual property, and digitalization. She has previously been e.g. VP, Legal; and VP, Government Relations at Nokia Corporation. Kaisa has led international and diverse expert teams through changes and transitions. Her international career has taken her on expatriate assignments in Sweden, Singapore, and Belgium. She also holds Board of Directors positions in Cargotec Oyj, Enfo Oyj and, John Nurminen Foundation, and is an investor and advisor in several startup companies. Kaisa holds a Master of Law degree from University of Helsinki. Kaisa is currently the CEO of SSH.



**Timo Syrjälä**  
Board Member

Timo Syrjälä has more than 30 years of experience in capital markets and has spent the last 10 years as a private investor and a non-executive director in several firms. Prior to joining the board of SSH Communications Security, he served on the boards of several leading technology firms, including Stone-soft (a security company specializing in firewalls, acquired by Intel/McAfee, now ForcePoint), and Efore. Earlier in his career, Timo held executive and managerial positions in management consulting, asset management, and investment banking. Timo holds a Master of Science degree from the Helsinki University of Technology (now Aalto University) in Finland.



**Tatu Ylönen**  
Board Member

Tatu Ylönen founded SSH Communications Security in 1995, grew the company to \$20 million in sales and 190 employees in five years, and led the company to a public listing on NASDAQ OMX Nordic in 2000. Tatu is an experienced entrepreneur and the original inventor of SSH (Secure Shell), and NAT Traversal technologies. He has also co-authored NIST IR 7966, guidelines for managing SSH keys. Prior to his current role as Founder and SSH Fellow, Tatu has held various roles in the company throughout the years, including CEO, CTO, and Chief Innovation Officer. He is also the largest shareholder of the company. Tatu holds a Licentiate of Technology degree from the Helsinki University of Technology (now Aalto University) in Finland. He has previously founded several other companies and invested in a few; one of the other companies went public in 2014.



**Harri Koponen**  
Board Member

Prior to joining the SSH Board of Directors, Harri was the CEO of SSH. He has also served as the CEO of NPTV a cloud based interactive TV software company, board member at Stonesoft (acquired by McAfee), and the COO of Rovio Entertainment, creating the global merchandising and licensing business of their Angry Birds brand. He has also been President and CEO of three major telecommunications companies, Sonera (Finland), Wataniya (Kuwait), and Tele2 (Sweden), and lived in the United States for several years serving as Managing Director of Sony Ericsson (North and Central America), and Head of Ericsson Consumer Products Division for North America. Prior to that, he worked as the global account executive for AirTouch, Vodafone, and Sonera at Ericsson, and in the early 1990s ran HP's telecom global sales for Sonera. Harri holds an eMBA from University of Helsinki and Aalto University and is a Dr.Econ (h.c.) from University of Jyväskylä.

# Executive Management Team 31.12.2016

The following people also served in the executive management team during 2016:

- Petri Helenius, Vice President, Network Protection, 01-09/2016
- Ed Jackowiak, VP, North America Operations & Sales, 01-05/2016
- Jyrki Lalla, Chief Financial Officer, 01-09/2016



## Tatu Ylönen

Chief Executive Officer  
(CEO)

born 1968  
Lic.Sc. (Technology)

After founding SSH Communications Security in 1995, he grew the company to \$20 million in sales and 190 employees in five years, and led the company to a public listing on NASDAQ OMX Nordic in 2000.

He is an experienced entrepreneur with significant technical achievements:

- Developed the SSH (Secure Shell) protocol for file remote access and SFTP for file transfers.

- Implemented the original free SSH client and server, which later became OpenSSH.

- Developed the patented NAT Traversal technology, which is now included in most major smartphones, computers, and 3G/4G telecom equipment.

Tatu has authored several IETF standards and NIST IR 7966, and is the inventor in 30+ US and international patents, including several essential patents on major telecommunications standards. Tatu owns 18,073,623 SSH shares directly and through his company Clausal Computing Ltd.



## Helena Kukkonen

Chief Financial Officer  
(CFO) starting September 2016

born 1972  
M.Sc. (Economics)

Helena brings more than 20 years of experience in financial and management accounting and reporting, finance processes, and systems development. She is responsible for financial management, treasury, human resources, corporate development, and corporate governance. She also acts as a secretary to the Board of Directors.

Prior to joining the company in September 2016, Helena held several senior financial management positions at Microsoft Corporation and Nokia Corporation. She headed finance and control functions on group and business unit level for a global large scale company, as well as global functional finance teams in manufacturing and supply chain area, including mobile phone factories worldwide.

Helena has a Master of Science in Economics degree from the University of Vaasa, Finland.

Helena does not own any SSH shares but has 100,000 option rights.



## Markku Rossi

Chief Technology Officer  
(CTO)

born 1970  
M.Sc. (Technology)

Markku Rossi is responsible for the company's global R&D and directs the company's technology strategy. Mr. Rossi has extensive knowledge and experience with SSH Communications Security products, having served the company from 1998 through 2005 as a Chief Engineer, leading the contribution to the SSH software architecture. Prior to re-joining the company in 2015, Markku founded several companies such as Codento and ShopAdvisor, served as CTO at Navicore, Chief Architect at Nokia, and is currently member of the board at Codento and partner at Prominda Revolution.

Markku holds a Master of Science degree in Computer Science from the Helsinki University of Technology (Aalto University) in Finland.

Markku does not own any SSH shares but has 100,000 option rights.



## Kalle Jääskeläinen

Vice President,  
Platform Management

born 1977  
B.A. (Science)

Kalle has over fifteen years of experience in information security services, R&D, and product management. As the VP, Platform Management, Kalle is responsible for delivering customer-driven and high performance security solutions and services that protect our customers' critical data and infrastructures. Kalle's combination of extensive customer-facing experience and technical background is ideal for understanding the market and customers' challenges, and how those can be resolved in enterprise environments.

Kalle received his Bachelor of Science from the Vantaa Institute of Technology, Finland where he specialized in Telecommunication and Computer networks. Kalle also carries a CISSP certification.

Kalle owns 10,000 SSH shares and has 267,000 option rights.



## Chris Riley

President, SSH, Inc. and  
Vice President, US Sales  
& Global Marketing

born 1970  
B.Sc. (Business Administration)  
& MBA (Northeastern University)

Chris has worked in IT and information security for 21+ years. More specifically, his experience in markets for identity assurance, data security, governance and risk management is extensive. At SSH, Chris is responsible for all US business operations including sales, customer success and marketing. Chris is passionate about the work being done by SSH customers and associates around governance for trusted access and how that makes the world a safer place given the evolving threat landscape. Prior to joining SSH, Chris spent 11+ years at RSA Security in various leadership roles around enterprise sales and customer success.

Chris is a graduate of Merrimack College in North Andover, MA where he majored in finance and minored in economics. He also holds a Master of Business Administration degree from Northeastern University in Boston.

Chris does not own any SSH shares but has 100,000 option rights.



## Jussi Mononen

Vice President, Business  
Development

born 1964  
M.Sc. (Engineering)

Jussi is a seasoned growth company executive who has been CEO and founder of several venture-backed companies. He has nearly 30 years of management and consulting experience from international technology-intensive businesses with a sound understanding of strategy, communications, operations, processes, and critical success factors. He also has a strong track record in funding and M&A transactions.

Prior to assuming the Vice President, Business Development role, Jussi served as the Chief Operating Officer of SSH in 2016.

Jussi holds a Master of Science degree in Industrial Engineering and Management from the Helsinki University of Technology (Aalto University) in Finland. Jussi does not own any SSH shares but has 100,000 option rights.



## Matthew McKenna

Chief Strategy Officer,  
VP of Strategic Accounts

bborn 1973  
B.A., MBA

Matthew brings over 15 years of high technology sales, marketing and management experience to SSH Communications Security and drives strategy, key account sales, and evangelism. His expertise in strategically delivering technology solutions that anticipate the marketplace has helped the company become a market leader. Prior to joining the company in 2010, Mr. McKenna served as a member of the 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. Matthew does not own any SSH shares, but has 351,000 option rights.

# Current Executive Management Team



## Kaisa Olkkonen

Chief Executive Officer (CEO)

born 1964  
Master of Laws

Kaisa Olkkonen is an experienced leader and expert in international business, legal matters, intellectual property, and digitalization. She has previously been, e.g., VP, Legal and VP, Government Relations at Nokia Corporation.

Kaisa has led international and diverse expert teams through changes and transitions. Her international career has taken her on expatriate assignments in Sweden, Singapore, and Belgium.

She also holds Board of Directors positions in Cargotec Oyj, Enfo Oyj, and John Nurminen Foundation, and acts as an investor and advisor in several startup companies.

Kaisa does not own any SSH shares but has 300,000 option rights.



## Tatu Ylönen

SSH Fellow, Founder

born 1968  
Lic.Sc. (Technology)

After founding SSH Communications Security in 1995, he grew the company to \$20 million in sales and 190 employees in five years, and led the company to a public listing on NASDAQ OMX Nordic in 2000. He is an experienced entrepreneur with significant technical achievements:

- Developed the SSH (Secure Shell) protocol for secure remote access and SFTP for file transfers.
- Implemented the original free SSH client and server, which later became OpenSSH.
- Developed patented NAT Traversal technology, which is now included in most major smartphones, computers, and 3G/4G telecom equipment.

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Chief Financial Officer (CFO)

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M.Sc. (Economics)

Helena brings more than 20 years of experience in financial and management accounting and reporting, finance process, and systems development. She is responsible for financial management, treasury, human resources, corporate development, and corporate governance. She also acts as a secretary to the Board of Directors. Prior to joining the company in September 2016, Helena held several senior financial management positions at Microsoft Corporation and Nokia Corporation. She headed finance and control functions on group and business unit level for a global large scale company, as well as global functional finance teams in manufacturing and supply chain area, including mobile phone factories worldwide.

Helena has a Master of Science in Economics degree from the University of Vaasa, Finland.

Helena does not own any SSH shares but has 115,000 option rights.



## Markku Rossi

Chief Technology Officer (CTO)

born 1970  
M.Sc. (Technology)

Markku Rossi is responsible for the company's global R&D and directs the company's technology strategy. Mr. Rossi has extensive knowledge and experience with SSH Communications Security products, having served the company from 1998 through 2005 as a Chief Engineer, leading the contribution to the SSH software architecture. Prior to re-joining the company in 2015, Markku founded several companies such as Codento and ShopAdvisor, served as CTO at Navicore, Chief Architect at Nokia, and is currently member of the board at Codento and partner at Prominda Revolution. Markku holds a Master of Science degree in Computer Science from the Helsinki University of Technology (Aalto University) in Finland. Markku does not own any SSH shares but has 115,000 option rights.



## Kalle Jääskeläinen

Vice President, Platform Management

born 1977  
B.A. (Science)

Kalle has over fifteen years of experience in information security services, R&D, and product management. As the VP, Enterprise Key Management, Kalle is responsible for delivering customer-driven and high performance security solutions and services that protect our customers' critical data and infrastructures. Kalle's combination of extensive customer-facing experience and technical background is ideal for understanding the market and customers' challenges, and how those can be resolved in enterprise environments.

Kalle received his Bachelor of Science from the Vantaa Institute of Technology, Finland where he specialized in Telecommunication and Computer networks. Kalle also carries a CISSP certification.

