



SSH Communications Security Oyj

Financial Statements and
Report of the Board of Directors

2020

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Report of the Board of Directors for 1 Jan – 31 Dec 2020

NET SALES

| EUR million | 10-12/ 2020 | 7-9/ 2020 | 4-6/ 2020 | 1-3/ 2020 | 1-12/ 2020 | 10-12/ 2019 | 1-12/ 2019 |
|--------------------------------|----------------|--------------|--------------|--------------|---------------|----------------|---------------|
| BY GEOGRAPHICAL SEGMENT | | | | | | | |
| AMERICAS | 1.4 | 1.4 | 1.5 | 1.6 | 5.9 | 2.4 | 7.8 |
| APAC | 0.5 | 0.4 | 0.3 | 0.9 | 2.1 | 0.5 | 2.9 |
| EMEA | 1.0 | 0.7 | 0.9 | 0.6 | 3.2 | 1.2 | 3.6 |
| Total | 3.0 | 2.6 | 2.6 | 3.1 | 11.3 | 4.1 | 14.4 |
| BY OPERATION | | | | | | | |
| Subscription sales | 0.2 | 0.2 | 0.2 | 0.2 | 0.8 | 0.2 | 0.7 |
| License sales | 0.6 | 0.4 | 0.4 | 0.8 | 2.2 | 1.5 | 4.5 |
| Maintenance sales | 1.7 | 1.9 | 2.0 | 2.1 | 7.8 | 2.1 | 8.6 |
| Professional services & others | 0.4 | 0.0 | 0.0 | 0.0 | 0.4 | 0.3 | 0.6 |
| Total | 3.0 | 2.6 | 2.6 | 3.1 | 11.3 | 4.1 | 14.4 |

Consolidated net sales for January–December totaled EUR 11.3 million (2019: EUR 14.4 million), down by 21.7 %, year on year.

The majority of SSH Communications Security's invoicing is U.S. dollar based. During the financial year, the average exchange rate of the U.S. dollar against the euro depreciated by 1.9 % compared to 2019. With comparable exchange rates, the software business sales reduction in 2020 would have been 20.8 % compared to 2019.

PROFIT AND PROFITABILITY TRENDS

Operating loss for the financial year amounted to EUR -2.5 million (2019: EUR -1.2 million), with net profit totaling EUR -3.1 million (2019: EUR -1.5 million).

Sales, marketing, and customer support expenses amounted EUR -6.7 million (2019: EUR -7.5 million), while research and development expenses totaled EUR -5.0 million (2019: EUR -4.9 million) and administrative expenses EUR -2.7 million (2019: EUR -2.9 million). Operating expenses decreased by 5.1 % compared to previous year.

BALANCE SHEET AND FINANCIAL POSITION

The financial position of SSH Communications Security was good during the financial year. The consolidated balance sheet total on December 31, 2020 stood at EUR 18.6 million (31 Dec 2019: EUR 23.8 million), of which liquid assets accounted for EUR 8.5 million (31 Dec 2019: EUR 12.0 million), or 45.7 % of the balance sheet total. Interest-bearing debts were EUR 1.3 million at the end of financial year (31 Dec 2019: EUR 0.9 million). Interest-bearing liabilities increased by EUR 0.4 million from December 31, 2019 due to the new leasing contracts. Interest-bearing liabilities

include a subordinated loan of EUR 0.6 million (December 31, 2019: 0.6 million) taken out from the non-controlling interest holder State Security Networks Group Finland. On December 31, 2020, gearing, or the ratio of net liabilities to shareholders' equity, was -85.3 % (31 Dec 2019: -92.3 %) and the equity ratio stood at 69.7 % (31 Dec 2019: 78.0 %).

The capital and interest of the subordinated loan which Kyberleijona Oy has taken out from the non-controlling interest holder State Networks Group Finland can only be repaid in circumstances permitted by Chapter 12 of the Finnish Limited Liability Companies Act. The capital of the subordinated loan can only be repaid to the extent the unrestricted shareholders' equity and the total amount of the subordinated loan at the time of the repayment exceeds the loss that is to be confirmed for the company's latest financial year or is included in the balance sheet of more recent financial statements. The annual interest for the loan, three per cent (3 %), has been recognized as expense.

The reported gross capital expenditure for the period totaled EUR 2.1 million (2019: EUR 2.0 million). Financial income and expenses totaled EUR -0.6 million (2019: EUR -0.1 million), which consisted mainly of exchange rate losses and interest expenses from sales and leasing contracts.

The Group had a cash flow of EUR -0.2 million (2019: EUR 0.3 million) from business operations, and investments showed a cash flow of EUR -1.5 million (2019: EUR -1.1 million). Cash flow from investments includes government grants of EUR 0.6 million (2019: EUR 0.9 million). Cash flow from financing totaled EUR -1.3 million (2019: EUR -0.8 million).