Kalle owns 10,000 SSH shares and has 267,000 option rights.



## Rami Raulas

Vice President, EMEA and APAC Sales

born 1961  
M.Sc. (Economics)

Rami is a seasoned Sales Leader with several international leadership positions in Sales & Business Management, Marketing and Product Management in global companies. He has been developing and leading regional and global sales teams in multiple companies for successful sales growth and customer satisfaction and loyalty.

He is experienced in go to market strategies and implementations and channel partner management.

Rami has been working in management positions in Finnish, Asian and Global companies including Nokia, ICL, Fujitsu, Fujitsu-Siemens, and Ahlstrom. Rami holds a Master of Science degree in strategic marketing, business economics and computer science from Helsinki School of Economics (Aalto University).

Rami does not own any SSH shares but has 35,000 option rights.



## Chris Riley

President, SSH, Inc. and Vice President, US Sales & Global Marketing

born 1970  
B.Sc. (Business Administration) & MBA (Northeastern University)

Chris has worked in IT and information security for 21+ years. More specifically, his experience in markets for identity assurance, data security, governance and risk management is extensive. At SSH, Chris is responsible for all US business operations including sales, customer success and marketing. Chris is passionate about the work being done by SSH customers and associates around governance for trusted access and how that makes the world a safer place given the evolving threat landscape. Prior to joining SSH, Chris spent 11+ years at RSA Security in various leadership roles around enterprise sales and customer success.

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## Jussi Mononen

Vice President, Business Development

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M.Sc. (Engineering)

Jussi is a seasoned growth company executive who has been CEO and founder of several venture-backed companies. He has nearly 30 years of management and consulting experience from international technology-intensive businesses with a sound understanding of strategy, communications, operations, processes, and critical success factors. He also has a strong track record in fundraising and M&A transactions.

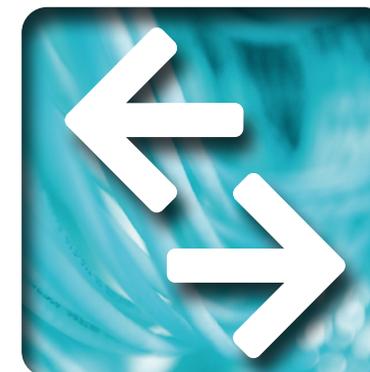
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# Financial Statements 2016

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# Report of the Board of Directors for 1 Jan –31 Dec 2016

NET SALES EUR million	10–12/ 2016	7–9/ 2016	4–6/ 2016	1–3/ 2016	1–12/ 2016	10–12/ 2015	1–12/ 2015
BY GEOGRAPHICAL SEGMENT							
AMERICAS	2.2	2.3	2.0	1.7	8.2	2.1	11.7
APAC	0.6	0.6	0.4	0.4	2.0	0.9	2.1
EMEA	1.3	0.8	2.4	0.5	5.0	1.3	5.0
<b>Total</b>	<b>4.1</b>	<b>3.7</b>	<b>4.7</b>	<b>2.6</b>	<b>15.1</b>	<b>4.3</b>	<b>18.9</b>
BY OPERATION							
Software fees	1.3	1.3	2.8	0.7	6.1	1.6	5.1
Professional services and other	0.6	0.4	0.1	0.1	1.1	0.6	6.1
Recurring revenue	2.2	2.1	1.9	1.8	7.9	2.0	7.6
<b>Total</b>	<b>4.1</b>	<b>3.7</b>	<b>4.7</b>	<b>2.6</b>	<b>15.1</b>	<b>4.3</b>	<b>18.9</b>

## NET SALES

Consolidated net sales for January–December totaled EUR 15.1 million (EUR 18.9 million), down by -19.9 %, year on year. The decrease of revenue was the result of several factors: decrease in service business, delayed sales due to the challenging macroeconomic environment, and the starting transition from perpetual license sales towards subscription sales.

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 0.2 % compared with the same period a year ago. With exchange rates comparable to those of 2015, net sales decline would have been -20.0 % compared with 2015.

License sales grew 19.7 %, year on year. The same period in 2015 included an exceptionally large consultancy deal.

## PROFIT AND PROFITABILITY TRENDS

Operating loss for January–December amounted to EUR -10.8 million (EUR -4.4 million), with net loss totaling EUR -11.1 million (EUR -3.9 million). Smaller than anticipated sales and contin-

ued investments to sales and product development, patent enforcement expenses, and one-time reorganization charges influenced profitability.

Sales, marketing and customer support expenses amounted to EUR -12.0 million (EUR -10.0 million), while research and development expenses totaled EUR -9.5 million (EUR -5.1 million) and administrative expenses EUR -2.4 million (EUR -1.6 million).

During Q4, the company went through major restructuring and cost savings program to improve competitiveness in 2017 and beyond. The company booked reorganization charges of EUR 1 million during January–December 2016.

## 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, 2016 stood at EUR 21.8 million (EUR 21.8 million; December 31, 2015), of which liquid assets accounted for EUR 7.8 million (EUR 11.3 million), or 35.9 % of the balance sheet total. During June, new shares in a di-

rected share issue of EUR 8 million were issued. On December 31, 2016, gearing, or the ratio of net liabilities to shareholders' equity, was -94.8 % (-98.8 %) and the equity ratio stood at 63.1 % (66.8 %).

The reported gross capital expenditure for the period totaled EUR 2.5 million (EUR 2.6 million). The reported financial income and expenses consisted mainly of exchange rate gains or losses. Financial income and expenses totaled EUR -0.3 million (EUR 0.5 million).

During January–December, SSH Communications Security reported a cash flow of EUR -8.1 million (EUR 0.3 million) from business operations, and investments showed a cash flow of EUR -2.5 million (EUR -2.6 million). Cash flow from financing totaled EUR 7.1 million (EUR 7.4 million). Total cash flow from operations, investments and financing was negative EUR -3.5 million (EUR 5.1 million).

## RESEARCH AND DEVELOPMENT

Research and development expenses totaled EUR -9.5 million (EUR -5.1 million), the equivalent of 62.5 % of net sales (26.9 %). During the reporting period R&D cost capitalizations amounted to EUR 1.9 million (EUR 2.1 million). Depreciation from R&D capitalization assets was EUR -1.6 million (EUR -1.2 million).

## RISKS AND UNCERTAINTIES

Most significant risks that might impact the profitability of the company have remained by and large the same as in the 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
- Cybercrime, including e.g. ransomware
- Delays in product development and closing new business
- Maintaining our ability to innovate and develop our product portfolio, including intellectual property rights (IPR)
- IPR litigation and the utilization of our patent portfolio

- Ability to retain and recruit key personnel
- Ability to execute our strategy
- Large portion of the company revenue is invoiced in U.S. dollar so possible large fluctuation in the U.S. dollar rates during 2017 could have unpredictable effects for profitability that are at the time difficult to estimate. The company decides on hedging of USD based contracts case by case.

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

## HUMAN RESOURCES AND ORGANIZATION

SSH Communications Security Group had 84 (109) employees at the end of December, down by 25 persons or -22.9 % from the previous year mainly due to personnel reductions from the savings program undertaken in Q4. Of the employees, 56 (80) were based in Finland, 2 (4) in Germany, 19 (20) in the USA, 5 (3) in Hong Kong and 2 (0) in the UK.

The average age of the employees was 42.4 years (40.9 years). 13.1 % (13.8 %) of the employees were women and 86.9 % (86.2 %) men. At the end of the period under review, 38.1 % (40.4 %) of the employees worked in sales, marketing, and customer services, 47.6 % (48.6 %) in research and development, and 14.3 % (11.0 %) in corporate administration.

At the end of the reporting period, the parent company had 56 (80) employees on its payroll, on average 79 (73) employees during the period under review. Parent company salaries, bonuses, and other personnel expenses during the financial period totaled EUR 6.5 million (5.2 million).

## BOARD AND AUDITORS

At the Annual General Meeting on April 20, 2016, Kaisa Olkkonen and Harri Koponen were elected and Timo Syrjälä, Tatu Ylönen and Jukka Manner were re-elected as directors of the company. Kaisa Olkkonen was elected as the Chairman of the Board of Directors in the board's organizing meeting. As announced on December 30, 2016, Kaisa Olkkonen resigned from the position of the Chairman and Jukka Manner was

appointed as the new Chairman of the Board of Directors.

The Authorized Public Accountants Ernst & Young Oy were elected as the auditor of the company with Erkkä Talvinko, 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 (AGM) 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 Corporation share conveys 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 the Finnish Limited Liability Companies Act, securities market legislation, including the market abuse regulation, rules of Nasdaq Helsinki, and Finnish Corporate Governance Code 2015 adopted by the Securities Market Association.

More information on corporate governance is available under the Corporate Governance section at: <https://www.ssh.com/investors/>

## SHARES, SHAREHOLDING, AND CHANGES IN GROUP STRUCTURE

The reported trading volume of SSH Communications Security Corporation shares totaled 6,450,197 (valued at EUR 18,314,111). The highest quotation was EUR 4.39 and the lowest EUR 1.86. The trade-weighted average share price for the period was

EUR 2.84 and the share closed at EUR 1.94 (December 30, 2016).

The company's principal owner Tatu Ylönen holds directly and through his company, Clausal Computing Ltd., 52.3 % of the company's shares, Timo Syrjälä holds directly and through his companies 8.2 %, and Juha Mikkonen holds directly and through his company under his control, Assetman Oy, 6.9 %. More information about the shareholding can be obtained from the company's web site.

In the financial year 2016, a new subsidiary, SSH Communications Security (S) Pte Ltd. (Singapore) was founded.

In addition to the above new subsidiary, the company has also the following subsidiaries: SSH Communications Security, Inc. and SSH Government Solutions, Inc. in the USA, SSH Communications Security Ltd. in Hong Kong, SSH Communications Security K.K. in Japan, SSH Communications Security UK Ltd. (formerly SSH ROKITT Solutions and Services Ltd.) in the UK, and SSH Operations Ltd., Kyberleijona Ltd., and SSH Technology Ltd. in Finland. SSH Operations Ltd. has a branch in Germany.

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

## INFORMATION ON SHAREHOLDERS

## DISTRIBUTION OF OWNERSHIP BY SECTOR

Type of sector	Number of shares	Percentage of shares and votes, %
Companies	6,676,497	19.32 %
Financial and insurance institutions	2,248,719	6.51 %
Households and private individuals	24,174,685	69.95 %
General government	1,330,600	3.85 %
Non-profit organizations	80,600	0.23 %
Foreign shareholders	49,732	0.14 %
<b>Total</b>	<b>34,560,833</b>	<b>100.00 %</b>

## DISTRIBUTION OF HOLDINGS BY NUMBER OF SHARES

Shares	Number of shareholders	Percentage of shareholders, %	Number of shares	Percentage of shares, %
1-100	1,588	34.07 %	87,516	0.25 %
101-500	1,327	28.47 %	404,347	1.17 %
501-1,000	670	14.37 %	557,449	1.61 %
1,001-5,000	818	17.55 %	1,956,195	5.66 %
5,001-10,000	124	2.66 %	918,459	2.66 %
10,001-50,000	104	2.23 %	2,051,565	5.94 %
50,001-100,000	13	0.28 %	878,949	2.54 %
100,001-500,000	9	0.19 %	1,998,863	5.78 %
500,001-999,999,999	8	0.17 %	25,707,490	74.38 %
<b>Total</b>	<b>4,661</b>	<b>100.00 %</b>	<b>34,560,833</b>	<b>100.00 %</b>
of which nominee-registered	7		2,174,949	6.29 %

## THE TEN LARGEST SHAREHOLDERS

31 December 2016, Excluding Nominee-Registered	Percentage of shares, %	Shares
Ylönen Tatu	41.28 %	14,264,973
Clausal Computing Oy	11.02 %	3,808,650
Mikkonen Juha Taneli	6.94 %	2,400,000
Gaselli Capital Oy	2.92 %	1,010,500
Syrjälä Timo Kalevi	2.42 %	835,011
Ilmarinen Mutual Pension Insurance Company	1.93 %	665,300
Varma Mutual Pension Insurance Company	1.93 %	665,300
Taaleritehdas Mikro Markka Fund	1.45 %	500,000
AC Invest Oy	1.16 %	400,000
Pulli Anita Irmeli	0.59 %	203,076
<b>Total</b>	<b>71.62 %</b>	<b>24,752,810</b>

## SHARE CAPITAL AND BOARD AUTHORIZATIONS

The registered share capital of SSH Communications Security Corporation on December 31, 2016 was EUR 1,036,824.99 consisting of 34,560,833 shares.