RESEARCH AND DEVELOPMENT

Research and development expenses totaled EUR -5.0 million (2019: EUR -4.9 million), the equivalent of 44.9 % of net sales (2019: 34.0 %). During the reporting period, R&D cost capitalizations totaled EUR 1.3 million (2019: EUR 1.6 million). Capitalized product development expenses were reduced by the amount of EUR 0.4 million received as funding from EU (2019: EUR 0.1 million). Depreciation from R&D capitalization assets was EUR -1.3 million (2019: EUR -1.3 million).

RISKS AND UNCERTAINTIES

The ongoing COVID-19 pandemic is a major macro-level risk that, if prolonged, may affect SSH Communications Security through challenges it poses on new license sales. The 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, such as Covid-19 pandemic
- Cybercrime, including e.g. ransomware
- Delays in product development and closing new business
- Ability to execute our strategy
- Ability to retain and recruit key personnel
- Maintaining our ability to innovate and develop our product portfolio, including intellectual property rights (IPR)
- IPR litigation and the utilization of our patent portfolio

- A significant proportion of the company revenue is invoiced in U.S. dollars, and possible large fluctuation in the U.S. dollar exchange rates during 2021 could have unpredictable effects for profitability that difficult to estimate at this time. The company decides on hedging of USD based contracts on a case-by-case basis.

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

HUMAN RESOURCES AND ORGANIZATION

SSH Communications Security Group had 94 (2019: 90) employees at the end of December, up by four persons or 4.4 % from the previous year. The average age of the employees was 43 years (2019: 42.4 years). Approximately 15.8 % (2019: 16.7 %) of the employees were women and 84.2 % (2019: 83.3 %) men. At the end of the period under review, 33.0 % (2019: 35.6 %) of the employees worked in sales, marketing, and customer services, 51.1 % (2019: 51.1 %) in research and development, and 16.0 % (2019: 13.3 %) in corporate administration.

At the end of the financial period, the parent company had 73 (2019: 64) employees on its payroll. On average, the parent company had 66 (2019: 63) employees during the financial period. Parent company salaries, bonuses, and other personnel expenses during the financial period totaled EUR 5.7 million (2019: 5.1 million).

BOARD OF DIRECTORS AND AUDITORS

At the Annual General Meeting held on March 26, 2020 Mr. Tatu Ylönen was re-elected and Ms. Aino-Mari Kiiänmies and Mr. Sampo Kellomäki were elected as a new member of the Board of Directors. Mr. Tatu Ylönen was elected as the Chairman of the Board of Directors at the Board's organizing meeting.

Authorized Public Accountants Ernst & Young Oy was re-elected as the auditor of the company with Erkkä Talvinko, authorized public accountant, as principal auditor.

The Extraordinary General Meeting of SSH Communications Security Oyj was held on June 26, 2020. The Extraordinary General Meeting approved that the members of the Board of Directors is five (5) and elected Mr. Tatu Ylönen, Ms. Aino-Mari Kiiänmies, Mr. Sampo Kellomäki, Mr. Henri Österlund (new member) and Mr. Kai Tavakka (new member) as members of the Board of Directors. Mr. Henri Österlund was elected as the Chairman of the Board of Directors at the Board's organizing meeting.

GROUP MANAGEMENT TEAM

At the end of 2020, the Group Management Team consisted of three members:

Teemu Tunkelo, Chief Executive Officer
Jussi Mononen, Chief Commercial Officer
Niklas Nordström, Chief Financial Officer

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 abides by its Articles of Association as well as principles of transparent and responsible corporate governance, and high ethical standards in its governance and decision-making. The company complies with the Finnish company and securities market legislation, including the market abuse regulation, rules of Nasdaq Helsinki and Finnish Corporate Governance Code 2020 adopted by the Securities Market Association.

For more information see our Corporate Governance Statement that is published annually as a separate report and can be found at SSH's website.

RESPONSIBILITY AND BUSINESS ETHICS

SSH Communications Security is committed to systematically maintain and develop the responsibility and sustainability of business through its strategy, operations and actions. Company is committed to operate in socially and ethically responsible way.

The company's ethical principles emphasize values that are important to SSH, such as antibribery, position and treatment of employees, and safety and behavioral culture within workplaces.

SSH Communications Security is responsible employer and treats all employees equally. Company does not approve harassment or discrimination in any form and for that the company has created internal guideline and organized training. Company constantly develops the safety and comfort of its workplaces as well as the management of work-related stress and coping with the workload. The company's headquarters in Helsinki moved to new, modern premises during spring 2020. In addition, the company offers its employees physical, cultural and other benefits.

SSH Communications Security regards the diversity of its personnel as essential strength and encourages the appraisal and adoption of diversity throughout the organization including top management.

The company has a separate Anti-Bribery and Anti-Corruption Policy as well as equality plan focusing on equal and fair treatment of its employees.

The company has also a whistleblowing policy in place to ensure that employees and third parties, if they wish, can report anonymously suspected serious deficiencies, abuses and crimes within the SSH Group.

SSH has established a Code of Conduct for responsible and transparent activities, employee satisfaction and ethics for all employees worldwide.

SHARES, SHAREHOLDING, AND CHANGES IN GROUP STRUCTURE

The reported trading volume of SSH Communications Security Corporation totaled 19,431,318 shares (valued at EUR 24,937,080). The highest quotation was EUR 1.97 and the lowest EUR 0.65. The trade-weighted average share price for the period was EUR 1.28 and the share closed at EUR 1.70 (December 31, 2020).

Tatu Ylönen sold 6.4 million shares in SSH to investment fund Accendo Capital SICAV, SIF on May 22, 2020 and further 4.93 million shares on June 3, 2020. Accendo Capital came the largest shareholder of SSH, with 29.2 % of the company. Tatu Ylönen is the second-largest shareholder of SSH after the sale with 18.0 % and Juha Mikkonen holds directly 5.2 % of the company's shares. More information about the shareholding can be obtained from the company's web site www.ssh.com.

The company has 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 UK Ltd. in the UK
- SSH Operations Ltd., Kyberleijona Ltd., and SSH Technology Ltd. in Finland. SSH Operations Ltd. has a branch in Germany.

State Security Networks Group Finland (Suomen Erillisverkot Oy) became a non-controlling interest holder of Kyberleijona Oy on August 14, 2018 with 35 % ownership. SSH Communications Security Oy owns 65 % of the shares in Kyberleijona Oy.

During the review period, no dividend or return of capital have been distributed.

INFORMATION ON SHAREHOLDERS

Distribution of ownership by sector

| Type of sector | Number of shares | Percentage of shares and votes, % |
|--------------------------------------|-------------------|-----------------------------------|
| Households and private individuals | 17 806 698 | 45.89 % |
| Financial and insurance institutions | 14 817 163 | 38.19 % |
| Public sector organizations | 3 184 157 | 8.21 % |
| Companies | 2 705 989 | 6.97 % |
| Foreign shareholders | 285 555 | 0.74 % |
| Non-profit organizations | 2 671 | 0.01 % |
| Total | 38 802 233 | 100.00 % |

DISTRIBUTION OF HOLDINGS BY NUMBER OF SHARES

| Shares | Number of shareholders | Percentage of shareholders, % | Number of shares | Percentage of shares, % |
|-----------------------------|-------------------------------|--------------------------------------|-------------------------|--------------------------------|
| 1–100 | 1 712 | 35.73 % | 90 848 | 0.23 % |
| 101–500 | 1 319 | 27.53 % | 388 524 | 1.00 % |
| 501–1,000 | 640 | 13.36 % | 525 552 | 1.35 % |
| 1,001–5,000 | 801 | 16.72 % | 1 914 506 | 4.93 % |
| 5,001–10,000 | 134 | 2.80 % | 995 601 | 2.57 % |
| 10,001–50,000 | 147 | 3.07 % | 3 043 571 | 7.84 % |
| 50,001–100,000 | 19 | 0.40 % | 1 221 698 | 3.15 % |
| 100,001–500,000 | 11 | 0.23 % | 2 156 629 | 5.56 % |
| 500,001–999,999,999 | 9 | 0.19 % | 28 465 304 | 73.36 % |
| Total | 4 792 | 100.00 % | 38 802 233 | 100.00 % |
| of which nominee-registered | 9 | | 14 830 115 | 38.22 % |

*The ten largest shareholders Dec 31, 2020,
excluding nominee-registered*

| | Percentage of shares, % | Number of shares |
|--|--------------------------------|-------------------------|
| Ylönen Tatu | 18.01 % | 6 987 123 |
| Mikkonen Juha Taneli | 5.15 % | 2 000 000 |
| Elo Mutual Pension Insurance Company | 4.01 % | 1 555 258 |
| Gaselli Group Oy | 2.70 % | 1 047 500 |
| Ilmarinen Mutual Pension Insurance Company | 2.25 % | 873 599 |
| Varma Mutual Pension Insurance Company | 1.95 % | 755 300 |
| Syrjälä Timo Kalevi | 1.61 % | 623 011 |
| Kettunen Risto Juhani | 1.09 % | 422 000 |
| AC Invest Oy | 0.87 % | 338 293 |
| Pulli Anita Irmeli | 0.79 % | 307 610 |
| Total | 38.42 % | 14 909 694 |

SHARE CAPITAL AND BOARD AUTHORIZATIONS

The registered share capital of SSH Communications Security Corporation on December 31, 2020 was EUR 1,164,066.99 consisting of 38,802,233 shares.

Share subscriptions have not been made with the warrants of the stock option programs in the financial years 2020 and 2019.

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 Companies Act, either according to the shareholders' pre-emptive right to share subscription or deviating from this right, in one or more tranches. Based on the authorization, it can be either issuing of new shares or transfer of own shares, which the company possibly has in its possession.

Based on the authorization, the Board of Directors shall have the same rights as the Annual General Meeting to decide upon the issuing of shares against payment and special rights (including stock options) in accordance with Chapter 10 Section 1 of the Finnish Companies Act. Thereby, the authorization to be given to the Board of Directors includes, inter alia, the right to deviate from the shareholders' pre-emptive rights with directed issues providing that the company has a weighty financial reason for the deviation in respect of the share issue against payment.