SHARE SUBSCRIPTIONS WITH OPTION CERTIFICATES FROM THE COMPANY'S OPTION PLANS		
Number of shares	2016	2015
1/2012 option plan class A option certificates	32,900	166,400
1/2012 option plan class B option certificates	164,750	
1/2012 option plan class C option certificates		
1/2013 option plan class A option certificates	37,950	229,850
1/2013 option plan class B option certificates		
1/2013 option plan class C option certificates		
1/2013 option plan class D option certificates		
1/2013 option plan class E option certificates		
1/2013 option plan class F option certificates		
1/2014 option plan class A option certificates	4,950	
1/2014 option plan class B option certificates		
1/2014 option plan class C option certificates		
<b>Total</b>	<b>240,550</b>	<b>396,250</b>

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 27th 2016, the Board of Directors decided upon an option plan of maximum 400,000 options. As announced on June 20th 2016, a directed share issue of 2,950,000 shares was 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 shall decide upon all other matters related to the acquisition of shares.

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

## 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 2012, 2013, 2014, 2015 and, 2016.

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.

More information on stock option plans is given in note 17 in the consolidated financial statements.

### **RELATED PARTY TRANSACTIONS**

Clausal Computing Ltd., a company wholly owned by SSH Communication Security's majority owner and board member Tatu Ylönen, has provided research and development services to the company under service agreement signed in 2011. In 2016, the aggregate consideration paid by SSH Communications Security Corporation to Clausal Computing Ltd. was EUR 0.5 million. As a result of the profitability improvement measures initiated in November 2016, the parties agreed to terminate the service agreement.

CEO Tatu Ylönen subscribed for 489,200 shares and Member of Board Timo Syrjälä through his company 733,900 shares in 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**

LL.M. Kaisa Olkkonen was appointed Chief Executive Officer of the company starting January 1, 2017.

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

### **DIVIDEND AND OTHER DISTRIBUTION OF ASSETS**

The SSH Communications Security's Board of Directors will propose to the Annual General Meeting on March 29th, 2017 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.

## FINANCIAL INDICATORS

		2016	2015	2014
Net sales	EUR	15,121,803	18,867,166	16,209,456
Operating profit/loss	EUR	-10,753,470	-4,372,562	204,161
% of net sales	%	-71.1	-23.2	1.3
Profit/loss before taxes	EUR	-11,017,005	-3,854,905	404,889
% of net sales	%	-72.9	-20.4	2.5
Return on equity	%	-112.1	-40.4	4.3
Return on investments	%	-111.8	-39.9	2.7
Net interest-bearing debt	EUR	-7,844,754	-11,302,677	-6,100,142
Gearing	%	-94.8	-98.8	-77.3
Equity ratio	%	63.1	66.8	63.3
Gross investments in tangible and intangible assets	EUR	2,454,542	2,589,673	1,856,892
% of net sales	%	16.2	13.7	11.5
Research and development costs	EUR	9,456,568	5,068,848	4,045,449
% of net sales	%	62.5	26.9	25.0
Average number of personnel		111	102	97
Number of personnel 31 Dec		84	109	95
Salaries and fees	EUR	11,402,920	9,132,955	7,447,053

## INDICATORS PER SHARE

		2016	2015	2014
Earnings per share*	EUR	-0.36	-0.15	-0.00
Earnings per share, diluted*	EUR	-0.36	-0.15	-0.00
Equity per share	EUR	0.24	0.36	0.25
Dividends	EUR	0	0	0
Dividends per share	EUR	0.00	0.00	0.00
Dividend pay-out ratio	%	0	0	0
Effective dividend yield	%	0	0	0
Return of capital	EUR	0	0	0
Return of capital per share	EUR	0	0	0
Adjusted average number of shares during the period	1,000	32,983	31,068	30,817
Adjusted average number of shares at the end of the period	1,000	34,561	31,370	30,974
Adjusted average number of shares considering dilution effect	1,000	38,492	36,419	34,564
Price per earnings ratio (P/E)		neg.	neg.	neg.
Market capitalization 31 Dec	MEUR	67.0	94.7	77.8

		2016	2015	2014
<b>Share performance on the Helsinki Stock Exchange</b>				
Average price	EUR	2.84	4.50	2.85
Share price, year end	EUR	1.94	3.02	2.51
Lowest quotation	EUR	1.86	2.52	2.31
Highest quotation	EUR	4.39	6.32	3.74
Volume of shares traded	millions	6.5	8.4	3.6
Volume of shares traded, % of total number	%	19.6	27.0	11.7
Volume of shares traded	MEUR	18.3	37.7	10.3

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

## 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)	=	$\frac{\text{Profit / loss for the financial period - Interest on hybrid capital securities}}{\text{Average number of outstanding shares during the financial period}}$
Diluted EPS	=	$\frac{\text{Profit / loss for the financial period - Interest on hybrid capital securities}}{\text{Adjusted average number of shares considering dilution effect}}$
Dividend Per Share	=	$\frac{\text{Dividend}}{\text{Number of outstanding shares during the financial period}}$
Dividend Pay-out Ratio, %	=	$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$
Equity Per Share	=	$\frac{\text{Equity}}{\text{Number of outstanding shares on the financial statement date, adjusted for share issue}}$
Gearing, %	=	$\frac{\text{Interest bearing debt - Liquid assets}}{\text{Equity}} \times 100$

# **Consolidated** Financial Statements



## CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

EUR	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
<b>NET SALES</b>	3	<b>15,121,803</b>	<b>18,867,166</b>
Cost of goods sold		1,925,392	6,493,055
<b>GROSS MARGIN</b>		<b>13,196,411</b>	<b>12,374,111</b>
Other operating income		0	0
Sales and marketing costs	4, 5	12,045,279	10,029,213
R&D costs	4, 5	9,456,568	5,068,848
Administrative costs	4, 5	2,448,033	1,648,612
<b>OPERATING PROFIT/LOSS</b>		<b>-10,753,470</b>	<b>-4,372,562</b>
Financial income	6	1,285	523,082
Financial costs	7	264,821	5,425
<b>PROFIT/LOSS BEFORE TAXES</b>		<b>-11,017,005</b>	<b>-3,854,905</b>
Income taxes	8	36,860	55,794
<b>PROFIT/LOSS FOR THE FINANCIAL PERIOD</b>		<b>-11,053,865</b>	<b>-3,910,699</b>
<b>OTHER COMPREHENSIVE INCOME/COSTS</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Translation differences		421,150	-415,221
<b>COMPREHENSIVE PROFIT/LOSS FOR THE FINANCIAL PERIOD</b>		<b>-10,632,715</b>	<b>-4,325,920</b>
<b>Profit/loss for the financial period attributable to:</b>			
equity holders of the parent company		-11,053,865	-3,910,699
non-controlling interest		0	0
<b>Comprehensive profit/loss for the financial period attributable to:</b>			
equity holders of the parent company		-10,632,715	-4,325,920
non-controlling interest		0	0
Earnings per share	9	-0.36	-0.15
Earnings per share, diluted	9	-0.36	-0.15

## CONSOLIDATED BALANCE SHEET

EUR	Note	31 Dec 2016	31 Dec 2015
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Tangible assets	10		
Machinery & equipment		240,304	300,769
<b>Tangible assets, total</b>		<b>240,304</b>	<b>300,769</b>
Intangible assets	11		
Immaterial rights		5,216,663	4,628,606
<b>Intangible assets, total</b>		<b>5,216,663</b>	<b>4,628,606</b>
Investments			
Other shares		11,000	11,000
<b>Investments, total</b>		<b>11,000</b>	<b>11,000</b>
<b>NON-CURRENT ASSETS, TOTAL</b>		<b>5,467,967</b>	<b>4,940,375</b>
<b>CURRENT ASSETS</b>			
Short-term receivables			
Accounts receivable	12, 14	6,928,563	4,394,693
Other receivables	13	1,107,048	757,920
Prepaid expenses and accrued expenses		494,379	359,775
<b>Current receivables, total</b>		<b>8,529,990</b>	<b>5,512,388</b>
<b>Cash and cash equivalents</b>		<b>7,844,754</b>	<b>11,302,677</b>
<b>CURRENT ASSETS, TOTAL</b>		<b>16,374,744</b>	<b>16,815,065</b>
<b>ASSETS, TOTAL</b>		<b>21,842,711</b>	<b>21,755,440</b>

## CONSOLIDATED BALANCE SHEET

EUR	Note	31 Dec 2016	31 Dec 2015
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>EQUITY ATTRIBUTABLE TO THE PARENT COMPANY SHAREHOLDERS</b>			
Share capital		1,036,825	941,108
Fair value and other reserves		0	0
Translation differences		-1,688,440	-2,109,590
Unrestricted invested equity fund		14,952,192	6,819,816
Hybrid capital securities		12,000,000	12,000,000
Retained earnings		-18,029,682	-6,205,781
		<b>8,270,895</b>	<b>11,445,554</b>
NON-CONTROLLING INTEREST			
Non-controlling interest		0	0
<b>EQUITY, TOTAL</b>	15	<b>8,270,895</b>	<b>11,445,554</b>
NON-CURRENT LIABILITIES			
<b>NON-CURRENT LIABILITIES, TOTAL</b>		<b>0</b>	<b>0</b>
<b>CURRENT LIABILITIES</b>			
Advances received		8,731,532	4,628,793
Accounts payable	14	1,240,944	2,827,583
Accrued expenses	18	3,324,649	2,245,339
Other liabilities	19	274,690	608,171
<b>CURRENT LIABILITIES, TOTAL</b>		<b>13,571,816</b>	<b>10,309,886</b>
<b>LIABILITIES, TOTAL</b>		<b>13,571,816</b>	<b>10,309,886</b>
<b>EQUITY AND LIABILITIES, TOTAL</b>		<b>21,842,711</b>	<b>21,755,440</b>