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

The authorization will be valid until the next Annual General Meeting but will however expire at the latest on June 30, 2021.

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon acquisition of a maximum of 2,000,000 own shares of the company with assets belonging to the company's non-restricted equity, which amounts to approximately 5.2 percent of the company's total shares. The shares can also be acquired otherwise than in proportion to the holdings of the existing shareholders. 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, in order to strengthen the company's capital structure, to finance and realize corporate acquisitions and other arrangements, to realize the share-based incentive programs of the company or otherwise to be kept by the company, to be transferred for other purposes or to be cancelled. The acquisition of shares reduces the company's distributable non-restricted equity.

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

The authorization will be valid until the next Annual General Meeting but will however expire at the latest on June 30, 2021.

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.

The Board of Directors decided on January 20, 2020 on a new stock option program 2020 A. The maximum number of stock options is 980,000. The share subscription period will be from December 1, 2022 to March 31, 2024. The share subscription price for the shares is EUR 0.93.

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 19 in the consolidated financial statements.

RELATED PARTY TRANSACTIONS

During the reporting period, there have not been any significant transactions with related parties.

EVENTS AFTER THE BALANCE SHEET DATE

On January 29, 2021 SSH Communications Security Corporation's subsidiary Kyberleijona Oy has agreed to acquire all shares of Deltagon Oy from Leijonaverkot Oy, a subsidiary of Suomen Erillisverkot Oy.

Deltagon Oy develops and sells secure messaging and transaction solutions to various industries, including finance and the public sector. The acquisition strengthens SSH's position as a provider of secure networking and messaging solutions that safeguard key national cybersecurity interests and offer security-critical networking, encryption, and other solutions to the public sector in a coordinated manner. After closing, Deltagon becomes a subsidiary of Kyberleijona and part of the SSH group. The acquisition is expected to close during the first half of 2021, subject to regulatory approvals and fulfillment of customary closing conditions.

The total acquisition price is approximately EUR 15.4 million. The cash flow impact of the acquisition price to SSH is EUR 10 million over the next four years. The parties have also agreed on an earnout payment of no more than EUR 1.3 million, subject to certain conditions being fulfilled in the three-year period after the acquisition.

DIVIDEND AND OTHER DISTRIBUTION OF ASSETS

The parent company's distributable funds are EUR -2,108,611.53, of which the loss for the financial year is EUR -2,392,977.94. The Board of Directors proposes to the Annual General Meeting on March 25, 2021 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 retained earnings in the shareholders' equity.

FINANCIAL INDICATORS

| | | 2020 | 2019 | 2018 |
|---|-----|-------------|-------------|-------------|
| Net sales | EUR | 11 251 214 | 14 378 011 | 18 340 371 |
| Operating profit/loss | EUR | -2 486 221 | -1 207 515 | 544 239 |
| % of net sales | % | -22.1 | -8.4 | 3.0 |
| EBITDA | EUR | -392 982 | 862 821 | 2 410 340 |
| % of net sales | % | -3.5 | 6.0 | 13.1 |
| Profit/loss before taxes | EUR | -3 090 264 | -1 339 130 | 558 577 |
| % of net sales | % | -27.5 | -9.3 | 3.0 |
| Return on equity | % | -30.0 | -11.3 | 3.8 |
| Return on investments | % | -27.3 | -9.8 | 4.1 |
| Net interest-bearing debt | EUR | -7 220 926 | -11 112 723 | -13 295 691 |
| Gearing | % | -85.3 | -92.3 | -93.5 |
| Equity ratio | % | 69.7 | 78.0 | 81.6 |
| Gross investments in tangible and intangible assets | EUR | 2 115 884 | 2 005 264 | 2 257 099 |
| % of net sales | % | 18.8 | 13.9 | 12.3 |
| Research and development costs | EUR | -5 047 946 | -4 893 415 | -5 108 469 |
| % of net sales | % | 44.9 | 34.0 | 27.9 |
| Average number of personnel | | 88 | 88 | 82 |
| Number of personnel 31 Dec | | 94 | 90 | 85 |
| Salaries and fees | EUR | -8 125 559 | -8 315 829 | -8 346 214 |

INDICATORS PER SHARE

| | | 2020 | 2019 | 2018 |
|---|-------|-------------|-------------|-------------|
| Earnings per share ¹ | EUR | -0.11 | -0.06 | -0.01 |
| Earnings per share, diluted ¹ | EUR | -0.11 | -0.06 | -0.01 |
| Equity per share | EUR | 0.22 | 0.31 | 0.37 |
| Dividends | EUR | 0 | 0 | 0 |
| Dividends per share | EUR | 0.00 | 0.00 | 0.00 |
| Dividend payout 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 | 38 802 | 38 802 | 38 578 |
| Adjusted number of shares at the end of the period | 1 000 | 38 802 | 38 802 | 38 802 |
| Adjusted average number of shares considering dilution effect | 1 000 | 41 529 | 41 228 | 40 298 |
| Price per earnings ratio (P/E) | | neg. | neg. | neg. |
| Market capitalization 31 Dec | mEUR | 65.8 | 40.2 | 65.2 |