## CONSOLIDATED CASH FLOW STATEMENT

EUR	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
<b>CASH FLOW FROM BUSINESS OPERATIONS</b>			
Sales revenue	3, 12	16,206,939	20,301,541
Costs of business operations	4, 18, 19	-24,270,931	-20,449,950
Interest and payments on other financial costs		-13,324	-5,425
Interest and other financial revenue		1,285	523,082
Taxes paid		-36,860	-83,146
<b>Cash flow from business operations</b>		<b>-8,112,890</b>	<b>286,102</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investments in tangible and intangible assets	10, 11	-2,454,542	-2,589,673
Investment in subsidiaries		-73,090	-
<b>Cash flow from investing activities</b>		<b>-2,527,632</b>	<b>-2,589,673</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Repayment of hybrid capital securities		-	-4,000,000
Proceeds from issue of hybrid capital securities		-	11,673,731
Interest on hybrid capital securities		-900,000	-730,091
Proceeds from shares subscribed with option rights		204,092	478,755
Proceeds from share issue		8,024,000	-
Expenses from share issue		-223,650	-
<b>Cash flow from financing activities</b>		<b>7,104,442</b>	<b>7,422,395</b>
<b>CHANGE IN LIQUID ASSETS</b>		<b>-3,536,080</b>	<b>5,118,824</b>
<b>Liquid assets at beginning of period</b>		<b>11,302,677</b>	<b>6,104,142</b>
Exchange rate effect		78,156	79,711
Change in liquid assets		-3,536,080	5,118,824
<b>Liquid assets at end of period</b>		<b>7,844,754</b>	<b>11,302,677</b>

## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

EUR	Note	Share capital	Fair value and other reserves	Hybrid capital securities	Translation differences	Unrestricted invested equity fund	Retained earnings	Equity, total
<b>Equity 1 Jan 2015</b>	15	929,221	0	4,000,000	-1,694,369	6,338,838	-1,681,878	7,891,813
<b>Comprehensive profit/loss</b>								
Profit/loss for the period							-3,910,699	-3,910,699
Other comprehensive items								0
Translation differences					-415,221			-415,221
<b>Comprehensive profit/loss for financial period, total</b>		0	0	0	-415,221	0	-3,910,699	-4,325,920
Hybrid capital securities				8,000,000			-1,132,718	6,867,282
Share-based payment plans							519,513	519,513
Shares subscribed on option rights	17	11,888				480,978		492,866
<b>Transactions with shareholders</b>		11,888	0	8,000,000	0	480,978	-613,205	7,879,661
<b>Equity 31 Dec 2015</b>		941,108	0	12,000,000	-2,109,590	6,819,816	-6,205,781	11,445,554
<b>Equity 1 Jan 2016</b>	15	941,108	0	12,000,000	-2,109,590	6,819,816	-6,205,781	11,445,554
<b>Comprehensive profit/loss</b>								
Profit/loss for the period							-11,053,865	-11,053,865
Other comprehensive items								0
Translation differences					421,150			421,150
<b>Comprehensive profit/loss for financial period, total</b>		0	0	0	421,150	0	-11,053,865	-10,632,715
Hybrid capital securities							-900,000	-900,000
Share issue		88,500				7,935,500	-223,650	7,800,350
Share-based payment plans							353,615	353,615
Shares subscribed on option rights	17	7,217				196,876		204,092
<b>Transactions with shareholders</b>		95,717	0	0	0	8,132,376	-770,035	7,458,057
<b>Equity 31 Dec 2016</b>		1,036,825	0	12,000,000	-1,688,440	14,952,192	-18,029,682	8,270,895

The contents and presentation of equity reserves has been clarified in 2016. The changes are specified in note 15, Notes to equity. Figures for 2015 have been adjusted accordingly.

# Notes to the Consolidated Financial Statements

## 1. GENERAL INFORMATION

SSH Communications Security offers advanced security solutions that enable, monitor, and manage encrypted networks. Thousands of customers across the globe trust the company's encryption, access control, and encrypted channel monitoring solutions to meet complex compliance requirements, improve their security posture and, save on operational costs. SSH Communications Security solutions are sold as licensed software and the company also offers maintenance and support services.

The SSH Communications Security Group consists of SSH Communications Security Corporation and its subsidiaries. SSH Communications Security Corporation (corporate id 1035804-9) is domiciled in Helsinki, Finland and is a publicly traded company, whose share is quoted in NASDAQ OMX Helsinki Oy (SSH1V). SSH Communications Security Corporation has its registered office at address Kernetintie 3, 00380 Helsinki, Finland.

The SSH Communications Security Board of Directors approved this financial statement for publication at its meeting on 9 February 2017. 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](http://www.ssh.com), or at the head office of SSH Communications Security Corporation. All stock exchange bulletins are available on the company website [www.ssh.com](http://www.ssh.com).

## 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 2016. 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.

The following new and amended standards, which have been adopted as of January 1, 2016 had no impact on the consolidated financial statements:

- Revised IAS 1 Presentation of Financial Statements: Disclosure Initiative. The amendment clarifies the application of materiality concept and judgment when determining where and in what order information is presented in the consolidated financial statements.
- Revised IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. The amendment clarifies that the revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.
- Revised IAS 27 Separate Financial Statements. The amendment allows entities to use the equity method in their separate financial statements.
- Revised IFRS 11 Joint arrangements. Amendment concerns

accounting for the acquisition of an interest in a joint operation. The Group currently has no interest in joint arrangements classified as joint operations.

- Annual improvements (2012–2014 Cycle, December 2014). Annual improvements include smaller amendments to four standards.

### 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 has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Group's returns. In practice, controlling interest is established when the Group owns more than half of the votes in a company. All subsidiaries a wholly owned by the parent company SSH Communication Security Corporation.

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 and cash flow 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 subscriptions, related support and maintenance fees, and consulting services. 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 Group.

Maintenance fees 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 Group.

### **Government Grants**

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 comply 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.

### **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. 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 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. The Group did not have any investments held to maturity during 2016 or 2015. 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 estimated 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. The Group did not have any derivative contracts during 2016 or 2015.

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. The Group did not have any finance leases in 2016 or 2015.

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 straight-line basis over the period of the lease.

### Earnings per Share

The 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. Earnings per share is impacted by unpaid interest of hybrid capital securities.

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 of the parent company 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 in the Annual General Meeting.

### 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 parent company SSH Communications Security Corporation's 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. No SSH Communications Security Corporation's shares were owned by the parent company or its subsidiaries at the end of 2016 or 2015.

### Hybrid capital securities

Hybrid capital securities is an instrument that is subordinated to the Company's other debt obligations and is treated as eq-

uity in the IFRS financial statements. Payment of interest on Hybrid capital securities is subject to the Board approval. Accrued interest is recognized in financial statements when paid.

### Gross Margin

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

### Operating Profit/Loss

IAS 1 *Presentation of Financial Statements* does not define operating profit/loss. The Group uses the following definition: 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 unused tax losses which are deductible at a later date.

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 pension 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.

### Share-Based Payments

Option rights have been issued to the Group management 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 unrestricted invested equity fund.

## 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.

## Use of estimates

Preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, income and expenses, as well as the disclosure of contingent assets and liabilities. The estimates and assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, which form the basis of making the judgments about carrying values. These estimates and assumptions are reviewed on an ongoing basis and possible effect of the changes in estimates and assumptions are recognized during the period they are changed.

The estimates and assumptions that have a significant risk of causing adjustment to the carrying value of assets within next financial year relate to restructuring plans, impairment testing, claims, onerous contracts, pending patent litigations, and the probability of deferred tax assets being recovered against future taxable profits.

## Adoption of new and amended standards and interpretations applicable in future financial years

The Group adopts the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

- IFRS 9 Financial Instruments (effective for 2018 annual period with early adoption permitted). IFRS 9 will replace current IAS 39 Financial Instruments: Recognition and measurement. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The amendment is not expected to have impact on the consolidated financial statements. The amendment is not expected to have significant impact on the consolidated financial statements.
- Revised IFRS 10 Consolidated Financial Statements and IFRS 12, IAS 28 Investment Entities. The amendment permits the application of consolidation exception of subsidiaries of an investment entity. The amendment is not expected to have impact on the consolidated financial statements.
- Revised IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The amendment addresses sale or contribution of assets between an investor and its associate or joint venture, more specifically transactions involving a business. The amendment is not expected to have impact on the consolidated financial statements.
- IFRS 15 Revenue from Contracts with Customers (effective for 2018 annual period with early adoption permitted). IFRS 15 establishes a new comprehensive framework that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in

exchange for transferring goods or services to a customer. The Group has assessed the impacts of IFRS 15 on its revenue recognition. The performance obligations in the new standard are principally similar to the transfer of risks and rewards in the current practice. In this respect there will not be any changes in revenue recognition. Consideration of the time value of money incorporated in the new standard will slightly change the revenue recognition. In case of major advance payment received, the Group will increase revenue with the amount of the interest component and recognize corresponding interest expense over the duration of the advance payment.

### 3. NET SALES

EUR	2016	2015
<b>BY OPERATION</b>		
Software fees	6,123,352	5,117,242
Professional services and other	1,111,011	6,147,224
Recurring revenue	7,887,439	7,602,700
<b>Total</b>	<b>15,121,803</b>	<b>18,867,166</b>
	<b>2016</b>	<b>2015</b>
<b>BY GEOGRAPHICAL SEGMENT</b>		
AMERICAS	8,152,221	11,702,928
APAC	1,955,359	2,117,669
EMEA	5,014,223	5,046,569
<b>Total</b>	<b>15,121,803</b>	<b>18,867,166</b>

In the financial year 2016, revenue share from one customer was EUR 2.4 million, which was 16 % of the net sales of the group.

### 4. OTHER OPERATING COSTS

EUR	2016	2015
<b>Employee benefits</b>		
Wages and salaries	10,872,448	8,579,437
Pensions, defined-contribution plan	1,051,029	957,056
Other ancillary personnel costs	622,704	382,477
Stock options issued	353,615	548,529
<b>Total</b>	<b>12,899,796</b>	<b>10,467,499</b>

Information about remuneration of the key management personnel is presented in note 23. Group companies and related party transactions and information about option right arrangements is presented in note 17, Share-based payments.

Number of personnel	2016	2015
Average during the financial period	111	102
At the end of the financial period	84	109

Personnel distribution by function on 31 Dec	2016	2015
Sales, marketing, and customer support	32	44
Research and development	40	53
Administration	12	12
<b>Total</b>	<b>84</b>	<b>109</b>

Research and development costs recognized as costs, EUR	2016	2015
<b>Total</b>	<b>9,456,568</b>	<b>5,068,848</b>

Other operating costs, EUR	2016	2015
External services	8,690,575	4,070,240
Depreciation	1,915,896	1,620,176
Other costs	1,940,489	1,923,302
<b>Total</b>	<b>12,546,960</b>	<b>7,613,717</b>

### Auditor's fees

EUR	2016	2015
<b>Principal auditor (2016: Ernst &amp; Young Oy; 2015: KPMG Oy)</b>		
Statutory auditing	29,000	24,450
Other auditing	-	11,093
Tax guidance	-	3,275
Other services	-	8,226
<b>Other auditing firms:</b>		
Statutory auditing	10,000	7,724
Other auditing	5,833	-
Tax guidance	17,740	-
Other services	4,413	-
<b>Total</b>	<b>66,986</b>	<b>54,768</b>

### 5. DEPRECIATIONS

EUR	2016	2015
<b>By asset category</b>		
Machinery and equipment	155,043	121,258
Software & other tech assets	199,795	320,490
Capitalized development costs	1,561,057	1,178,427
<b>Total</b>	<b>1,915,896</b>	<b>1,620,176</b>

By function	2016	2015
Sales and marketing costs	135,176	178,466
Research and development costs	1,730,028	1,393,223
Administrative costs	50,691	48,487
<b>Total</b>	<b>1,915,896</b>	<b>1,620,176</b>

## 6. FINANCIAL INCOME

EUR	2016	2015
Interest revenue	1,285	6,577
Exchange rate gains, loans and other receivables	0	516,505
<b>Total</b>	<b>1,285</b>	<b>523,082</b>

## 7. FINANCIAL COSTS

EUR	2016	2015
Exchange rate losses, loans and other receivables	264,821	0
Other interest costs	0	5,425
<b>Total</b>	<b>264,821</b>	<b>5,425</b>

## 8. TAXES

The Group's confirmed unrecognized tax losses on deferred tax assets, which have not been booked based on the principle of prudence, are EUR 10.2 million (EUR 13.8 million). EUR 2.3 million (EUR 1.9 million) of the tax losses are in Finland, and EUR 7.9 million (EUR 11.9 million) in the USA. The tax losses expire in Finland between the years 2018–2025, and in the USA between the years 2020–2035. The amount of unrecognized deferred tax assets from the tax losses is EUR 3.2 million (EUR 5.3 million). Losses for 2016 are not included as they have not yet been confirmed in taxation. The Group's subsidiaries do not have earnings that would cause tax consequences when repatriated.

EUR	2016	2015
Income tax	-36,860	-55,794
<b>Total</b>	<b>-36,860</b>	<b>-55,794</b>

### Reconciliation of taxes

Profit/income before taxes	-11,017,005	-3,854,905
Tax at Finnish tax rate 20 %	2,203,401	770,981
Effect of foreign subsidiaries' differing tax rates	6,796	9,706
Non-deductible expenses	71,961	104,965
Tax-free revenue	-80,757	0
Use of previously unrecognized tax losses	0	-1,052
Tax assets not recognized for reported losses	-2,238,262	-940,394
<b>Tax in income statement</b>	<b>-36,860</b>	<b>-55,794</b>

## 9. EARNINGS PER SHARE

EUR	2016	2015
Profit/loss attributable to shareholders of the parent company	-11,053,865	-3,910,699
Hybrid loan interest expense	-900,000	-825,479
Weighted average number of shares in issue, 1,000	32,983	31,068
Earnings per share	-0.36	-0.15
Adjusted average number of shares considering dilution effect, 1,000	38,492	36,419
Earnings per share, diluted	-0.36	-0.15

**10. TANGIBLE ASSETS**

EUR	2016	2015
<b>Machinery and equipment</b>		
Acquisition cost 1 Jan	1,789,365	1,546,661
Exchange rate effect	7,620	24,056
Increase	94,311	254,252
Decrease	0	-35,603
Acquisition cost 31 Dec	1,891,296	1,789,365
Accumulated depreciation 1 Jan	1,495,579	1,380,026
Exchange rate effect	7,027	20,093
Depreciation for the financial period	152,781	119,195
Accumulated depreciation on decrease	0	-23,736
Accumulated depreciation 31 Dec	1,655,387	1,495,579
Book value 31 Dec	235,909	293,786
<b>Other tangible assets</b>		
Acquisition cost 1 Jan	18,917	16,964
Exchange rate effect	621	1,954
Increase	0	0
Decrease	0	0
Acquisition cost 31 Dec	19,538	18,917
Accumulated depreciation 1 Jan	11,934	8,469
Exchange rate effect	392	975
Depreciation for the financial period	2,817	2,489
Accumulated depreciation on decrease	0	0
Accumulated depreciation 31 Dec	15,143	11,934
Book value 31 Dec	4,395	6,983
<b>Balance sheet value of tangible assets 31 Dec</b>	<b>240,304</b>	<b>300,769</b>

**11. INTANGIBLE ASSETS**

EUR	2016	2015
<b>Software</b>		
Acquisition cost 1 Jan	2,040,082	2,019,803
Exchange rate effect	5,756	12,483
Increase	33,002	54,509
Decrease	0	-46,713
Acquisition cost 31 Dec	2,078,841	2,040,082
Accumulated depreciation 1 Jan	1,956,156	1,910,162
Exchange rate effect	3,041	4,510
Depreciation for the financial period	64,903	60,170
Accumulated depreciation on decreases	0	-18,685
Accumulated depreciation 31 Dec	2,024,100	1,956,156
Book value 31 Dec	54,740	83,926
<b>Immaterial rights</b>		
Acquisition cost 1 Jan	8,364,859	6,055,621
Increase	2,312,283	2,309,237
Decrease	-1,061,244	0
Acquisition cost 31 Dec	9,615,897	8,364,859
Accumulated depreciation 1 Jan	3,820,178	2,380,512
Depreciation for the financial period	1,683,986	1,439,666
Accumulated depreciation on decreases	-1,050,190	0
Accumulated depreciation 31 Dec	4,453,974	3,820,178
Book value 31 Dec	5,161,923	4,544,681
<b>Book value of intangible assets 31 Dec</b>	<b>5,216,663</b>	<b>4,628,606</b>

**Impairment testing**

At the end of the year, the company has tested the value of Intangible assets using a moderate growth rate compared to 2016 net sales and the new cost structure after the restructuring measures initiated in November 2016. As a result of the testing, no impairment risk was detected.

**12. ACCOUNTS RECEIVABLE**

EUR	2016	2015
<b>Accounts receivable</b>	<b>6,928,563</b>	<b>4,394,693</b>
<b>By currency</b>		
EUR	1,221,429	695,384
USD	5,432,189	1,741,057
JPY	12,133	0
GBP	262,811	1,958,252
<b>Total (EUR)</b>	<b>6,928,563</b>	<b>4,394,693</b>

Accounts receivable by age, EUR	2016	Impairment losses	Net value 2016	2015	Impairment losses	Net value 2015
Non-matured	4,284,997		4,284,997	3,154,969		3,154,969
Matured						
< 30 days	1,717,334		1,717,334	641,025		641,025
30-60 days	272,301		272,301	243,285		243,285
> 60 days	653,930		653,930	355,414		355,414
<b>Total</b>	<b>6,928,563</b>	<b>0</b>	<b>6,928,563</b>	<b>4,394,693</b>	<b>0</b>	<b>4,394,693</b>

### 13. OTHER RECEIVABLES

EUR	2016	2015
VAT receivable	104,952	0
Other current receivables	1,002,097	757,920
<b>Total</b>	<b>1,107,048</b>	<b>757,920</b>

### 14. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The book value of accounts receivable and accounts payable equals their fair value because the impact of discounting is not significant considering the maturity of these items.

### 15. 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 2016 was EUR 1,036,824.99 (EUR 941,108.49), and the number of shares was 34,560,833 (31,370,283).

Changes in the share capital:	Number of shares	Share capital, EUR
<b>31 Dec 2015</b>	<b>31,370,283</b>	<b>941,108</b>
Subscriptions under stock option plans	240,550	7,217
Subscriptions under share issue	2,950,000	88,500
<b>31 Dec 2016</b>	<b>34,560,833</b>	<b>1,036,825</b>

### Description of the equity reserves:

The contents and presentation of the equity reserves has been clarified in 2016. The changes between reserves are described below in *italic*. Figures for 2015 have been adjusted accordingly.

#### Share capital

The share capital includes the share subscription prices unless registered as unrestricted invested equity fund decided by conditions of share issues. *Expenses related to share issues are deducted from retained earnings.*

#### Translation differences

The translation differences fund comprises 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 2016 and 2015 financial periods, SSH Communications Security had no saleable financial assets and did not apply hedging. *The counter values of recognized costs related to option rights have been transferred from fair value and other reserves to retained earnings. Figures for 2015 have been adjusted accordingly.*

#### 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. *Interests on hybrid capital securities have been transferred to retained earnings and paid interests in 2016 are deducted from retained earnings.*

**Hybrid capital securities**

Hybrid capital securities is an instrument that is subordinated to the Company's other debt obligations and does not have maturity date (i.e. it is perpetual). It is treated as equity in the IFRS financial statements. Hybrid capital securities do not confer to their holders the right to vote at shareholders' meetings and do not dilute the holdings of the current shareholders.

The hybrid capital securities of EUR 4 million issued in December 2012 were wholly subscribed by the principal owner and the Chief Executive Officer of the parent company, Tatu Ylönen. The coupon rate of the capital securities is fixed for the first three years (5 % until 28 December 2013, 9 % until 28 December 2014 and 13 % until 28 December 2015) and floating thereafter. The capital securities have no maturity but the company may exercise an early redemption option on each interest payment date. The capital securities and interests were paid back in April 2015.

Hybrid capital securities of EUR 12 million issued in March 2015, subscribed by institutional investors. The principal owner and the Chief Executive Officer of the parent company, Tatu Ylönen, subscribed EUR 500,000 of the hybrid capital securities. The capital securities bear a fixed interest rate of 7.5 per cent until 30 March 2020, after which the interest rate will increase by four percentage points. The capital securities have no maturity date, but the issuer has the right to redeem them after 3 but before 5 years from the issue date, upon certain conditions, or after 5 years from the issue date. The investors have the right to convert the capital loan into the Company's shares at EUR 4.76 per share of the issue date.

*In previous years costs related to issuance of hybrid capital securities have been deducted from other equity fund. These costs have been transferred to retained earnings and hybrid capital securities are presented as a separate item in equity. Figures for 2015 have been adjusted accordingly.*

**16. 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 March 2015 and a directed share issue in June 2016.

<b>Gearing</b>		
<b>EUR</b>	<b>2016</b>	<b>2015</b>
Interest-bearing financial liabilities	0	0
Interest-bearing receivables	0	0
Cash and cash equivalents	7,844,754	11,302,677
<b>Net liabilities</b>	<b>-7,844,754</b>	<b>-11,302,677</b>
<b>Equity total</b>	<b>8,270,895</b>	<b>11,445,554</b>
Equity ratio	63.1 %	66.8 %
Gearing	-94.8 %	-98.8 %

## 17. 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 belong to options plans. If no longer working for the company, one loses one's options.

On the balance sheet date, SSH Communications Security had 5,509,800 stock options outstanding (5,350,350), representing 13.8 % of shares and 13.8 % of votes. The weighted average exercise price of outstanding stock options was EUR 2.44 (EUR 2.29). The weighted average of the remaining subscription period was 2.3 years (3.2 years). The exercise price varies from EUR 0.65 to EUR 3.45, and the remaining subscription period from 0.7 years to 3.4 years.

The cost of option plan I/2016 has been calculated with an exercise price of 3.45 €, an interest rate of 0.39 % and a volatility of 30 %. The recognized cost of options issued in the 2016 income statement was EUR 353,615 (EUR 519,513). A person holding option rights is entitled to subscribe shares if employed by SSH at the beginning of the subscription period.