¹ Earnings per share is impacted by unpaid interest of hybrid capital securities.

| Share performance at Nasdaq Helsinki | | 2020 | 2019 | 2018 |
|---|----------|-------------|-------------|-------------|
| Average price | EUR | 1.28 | 1.34 | 2.00 |
| Share price, year end | EUR | 1.70 | 1.04 | 1.68 |
| Lowest quotation | EUR | 0.65 | 0.97 | 1.60 |
| Highest quotation | EUR | 1.97 | 1.97 | 2.27 |
| Volume of shares traded | millions | 19.4 | 5.3 | 7.8 |
| Volume of shares traded, % of total number | % | 50.1 | 10.2 | 20.2 |
| Volume of shares traded | mEUR | 24.9 | 4.0 | 15.6 |

ALTERNATIVE PERFORMANCE MEASURE

SSH Communications Security presents an alternative performance measure, which is not defined by IFRS standards. Alternative performance measure should not be considered as substitute for performance measures in accordance with the IFRS. From the first quarter of 2020 onwards, SSH Communications Security has introduced the following new alternative performance measure:

EBITDA = Operating profit/loss + depreciation, amortization, and impairment

The following table presents the reconciliation of EBITDA to the operating profit/loss.

| kEUR | 2020 | 2019 |
|---|-------------|-------------|
| EBITDA | -393 | 863 |
| Depreciation, amortization, and impairment | -2 093 | -2 070 |
| Operating profit/loss | -2 486 | -1 208 |

CALCULATION OF FINANCIAL RATIOS

| | | | |
|----------------------------------|---|--|-------|
| Return on Equity, % (ROE) | = | $\frac{\text{Profit/loss for the financial year}}{\text{Equity (average during the financial year)}}$ | x 100 |
| Return on Investment, % (ROI) | = | $\frac{\text{Profit/loss before taxes + Interest and other financial costs}}{\text{Balance sheet total - Non-interest-bearing debts (average during the financial period)}}$ | x 100 |
| Equity Ratio, % | = | $\frac{\text{Equity}}{\text{Balance sheet total - Advance payments received}}$ | x 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 Earnings Per Share (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, % | = | $\frac{\text{Dividend per share}}{\text{Earnings per share}}$ | x 100 |
| Equity Per Share | = | $\frac{\text{Equity}}{\text{Number of outstanding shares on the financial statement date, adjusted for share issue}}$ | x 100 |
| Gearing, % | = | $\frac{\text{Interest-bearing debt - Liquid assets}}{\text{Equity}}$ | x 100 |

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

| EUR | Note | 1 Jan-31 Dec 2020 | 1 Jan-31 Dec 2019 |
|--|------|----------------------|----------------------|
| NET SALES | 3 | 11 251 214 | 14 378 011 |
| Cost of goods sold | | -283 797 | -451 282 |
| GROSS MARGIN | | 10 967 417 | 13 926 729 |
| Other operating income | 4 | 987 464 | 80 143 |
| Sales and marketing costs | 5, 6 | -6 698 629 | -7 469 757 |
| R&D costs | 5, 6 | -5 047 946 | -4 893 415 |
| Administrative costs | 5, 6 | -2 694 526 | -2 851 216 |
| OPERATING PROFIT/LOSS | | -2 486 220 | -1 207 515 |
| Finance income | 7 | 631 | 798 |
| Finance costs | 8 | -604 675 | -132 413 |
| PROFIT/LOSS BEFORE TAXES | | -3 090 264 | -1 339 130 |
| Income tax expense | 9 | 12 162 | -146 600 |
| PROFIT/LOSS FOR THE YEAR | | -3 078 102 | -1 485 730 |
| Profit/loss attributable to: | | | |
| Owners of the parent company | | -2 834 021 | -1 264 498 |
| Non-controlling interests | | -244 081 | -221 232 |
| TOTAL | | -3 078 102 | -1 485 730 |
| OTHER COMPREHENSIVE INCOME | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Translation differences | | 266 038 | -31 084 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | -2 812 064 | -1 516 814 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent company | | -2 567 983 | -1 295 581 |
| Non-controlling interests | | -244 081 | -221 232 |
| TOTAL | | -2 812 064 | -1 516 814 |
| Earnings per share | | | |
| Basic earnings per share (EUR) | 10 | -0,11 | -0,06 |
| Diluted earnings per share (EUR) | 10 | -0,11 | -0,06 |

CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEET

| ASSETS | | | | |
|---------------------------------------|-------------|--------------------|--------------------|--|
| EUR | Note | 31 Dec 2020 | 31 Dec 2019 | |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 11 | 142 859 | 135 048 | |
| Right-of-use assets | 12, 22 | 686 405 | 262 138 | |
| Intangible assets | 13 | 5 447 999 | 5 478 458 | |
| Investments | | 11 000 | 11 000 | |
| Total non-current assets | | 6 288 263 | 5 886 644 | |
| CURRENT ASSETS | | | | |
| Inventories | | 33 405 | 31 964 | |
| Trade receivables | 14, 16 | 2 961 250 | 5 190 952 | |
| Other receivables | 15 | 492 525 | 422 345 | |
| Prepaid expenses and accrued expenses | | 341 785 | 269 885 | |
| Total current assets | | 3 828 965 | 5 915 145 | |
| Cash and cash equivalents | | 8 517 698 | 11 968 885 | |
| TOTAL CURRENT ASSETS | | 12 346 663 | 17 884 030 | |
| TOTAL ASSETS | | 18 634 926 | 23 770 674 | |

CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEET

| EQUITY AND LIABILITIES | | | |
|---|-------------|--------------------|--------------------|
| EUR | NOTE | 31 Dec 2020 | 31 Dec 2019 |
| EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS | | | |
| Share capital | 17 | 1 164 067 | 1 164 067 |
| Translation differences | | -1 171 419 | -1 437 458 |
| Unrestricted invested equity fund | | 22 720 156 | 22 720 156 |
| Hybrid capital securities | | 12 000 000 | 12 000 000 |
| Retained earnings | | -26 603 569 | -23 000 578 |
| Equity attributable to parent company shareholders | | 8 109 235 | 11 446 187 |
| Non-controlling interests | | 355 791 | 599 872 |
| Total equity | | 8 465 026 | 12 046 059 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 18 | 582 000 | 582 000 |
| Lease liabilities | 18, 22 | 385 355 | 73 237 |
| Advances received and deferred revenue | 14 | 756 043 | 2 369 020 |
| Total non-current liabilities | | 1 723 398 | 3 024 257 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 14 | 2 377 051 | 2 532 325 |
| Lease liabilities | 18, 22 | 329 417 | 200 925 |
| Advances received and deferred revenue | 14 | 5 740 034 | 5 967 108 |
| Total current liabilities | | 8 446 502 | 8 700 357 |
| TOTAL LIABILITIES | | 10 169 900 | 11 724 614 |
| TOTAL EQUITY AND LIABILITIES | | 18 634 926 | 23 770 674 |

CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED CASH FLOW STATEMENT

| EUR | Note | 1 Jan-31 Dec 2020 | 1 Jan-31 Dec 2019 |
|--|--------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | 3, 14 | 12 235 754 | 14 763 043 |
| Payments to suppliers and employees | 5, 20 | -12 400 181 | -14 373 570 |
| Cash flows from operating activities before financial items and taxes | | -164 427 | 389 473 |
| Interest paid and payments on other financial costs | | -73 456 | -65 074 |
| Interest received and other financial income | | 631 | 798 |
| Income taxes paid | | 9 373 | -45 376 |
| Net cash flows from operating activities | | -227 878 | 279 821 |
| <i>whereof change in working capital</i> | | <i>1 143 491</i> | <i>-581 604</i> |
| Cash flows from investing activities | | | |
| Investments in tangible and intangible assets | 11, 13 | -2 115 884 | -2 005 264 |
| Receipt of government grants | 4 | 612 255 | 922 340 |
| Net cash flows from investing activities | | -1 503 628 | -1 082 923 |
| Cash flows from financing activities | | | |
| Proceeds from subordinated debt | 18 | - | 420 000 |
| Interest paid on hybrid capital securities | | -900 000 | -900 000 |
| Principal portion of finance lease payments | 21 | -374 466 | -304 277 |
| Net cash flows from financing activities | | -1 274 466 | -784 277 |
| Change in cash and cash equivalents | | -3 005 973 | -1 587 379 |
| Cash and cash equivalents in beginning of period | | 11 968 885 | 13 457 691 |
| Exchange rate effect | | -445 214 | 98 573 |
| Change in cash and cash equivalents | | -3 005 973 | -1 587 379 |
| Cash and cash equivalents at end of period | | 8 517 698 | 11 968 885 |

CONSOLIDATED FINANCIAL STATEMENTS**STATEMENT OF CHANGES IN CONSOLIDATED EQUITY**

| EUR | Note | Attributable to the owners of the Company | | | | | Total | Non-controlling interests | Total equity |
|--|------|---|---------------------------|-------------------------|-----------------------------------|--------------------|-------------------|---------------------------|-------------------|
| | | Share capital | Hybrid capital securities | Translation differences | Unrestricted invested equity fund | Retained earnings | | | |
| Equity 1 Jan 2019 | 17 | 1 164 067 | 12 000 000 | -1 406 374 | 22 720 156 | -21 077 384 | 13 400 465 | 821 104 | 14 221 570 |
| Comprehensive profit/loss | | | | | | | | | |
| Profit/loss for the year | | | | | | -1 264 498 | -1 264 498 | -221 232 | -1 485 730 |
| Other comprehensive items | | | | | | | | | |
| Translation differences | | | | -31 084 | | | -31 084 | | -31 084 |
| Comprehensive profit/loss for financial period, total | | 0 | 0 | -31 084 | 0 | -1 264 498 | -1 295 581 | -221 232 | -1 516 814 |
| Hybrid capital securities | | | | | | -900 000 | -900 000 | | -900 000 |
| Share-based payment plans | | | | | | 241 304 | 241 304 | | 241 304 |
| Transactions with shareholders | | 0 | 0 | 0 | 0 | -658 696 | -658 696 | 0 | -658 696 |
| Equity 31 Dec 2019 | | 1 164 067 | 12 000 000 | -1 437 458 | 22 720 156 | -23 000 578 | 11 446 187 | 599 872 | 12 046 059 |