### 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/2012	I/2012 A	27 Jul 2012	1 Jun 2014	1 Sep 2017	0.65	104,200
	I/2012 B	27 Jul 2012	1 Jun 2016	1 Sep 2017	0.65	307,150
	I/2012 C	27 Jul 2012	1 Jun 2017	1 Sep 2017	0.65	486,200
						897,550
I/2013	I/2013 A	4 Jun 2013	1 Jun 2015	1 Sep 2018	1.66	199,150
	I/2013 B	4 Jun 2013	1 Jun 2017	1 Sep 2018	1.66	466,950
	I/2013 C	4 Jun 2013	1 Jun 2018	1 Sep 2018	1.66	481,100
	I/2013 D	4 Jun 2013	15 Feb 2015	1 Sep 2018	1.66	35,000
	I/2013 E	4 Jun 2013	15 Feb 2016	1 Sep 2018	1.66	21,000
	I/2013 F	4 Jun 2013	15 Feb 2017	1 Sep 2018	1.66	14,000
						1,217,200
I/2014	I/2014 A	17 Sep 2014	17 Sep 2016	1 Dec 2018	2.55	311,850
	I/2014 B	17 Sep 2014	17 Sep 2017	1 Dec 2018	2.55	316,800
	I/2014 C	17 Sep 2014	17 Sep 2018	1 Dec 2018	2.55	326,400
	I/2014 D	17 Sep 2014	1 Jan 2016	1 Dec 2018	2.55	40,000
						995,050
I/2015	I/2015 A	4 Feb 2015	15 Mar 2018	30 May 2020	3.45	660,000
	I/2015 B	4 Feb 2015	15 Mar 2019	30 May 2020	3.45	660,000
	I/2015 C	4 Feb 2015	15 Mar 2020	30 May 2020	3.45	680,000
						2,000,000
I/2016	I/2016 A	26 May 2016	15 Mar 2017	30 May 2020	3.45	400,000
						400,000

**CHANGES IN OUTSTANDING STOCK OPTIONS AND IN WEIGHTED AVERAGE SUBSCRIPTION PRICE:**

	2016		2015	
	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	2.29	5,350,350	1.56	3,746,600
Stock options granted	3.45	400,000	3.45	2,000,000
Stock option forfeited	0.00	0	0.00	0
Stock options canceled	0.00	0	0.00	0
Stock options exercised	0.85	240,550	1.24	396,250
At the end of the financial period	2.44	5,509,800	2.29	5,350,350
<b>Exercisable option rights at the end of the financial period</b>	<b>2.44</b>	<b>5,509,800</b>	<b>2.29</b>	<b>5,350,350</b>

The trade-weighted average share price of SSH Communications Security for the period was EUR 2.84 (EUR 4.50).

**18. ACCRUED LIABILITIES AND DEFERRED INCOME**

EUR	2016	2015
Personnel related	2,688,511	873,115
Accruals	108,085	412,456
Other accrued liabilities and deferred income	528,053	959,768
<b>Total</b>	<b>3,324,649</b>	<b>2,245,339</b>

**19. OTHER LIABILITIES**

EUR	2016	2015
Personnel related	149,621	182,646
VAT liabilities	17,750	135,061
Other current liabilities	107,320	290,464
<b>Total</b>	<b>274,690</b>	<b>608,171</b>

**20. 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 the U.S. dollar. The company reduces risk by using net position when feasible. Currently the U.S. dollar position is not hedged, and the company decides on the hedging of the U.S. dollar-based contracts case by case. 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 the U.S. dollar change on profits: +10 % = +180/-180 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, all the assets are invested in 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. The Group has not recognized significant impairment losses on 2016 or 2015. The aging distribution of accounts receivable is presented in note 12, Accounts receivable.

**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.

**The Group has accounts payables and other liabilities on 31 December 2016 totaling to EUR 1,515,634 with following maturity structure:**

EUR	31 Dec 2016
< 1 month :	1,136,726
< 3 month :	227,345
< 6 month :	151,563
<b>Total</b>	<b>1,515,634</b>

**21. OTHER RENTAL AGREEMENTS**

The item 'Other rental agreements' includes lease agreements not classified as finance leasing agreements. SSH Communications Security Group acts as lessee.

**THE GROUP AS LESSEE**

EUR	2016	2015
<b>Non-terminable rental agreements for office facilities – minimum rents</b>		
Within one year	485,201	493,959
Within more than one year but no more than 5 years	378,728	491,074
<b>Total</b>	<b>863,930</b>	<b>985,033</b>

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 2016 includes rents based on rental agreements totaling EUR 536,544 (EUR 502,657).

The Group also rents vehicles. Rents are at fixed rates, and the agreement period generally 3 to 4 years. The income statement for 2016 includes vehicle leasing costs totaling EUR 9,979 (EUR 20,375).

**22. GUARANTEES GIVEN AND OTHER COMMITMENTS**

EUR	2016	2015
Rental guarantees (pledged)	110,535	102,388
Hybrid Loan, Interest	675,000	675,000

**23. GROUP COMPANIES AND RELATED PARTY TRANSACTIONS**

On 31 December 2016, the CEO and members of the Board of Directors of SSH Communications Security owned 60.5 % (61.9 %) of the shares and votes in the company, either directly or indirectly through companies they own. Management group members including the CEO directly or indirectly held about 52.3 % (55.6 %) of company shares and have a total of 1,018,000 (801,500) option rights.

The general conditions of the option right arrangements are described in note 17, Share-based payments.

**Related Party Transactions**

Clausal Computing Ltd., a company wholly owned by Chief Executive Officer has provided research and development services to SSH Communications Security Corporation under service agreement signed in 2011. In 2016, the aggregate consideration paid by SSH Communications Security Corporation to Clausal Computing Ltd. was EUR 0.5 million.

As a result of the profitability improvement measures initiated in November 2016, the parties agreed to terminate the service agreement.

CEO Tatu Ylönen subscribed to 489,200 shares and Member of Board Timo Syrjälä through his company to 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.

**Dividend and Other Distribution of Assets**

The SSH Communications Security's Board of Directors will propose to the Annual General Meeting on March 29th, 2017 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.

Group companies	Domicile	Group holding, %	Votes, %
SSH Communications Security Corporation, Helsinki	Finland		
SSH Communications Security Inc., Waltham	USA	100	100
SSH Operations Oy, Helsinki	Finland	100	100
SSH Communications Security Ltd., Hong Kong	Hong Kong	100	100
Kyberleijona Oy, Helsinki	Finland	100	100
SSH Government Solutions Inc., Waltham	USA	100	100
SSH Technology Oy, Helsinki	Finland	100	100
SSH Communication Security K.K., Tokyo	Japan	100	100
SSH Communications Security (S) Pte. Ltd., Singapore	Singapore	100	100
SSH Communications Security UK Ltd, London	United Kingdom	100	100

#### Remuneration and fees – CEO

EUR	2016	2015
Salary and other short-term employee benefits	348,706	276,032
Share-based payment	0	0
<b>Total</b>	<b>348,706</b>	<b>276,032</b>

Harri Koponen was CEO of SSH Communications Security Oyj until 17 February 2016 and Tatu Ylönen as of 17 February 2016.

#### Fees Paid to Members of the Board of Directors

EUR	2016	2015
Päivi Hautamäki (until 20 Apr 2016)	5,571	18,000
Jukka Manner (Chairman of the Board as of 29 Dec 2016)	18,000	13,500
Kaisa Olkkonen (Chairman of the Board as of 20 Apr 2016, until 29 Dec 2016)	16,571	-
Timo Syrjälä (Chairman of the Board until 20 Apr 2016)	17,857	22,500
Tatu Ylönen (Chairman of the Board until 25 Mar 2015, CEO as of 17 Feb 2016)	18,000	13,500
Harri Koponen (as of 20 Apr 2016, CEO until 17 Feb 2016)	12,429	-
<b>Total</b>	<b>88,428</b>	<b>67,500</b>

Share and stock option holdings of Board members	31 Dec 2016 Shares	31 Dec 2016 Options	31 Dec 2015 Shares	31 Dec 2015 Options
Päivi Hautamäki (until 20 Apr 2016)	-	-	0	0
Jukka Manner	12,000	0	12,000	0
Timo Syrjäjä	2,830,631	0	2,096,731	0
Tatu Ylönen	18,073,623	0	17,295,437	0
Harri Koponen	0	300,000	-	-
Kaisa Olkkonen	0	0	-	-
<b>Total</b>	<b>20,916,254</b>	<b>300,000</b>	<b>19,404,168</b>	<b>0</b>

Share and stock option holdings of the management group	31 Dec 2016 Shares	31 Dec 2016 Options	31 Dec 2015 Shares	31 Dec 2015 Options
Tatu Ylönen (CEO as of 17 Feb 2016)	18,073,623	0	17,295,437	0
Harri Koponen (CEO until 17 Feb 2016)	-	-	0	300,000
Jyrki Lalla (CFO until 19 Sep 2016)	-	-	149,500	100,500
Jussi Mononen	0	100,000	-	-
Helena Kukkonen	0	100,000	-	-
Matthew McKenna	0	351,000	7,000	351,000
Markku Rossi	0	100,000	0	50,000
Kalle Jääskeläinen	10,000	267,000	-	-
Chris Riley	0	100,000	-	-
<b>Total</b>	<b>18,083,623</b>	<b>1,018,000</b>	<b>17,451,937</b>	<b>801,500</b>

## 24. EVENTS AFTER THE BALANCE SHEET DATE

As announced on 30 December 2016, The Board of Directors of SSH Communications Security appointed Kaisa Olkkonen as the new Chief Executive Officer of the company. She will start on January 1, 2017.

At the same time the new Executive management team of SSH Communications Security was announced:

- Kaisa Olkkonen, Chief Executive Officer
- Tatu Ylönen, Founder, SSH Fellow
- Helena Kukkonen, Chief Financial Officer
- Markku Rossi, Chief Technology Officer,
- Chris Riley, USA Operations and Global Marketing
- Kalle Jääskeläinen, Platform Management
- Rami Raulas, Sales, EMEA and APAC
- Jussi Mononen, Business Development

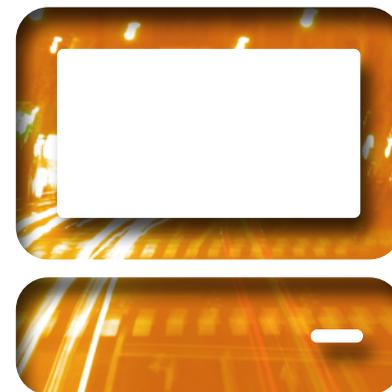
The SSH Communications Security management is not aware of any other significant transactions after the reporting period.