Attributable to the owners of the Company

| EUR | Note | Share capital | Hybrid capital securities | Translation differences | Unrestricted invested equity fund | Retained earnings | Total | Non-controlling interests | Total equity |
|--|------|------------------|---------------------------|-------------------------|-----------------------------------|--------------------|-------------------|---------------------------|-------------------|
| Equity 1 Jan 2020 | 17 | 1 164 067 | 12 000 000 | -1 437 458 | 22 720 156 | -23 000 578 | 11 446 187 | 599 872 | 12 046 059 |
| Comprehensive profit/loss | | | | | | | | | |
| Loss for the period | | | | | | -2 834 022 | -2 834 022 | -244 081 | -3 078 102 |
| Other comprehensive items | | | | | | | | | |
| Translation differences | | | | 266 038 | | | 266 038 | | 266 038 |
| Comprehensive profit/loss for financial period, total | | 0 | 0 | 266 038 | 0 | -2 834 022 | -2 567 983 | -244 081 | -2 812 064 |
| Hybrid capital securities | | | | | | -900 000 | -900 000 | | -900 000 |
| Share-based payment plans | | | | | | 131 031 | 131 031 | | 131 031 |
| Transactions with shareholders | | 0 | 0 | 0 | 0 | -768 969 | -768 969 | 0 | -768 969 |
| Equity 31 Dec 2020 | | 1 164 067 | 12 000 000 | -1 171 419 | 22 720 156 | -26 603 569 | 8 109 235 | 355 791 | 8 465 026 |

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

SSH Communications Security Corporation helps organizations access, secure and control their digital core – their critical data, applications and services. In the rapidly growing global data economy, secure access that enables digital transformation at business velocity is the new competitive advantage.

Our thousands of customers include Fortune 500 companies, the world's largest financial institutions, and major organizations in all verticals. Our solutions guard against the rapidly changing threat landscape that includes both internal and external actors.

We generate shareholder value from a combination of our world-leading expertise, proven enterprise-class solutions, professional services, support offering, and from our strong IP portfolio and well-established licensing operations.

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 on NASDAQ Helsinki Oy (SSH1V). SSH Communications Security Corporation has its registered office at address Karvaamokuja 2B, 00380 Helsinki, Finland.

The SSH Communications Security Board of Directors approved this financial statement for publication at its meeting on 17 February 2021. Under the Finnish Limited Liability Companies Act, the shareholders can accept or reject the financial statement at the AGM held after its publication. A copy of the financial statements is published as a part of the company's annual report.

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

SSH Communications Security UK Ltd (registration number 09346221) is exempt from the requirements of the UK Companies Act relating to the audit of accounts under section 479A of the Companies Act 2006.

SSH Communications Security Corporation has one reportable segment, the software business.

2. ACCOUNTING PRINCIPLES

Basis of Preparation

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS). 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.

New and amended standards and interpretations

From the beginning of year 2020, the Group has applied the following amended standards:

- Amendments to **IFRS 3 Business combinations**. The amendments help companies to determine whether an acquisition made is of a business or a group of assets. The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.
- Amendments to **IFRS 9, IAS 39 and IFRS 7**. The amendments are related to Interest Rate Benchmark Reform and require qualitative and quantitative disclosures to enable users of financial statements to understand how an entity's hedging relationships are affected by the uncertainty arising from interest rate benchmark reform.
- Amendments to **IAS 1 and IAS 8: Definition of Material**. The amendment clarifies the definition of "material" and align the definition used in the Conceptual Framework and the standard themselves.
- Amendments to **References to the Conceptual Framework in IFRS standards**. The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IFRS standards and the amendments that entered into force in 2020 had no impact on the Group's result, the financial position, or the presentation of the financial statements.

Changes that become effective later

The Group will adopt new and amended standards and interpretations 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. The Group has not yet adopted the following new and amended standards and interpretations already issued by the IASB.

The following amendments have been endorsed for use by the European Union:

- Amendment to **IFRS 16 Leases**, Covid-19 -pandemic related rent concessions (effective for financial years beginning on or after June 1, 2020). The amendment provides optional, temporary Covid-19 related operational relief for lessees who benefit from lease payment holidays without compromising the relevance and usefulness of financial information provided by companies.

The changes are not expected to have a material impact on SSH Communications Security's consolidated financial statements.

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.

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.

The share of the non-controlling interests of the subsidiaries' profits and equity is presented as a separate item in the consolidated income statement, comprehensive income statement, statement of changes in equity, and in the balance sheet.

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 differences are recorded in the income statement. 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 fees. Net sales comprise the invoiced

value for the sale of goods and services adjusted with any discounts given, sales taxes, and exchange rate differences.