## Compensation of the key management personnel of the group

EUR	2016	2015
Wages and other short-term employee benefits	1,420,184	881,442
Share-based payments	0	0

# Parent Company

## Financial Statements



## PARENT COMPANY INCOME STATEMENT

EUR	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
<b>NET SALES</b>	1	<b>6,775,505.70</b>	<b>8,570,600.63</b>
Purchasing and production costs		1,098,899.35	2,655,963.25
<b>GROSS MARGIN</b>		<b>5,676,606.35</b>	<b>5,914,637.38</b>
Research and development costs	2, 3, 6	10,004,929.98	5,068,847.53
Sales and marketing costs	2, 3, 6	4,179,558.77	3,274,888.71
Administrative costs	2, 3, 6	2,125,042.10	1,648,611.92
<b>OPERATING PROFIT/LOSS</b>		<b>-10,632,924.51</b>	<b>-4,077,710.79</b>
Financial income	7		
Interest revenue and other financing income		517,651.11	534,625.75
Interest costs and other financing costs		475,076.93	0.00
Financial income and costs, total		42,574.18	534,625.75
<b>PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES</b>		<b>-10,590,350.33</b>	<b>-3,543,085.04</b>
Appropriations	8		
Group contribution received		135,000.00	50,000.00
<b>PROFIT/LOSS BEFORE TAXES</b>		<b>-10,455,350.33</b>	<b>-3,493,085.04</b>
Taxes		-	-3,321.79
<b>PROFIT/LOSS FOR THE FINANCIAL PERIOD</b>		<b>-10,455,350.33</b>	<b>-3,496,406.83</b>

## PARENT COMPANY BALANCE SHEET

<b>ASSETS</b>				
<b>EUR</b>	<b>Note</b>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>	
<b>NON-CURRENT ASSETS</b>				
<b>Intangible assets</b>	9			
Immaterial rights		5,161,922.36		4,545,869.24
<b>Intangible assets, total</b>		<b>5,161,922.36</b>		<b>4,545,869.24</b>
<b>Tangible assets</b>	9			
Machinery & equipment		222,303.93		275,649.32
<b>Tangible assets, total</b>		<b>222,303.93</b>		<b>275,649.32</b>
<b>Investments</b>				
Shares in Group companies	9, 17	499,126.88		190,326.22
Other shares		11,000.00		11,000.00
<b>Investments, total</b>		<b>510,126.88</b>		<b>201,326.22</b>
<b>NON-CURRENT ASSETS, TOTAL</b>		<b>5,894,353.17</b>		<b>5,022,844.78</b>
<b>CURRENT ASSETS</b>				
<b>Current receivables</b>				
Accounts receivable		1,313,571.27		2,072,914.21
Receivables from Group companies	10	4,554,822.69		4,159,798.21
Prepaid expenses and accrued income	11	281,322.17		186,771.46
Other receivables	12	1,022,844.84		594,113.43
<b>Current receivables, total</b>		<b>7,172,560.97</b>		<b>7,013,597.31</b>
Financial instruments		4,631,223.60		8,014,803.93
<b>CURRENT ASSETS, TOTAL</b>		<b>11,803,784.57</b>		<b>15,028,401.24</b>
<b>ASSETS, TOTAL</b>		<b>17,698,137.74</b>		<b>20,051,246.02</b>

## PARENT COMPANY BALANCE SHEET

<b>EQUITY AND LIABILITIES</b>			
<b>EUR</b>	<b>Note</b>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
<b>EQUITY</b>			
	13		
Share capital		1,036,824.99	941,108.49
Unrestricted invested equity fund		14,952,192.35	6,819,834.35
Hybrid capital securities	14	12,000,000.00	12,000,000.00
Retained profit/loss		-5,105,438.11	-709,048.78
Profit/loss for financial period		-10,455,350.33	-3,496,406.83
<b>EQUITY, TOTAL</b>		<b>12,428,228.90</b>	<b>15,555,487.23</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Advances received		1,718,223.09	262,023.95
Accounts payable		912,165.81	1,273,550.60
Payables to Group Companies		207,412.24	1,024,243.21
Accrued expenses and deferred income	15	2,432,107.70	1,935,779.67
Other liabilities		0.00	161.36
<b>CURRENT LIABILITIES, TOTAL</b>		<b>5,269,908.84</b>	<b>4,495,758.79</b>
<b>LIABILITIES, TOTAL</b>		<b>5,269,908.84</b>	<b>4,495,758.79</b>
<b>EQUITY AND LIABILITIES, TOTAL</b>		<b>17,698,137.74</b>	<b>20,051,246.02</b>

## PARENT COMPANY CASH FLOW STATEMENT

EUR	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
<b>Cash flow from business operations</b>		
Sales revenue	7,340,910.21	9,921,657.46
Costs of business operations	-15,419,005.55	-10,158,756.11
<b>Cash flow from business operations before financial items and taxes</b>	<b>-8,078,095.34</b>	<b>-237,098.65</b>
Interest and other financial costs	-251,426.93	519,374.98
Interest and other financial revenue	517,651.11	5,497.05
<b>Cash flow from business operations</b>	<b>-7,811,871.16</b>	<b>287,773.38</b>
<b>Cash flow from investing activities</b>		
Investments in tangible and intangible assets	-2,417,350.51	-2,523,593.24
Other investments	-308,800.66	-87,219.90
<b>Cash flow from investing activities</b>	<b>-2,726,151.17</b>	<b>-2,610,813.14</b>
<b>Cash flow from financing activities</b>		
Repayment of hybrid capital securities	-	-4,000,000.00
Proceeds from issue of hybrid capital securities	-	11,673,731.00
Interest on hybrid capital securities	-900,000.00	-730,091.00
Proceeds from shares subscribed with option rights	204,092.00	478,755.00
Proceeds from share issue	8,024,000.00	-
Expenses from share issue	-223,650.00	-
Group contribution received	50,000.00	-
<b>Cash flow from financing activities</b>	<b>7,154,442.00</b>	<b>7,422,395.00</b>
<b>Change in liquid assets</b>	<b>-3,383,580.33</b>	<b>5,099,355.24</b>
<b>Liquid assets at beginning of period</b>	<b>8,014,803.93</b>	<b>2,915,448.69</b>
Change in liquid assets	-3,383,580.33	5,099,355.24
<b>Liquid assets at end of period</b>	<b>4,631,223.60</b>	<b>8,014,803.93</b>

# 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.

## Change in the presentation of financial statements in 2016

SSH Communications Security Corporation issued in March 2015 convertible hybrid capital securities of EUR 12 million. Hybrid capital securities is an instrument that is subordinated to the Company's other debt obligations and does not have any specified maturity date, i.e. it is perpetual. The Company has re-evaluated the nature and terms of hybrid capital securities and come to the conclusion that it is an instrument that is classified as equity in the same way as defined in the IFRS regulatory.

Hybrid capital securities is presented in shareholder's equity, paid interest is deducted from retained earnings. Unpaid interest at the end of the year is presented a contingent liability in note 16, Other commitments. Income statement and balance sheet for 2015 have been restated accordingly and hybrid capital securities are presented as a separate item in shareholder's equity.

## 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 agreement for Office premises at Kornetintie 3, Helsinki and minor other assets. Rents and leasing payments paid pursuant to these agreements are recognized as costs over the rental or leasing period under agreements.

## 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 tax losses of EUR 3.0 million (1.9 million).

## Fixed Assets

Fixed assets are recognized in the balance sheet at acquisition cost less planned depreciation and any impairment. 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 under income from and 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.

## 1. NET SALES BY MARKET AREA

EUR	2016	2015
Finland	702,698.41	480,421.58
Rest of Europe	6,045,145.53	6,287,922.29
North America	0.00	1,802,256.76
Other	27,661.76	0.00
<b>Total</b>	<b>6,775,505.70</b>	<b>8,570,600.63</b>

## 2. OPERATING COSTS

EUR	2016	2015
<b>Other operating costs</b>		
External services	7,200,336.95	2,209,280.59
Depreciation	1,843,588.26	1,549,891.02
Other	747,528.98	1,027,777.49
<b>Total</b>	<b>9,791,454.19</b>	<b>4,786,949.10</b>

### Auditor's fees

EUR	2016	2015
<b>Principal auditor (2016: Ernst &amp; Young Oy; 2015: KPMG Oy)</b>		
Statutory auditing	29,000	23,000
Other auditing	-	3,740
Tax guidance	-	2,799
Other services	-	6,511
<b>Other auditing firms:</b>		
Statutory auditing	10,000	-
Other auditing	5,833	-
Tax guidance	1,000	9,500
Other services	4,000	-
<b>Total</b>	<b>49,833</b>	<b>45,549</b>

## 3. PERSONNEL COSTS AND AVERAGE NUMBER OF EMPLOYEES

Personnel costs		
EUR	2016	2015
Wages and salaries	6,327,071.02	5,200,410.20
Pension costs	1,051,029.07	957,055.68
Other ancillary personnel costs	346,176.03	382,477.05
<b>Total</b>	<b>7,724,276.12</b>	<b>6,539,942.93</b>

Average number of employees	2016	2015
	79	73

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

	2016	2015
Research and development	37	53
Sales and marketing	9	15
Administration	10	12
<b>Total</b>	<b>56</b>	<b>80</b>

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

See note 23 in the consolidated financial statements.

## 6. DEPRECIATION AND IMPAIRMENT

EUR	2016	2015
Immaterial rights	138,969.67	272,436.21
Capitalized development costs	1,561,057.30	1,178,427.29
Machinery and equipment	143,561.29	99,027.52
<b>Total</b>	<b>1,843,588.26</b>	<b>1,549,891.02</b>

In the financial year 2016, SSH Communications Security has recognized a write-off of EUR 11,054.56 from capitalized development costs. In the financial year 2015, SSH Communications Security has recognized a write-off of EUR 46,713.44 from software and a write-off of EUR 35,603.36 from office furniture.

## 7. FINANCIAL INCOME AND COSTS

EUR	2016	2015
Interest revenue	114,274.14	15,250.77
Received payment of impaired internal loan	403,784.33	0.00
Exchange rate gains and losses (net)	-251,904.39	519,374.98
Interest and other financial costs	-223,579.90	0.00
<b>Total</b>	<b>42,574.18</b>	<b>534,625.75</b>

## 8. APPROPRIATIONS

EUR	2016	2015
Group contribution from SSH Operations Oy	135,000.00	50,000.00
<b>Total</b>	<b>135,000.00</b>	<b>50,000.00</b>

**9. NON-CURRENT ASSETS AND OTHER LONG-TERM INVESTMENTS**

EUR	2016	2015
<b>Intangible assets</b>		
Immaterial rights		
Acquisition cost 1 Jan	10,288,410.64	8,025,886.73
Increase	2,312,282.91	2,309,237.35
Decrease	-1,061,244.39	-46,713.44
Acquisition cost 31 Dec	11,539,449.16	10,288,410.64

Accumulated depreciation 1 Jan	5,742,541.40	4,310,363.63
Depreciation for the financial period	1,685,175.23	1,450,863.20
Accumulated depreciation on decreases	-1,050,189.83	-18,685.43
Accumulated depreciation 31 Dec	6,377,526.80	5,742,541.40
<b>Book value 31 Dec</b>	<b>5,161,922.36</b>	<b>4,545,869.24</b>

**Tangible assets**

Machinery and equipment		
Acquisition cost 1 Jan	1,557,795.46	1,339,147.10
Increase	90,215.90	254,251.72
Decrease	0.00	-35,603.36
Acquisition cost 31 Dec	1,648,011.36	1,557,795.46

Accumulated depreciation 1 Jan	1,282,146.14	1,206,854.16
Depreciation for the financial period	143,561.29	99,027.52
Accumulated depreciation on decreases	0.00	-23,735.54

Accumulated depreciation 31 Dec	1,425,707.43	1,282,146.14
<b>Book value 31 Dec</b>	<b>222,303.93</b>	<b>275,649.32</b>

**Investments**

Book value 1 Jan	201,326.22	114,106.32
Increase	308,800.66	87,219.90
Decrease	0.00	0.00
<b>Book value 31 Dec</b>	<b>510,126.88</b>	<b>201,326.22</b>

**10. RECEIVABLES FROM GROUP COMPANIES**

EUR	2016	2015
Accounts receivable	4,419,822.69	4,109,798.21
Group contribution receivable	135,000.00	50,000.00
<b>Total</b>	<b>4,554,822.69</b>	<b>4,159,798.21</b>

**11. PREPAID EXPENSES AND ACCRUED INCOME**

EUR	2016	2015
Prepaid expenses	281,322.17	169,101.46
Other	-	17,670.00
<b>Total</b>	<b>281,322.17</b>	<b>186,771.46</b>

**12. OTHER RECEIVABLES**

EUR	2016	2015
Advances paid	-	2,500.00
VAT receivable	27,265.14	-
Other current receivables	995,579.70	591,613.43
<b>Total</b>	<b>1,022,844.84</b>	<b>594,113.43</b>

**13. EQUITY**

EUR	2016	2015
Share capital 1 Jan	941,108.49	929,221.00
Increase in share capital	95,716.50	11,887.49
Share capital 31 Dec	1,036,824.99	941,108.49
Unrestricted invested equity fund	14,952,192.35	6,819,834.35
Hybrid capital securities	12,000,000.00	12,000,000.00
Retained earnings	-5,780,438.11	-1,384,048.78
Profit/loss for the financial period	-10,455,350.33	-3,496,406.83
<b>Total</b>	<b>11,753,228.90</b>	<b>14,880,487.23</b>

Statement on Distributable Funds	2016	2015
Retained earnings	-5,780,438.11	-1,384,048.78
Profit/loss for the financial period	-10,455,350.33	-3,496,406.83
Unrestricted invested equity fund	14,952,192.35	6,819,834.35
<b>Total</b>	<b>-1,283,596.09</b>	<b>1,939,378.74</b>

**14. HYBRID CAPITAL SECURITIES/  
SHAREHOLDERS' EQUITY**

Hybrid capital securities is an instrument that is subordinated to the Company's other debt obligations and it does not have maturity date (i.e. it is perpetual). It is treated as equity in the IFRS financial statements. Hybrid capital securities do not confer to their holders the right to vote at shareholders' meetings and do not dilute the holdings of the current shareholders.

Hybrid capital securities of EUR 4 million issued in December 2012 were wholly subscribed by the principal owner and the Chief Executive Officer of the parent company, Tatu Ylönen. The coupon rate of the capital securities is fixed for the first three years (5 % until 28 December 2013, 9 % until 28 December 2014 and 13 % until 28 December 2015) and floating thereafter. The capital securities have no maturity but the company may exercise an early redemption option on each interest payment date. The capital securities and interests were paid back in April 2015.

Hybrid capital securities of EUR 12 million issued in March 2015 were subscribed by institutional investors. The principal owner and the Chief Executive Officer of the parent company, Tatu Ylönen, subscribed EUR 500,000 of the hybrid capital securities. The capital securities bear a fixed interest rate of 7.5 per cent until 30 March 2020, after which the interest rate will increase by four percentage points. The capital securities have no maturity date, but the issuer has the right to redeem them after 3 but before 5 years from the issue date, upon certain conditions, or after 5 years from the issue date. The investors have the right to convert the capital loan into the Company's shares at EUR 4.76 per share of the issue date.

Paid interest from hybrid capital securities reduce the amount of retained earnings. Unpaid interest from hybrid capital securities is presented in note 16, Other commitments. Paid interest in the financial year 2016 was EUR 900,000 and paid interest and other expenses in 2015 totaled EUR 1,056,360.

**15. ACCRUED LIABILITIES AND  
DEFERRED INCOME**

EUR	2016	2015
Personnel related	2,197,222.28	873,114.86
Accruals	76,000.00	-
Other accrued liabilities and deferred income	158,885.42	1,062,664.81
<b>Total</b>	<b>2,432,107.70</b>	<b>1,935,779.67</b>

**16. OTHER COMMITMENTS**

EUR	2016	2015
<b>Non-terminable rental agreements for office facilities – future rent payments</b>		
Within one year	281,430.12	273,143.64
Within more than one year but no more than 5 years	281,430.12	273,143.64
<b>Total</b>	<b>562,860.24</b>	<b>546,287.28</b>

<b>Guarantees given and other commitments</b>		
Rental guarantees (pledged)	75,010.08	75,010.08
Hybrid Loan, Interest	675,000.00	675,000.00

## 17. GROUP COMPANIES

Group companies	Domicile	Holding, %	Votes, %
<b>Parent company</b>			
SSH Communications Security Oyj, Helsinki	Finland		
<b>Subsidiaries</b>			
SSH Communications Security Inc., Waltham	USA	100	100
SSH Operations Oy, Helsinki	Finland	100	100
SSH Communications Security Ltd., Hong Kong	Hong Kong	100	100
Kyberleijona Oy, Helsinki	Finland	100	100
SSH Government Solutions Inc., Waltham	USA	100	100
SSH Technology Oy, Helsinki	Finland	100	100
SSH Communication Security K.K., Tokyo	Japan	100	100
SSH Communications Security (S) Pte. Ltd., Singapore	Singapore	100	100
SSH Communications Security UK Ltd, London	United Kingdom	100	100

# Signatures to the Board of Directors Report and Financial Statements

HELSINKI, 9 FEBRUARY 2017



JUKKA MANNER  
Chairman of the Board of Directors



TIMO SYRJÄLÄ  
Member of the Board of Directors



TATU YLÖNEN  
Member of the Board of Directors



HARRI KOPONEN  
Member of the Board of Directors



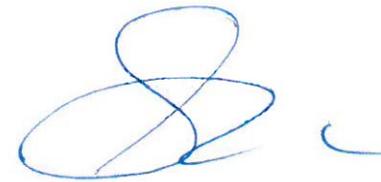
KAISA OLKKONEN  
CEO and Member of the Board of Directors

## AUDITOR'S NOTE

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

Helsinki, 8 February 2017

Ernst & Young Oy  
Authorized Public Accountant Firm



ERKKA TALVINKO  
Authorized Public Accountant

To the Annual General Meeting of SSH Communications Security Corporation

## Report on the Audit of Financial Statements

### Opinion

We have audited the financial statements of SSH Communications Security Corporation (business identity code 1035804-9) for the year ended 31 December, 2016. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements

that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

### Revenue recognition

The Group has multiple revenue sources, including licenses, maintenance contracts, and consulting services. As customer contracts contain multiple different conditions, the management is using considerable judgement in recognizing revenue, which may result in incorrect revenue recognition due to fraud or error.

To emphasise the risk related to revenue recognition we performed among others following audit procedures:

- We evaluated the revenue recognition principles applied by the Group towards applicable accounting standards
- We analysed the contract text in relation to meeting the revenue recognition criteria in sales contract sample
- We tested the timing of the revenue recognition in sales transaction sample
- We evaluated the appropriateness of the notes related to the Group's revenue

Notes related to the Group's revenue and accounting principles are presented in the notes 2 and 3.

### Intangible assets

Capitalised R&D expenses aggregated to 5,217 k€, representing a material amount of the consolidated assets (24%) and equity (63%). As the impairment test contains estimates, the audit procedures related to the test prepared by the management were material in respect of the audit. The Group Management exercises judgement determining the assumptions related to future market conditions and economic trends as the general economic growth and sales and margin trends.

Our audit procedures emphasizing the error risk related to the impairment testing of the intangible assets included for example:

- Use of valuation experts in assisting our evaluation of the methods and assumptions, particularly the discount rate used, applied by the Group
- Evaluation of the relevant assumptions used in the impairment testing of the intangible assets, focusing on the reasonableness of the forecasted economic information and the estimation and allocation of the revenue and costs related to each R&D asset

- Estimating the accuracy of the management's earlier estimates
- Evaluation of the notes representing the impairment test of the intangible assets

Notes related to the Group's intangible assets and accounting principles are presented in the notes 2 and 11.

### Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis

of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Other Reporting Requirements

### Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our report thereon. We obtained the report of the Board of Directors prior to the date of the auditor's report, and the Annual Report is expected to be made available to us after the date of the auditor's report.

Our opinion on the financial statements does not cover the other information.

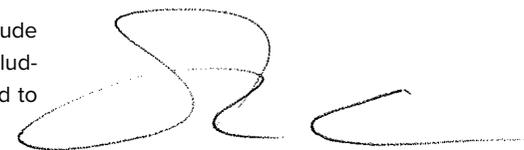
In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Helsinki February 8, 2017

Ernst & Young Oy  
Authorized Public Accountant Firm



Erkka Talvinko  
Authorized Public Accountant

# Corporate Governance

SSH Communications Security aims for transparent and responsible corporate governance through compliance with laws, regulations and best practices as well as high ethical standards applied in its governance and decision-making. SSH's corporate governance practices are subject to its articles of association, Finnish Limited Liability Companies Act, securities market legislation, including the market abuse regulation, rules of Nasdaq Helsinki, and Finnish Corporate Governance Code 2015 adopted by the Securities Market Association. The CG Code is available at [www.cgfinland.fi](http://www.cgfinland.fi).

More information on the governance practices of the company is available under Corporate Governance section at <https://www.ssh.com/investors/>. Corporate Governance Statements, prepared in accordance with the Finnish Corporate Governance Code and published as separate statements, can also be found from the same page.

SSH implements a one-tier governance model, where the management of the SSH Group is a responsibility of the General Meeting of shareholders, the Board of Directors, and the CEO. Duties are defined by the Finnish Limited Liability Companies Act and company's articles of association.

SSH's highest decision-making body is the General Meeting, which is composed of the company's shareholders. The General Meeting takes decisions on matters falling within its competence by virtue of the Limited Liability Companies Act and the articles of association. The Annual General Meeting elects the Board of Directors and auditors. The Board of Directors is responsible for the strategic management and decides on the SSH Group's administrative systems and ensures compliance with good governance principles. The Board appoints the CEO, who is in charge of the operative, day-to-day management of the company. CEO is assisted in his/her work by the Executive Management Team.

More information can be found from the annual Corporate Governance Statement and from the company website.





## Information for Shareholders

All published investor information including annual reports, interim reports, as well as stock exchange releases are available on the company's website [www.ssh.com](http://www.ssh.com). All investor information is published in English, stock exchange releases also in Finnish. Subscriptions to the emailing list for stock exchange releases can be made by sending your contact details to [investor-relations@ssh.com](mailto:investor-relations@ssh.com). SSH follows a silent period starting 30 days before the publication of its financial reports, during which company refrains from contact with representatives of the capital markets and financial media.

### ANNUAL GENERAL MEETING

The company's Annual General Meeting 2017 will be held at Taitotalon Kongressikeskus, Helsinki, Finland, on Wednesday, 29th of March 2017 at 10:00 a.m.

### 2017 FINANCIAL CALENDAR

The company will publish the following financial reports during 2017:

Financial Statements Bulletin	February 9, 2017
Annual Report 2016	During week 9
Interim Report, First quarter	April 20, 2017
Interim Report, First two quarters	July 20, 2017
Interim Report, First three quarters	October 24, 2017

### SSH COMMUNICATIONS SECURITY SHARE FACTS

Listing since 2000	Nasdaq Helsinki Ltd.
Trading symbol	SSH1V
Number of shares	34,560,833

### INVESTOR RELATIONS CONTACTS

For any inquiries, please contact: [investor-relations@ssh.com](mailto:investor-relations@ssh.com)

# Contact Information



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