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

Maintenance sales, or revenue from support and maintenance contracts, 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.

The revenue of royalties from licenses is recognized according to the actual content of the contract at the point of time.

The Group customarily receives short-term advance payments from customers, but also from time to time substantial long-term advance payments for subscription or support and maintenance fees. In these cases, the financing component is accounted for and interest expenses are recorded for the duration of the advance payment.

Government Grants

Grants received from the government for 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 for 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 later 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: 3-5 years from month of acquisition.
- Leasehold improvements of rental premises: According to the lease term, 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) from incomplete projects are recognized as intangible assets if capitalization criteria are fulfilled, to the extent of their probable economic benefits 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.

Capitalized 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 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 3–6 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 is generally 5 to 10 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 period 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.

Inventories

Inventories are valued at cost or at a net realizable value, whichever is lower. Inventories comprise finished goods for sale or for use in producing a service.

Financial Assets and Liabilities

Financial assets

The Group has classified its financial assets into the following categories: financial assets at fair value through profit or loss, financial assets at fair value through comprehensive income statement, and financial assets at amortized value.

The assets are classified at initial recognition; the classification is based on the business model used in managing the financial assets and contractual terms of the cash flows. 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 through profit or 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.

Financial assets through profit or loss include derivatives unless they are designated as effective hedging instruments or warrants such as currency derivatives, and fund investments. Changes in fair values of derivative financial instruments and realized and unrealized gains and losses are recognized in the income statement during the period when they incur. The Group did not have any derivatives during 2020 or 2019.

Loans and receivables are valued at cost at the time of acquisition and they are measured at amortized acquisition cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, short-term deposits at banks, and other short-term liquid investments. Assets classified as cash and cash equivalents have a maturity of three months or less at the time of acquisition.

Impairment of financial assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. Credit losses are recognized in the income statement in other operating expenses.

The Group assesses at each balance sheet date whether an individual financial asset or group of financial assets is impaired. The Group recognizes an impairment loss on trade receivables when it is expected that the receivable will not be recovered in full. 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.

Financial liabilities

The Group's financial liabilities are classified into financing liabilities recognized at fair value through profit/loss or 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 through profit/loss include the derivative instruments which do not fulfill the criteria for hedging accounting, and which are not warrants (currency derivatives). Unrealized and realized gains/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 2020 or 2019.

Other financial liabilities (financing liabilities recognized at amortized cost) include, most significantly, trade payables. 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

The Group leases mainly offices. Rental contracts are typically made for fixed periods from two to three years but may have extension options. Extension options have not been included in the lease liability, because the Group could replace the asset without significant cost or business disruption. The lease term is reassessed if the option is exercised.

Leases are recognized in the balance sheet as a right-of-use asset and a corresponding financial liability at the date at which the lease asset is available for the use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is recognized in the income statement over the lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The right-of-use assets are also subject to impairment.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

Lease liabilities are included in interest-bearing loans and borrowings.

The Group applies the short-term lease recognition exemption to the leases of 12 months or less and the lease of low-value assets recognition exemption. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Earnings per share

Earnings per share

Earnings per share is calculated by dividing the net profit/ loss for the financial year attributable to the owners by the weighted average number of ordinary shares outstanding during the financial year. Earnings per share is impacted by unpaid interest of hybrid capital securities.

Diluted earnings per share

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

Share capital

Share capital consists of ordinary shares of the parent company classified as equity. 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.

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. The Group companies held no shares in the parent company on December 31, 2020 or December 31, 2019.

Hybrid capital securities

Hybrid capital securities is an instrument that is subordinated to the Company's other debt obligations and is treated as equity in the Group balance sheet. Unpaid interest is cumulated but presented in the financial statements only after Board of Directors' interest payment decision.

Gross Margin

Gross margin is equal to net sales less the acquisition costs of directly related 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 (and tax laws) effective in each country, adjusted for any tax from previous periods.

Deferred taxes are calculated on temporary differences between the book value and taxable value. The largest temporary differences arise from unused tax losses which are deductible later.

Deferred taxes are calculated using the statutory tax bases with confirmed content announced by the closing date or with generally accepted tax bases. 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.

Employee Benefits*Pensions*

The Group's pension schemes comply with the relevant regulations and practices in each relevant country. Pension security for the 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 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 considered 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 effects of 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.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

3. NET SALES

| EUR | 2020 | 2019 |
|---------------------------------|-------------------|-------------------|
| BY OPERATION | | |
| Subscription sales | 768 755 | 711 123 |
| License sales | 2 245 939 | 4 463 337 |
| Maintenance sales | 7 800 367 | 8 627 826 |
| Professional services and other | 436 153 | 575 725 |
| Total | 11 251 214 | 14 378 011 |
| BY GEOGRAPHICAL SEGMENT | | |
| AMERICAS | 5 943 849 | 7 808 912 |
| APAC | 2 124 979 | 2 928 543 |
| EMEA | 3 182 386 | 3 640 556 |
| Total | 11 251 214 | 14 378 011 |

Information about major customers

In 2020, no customer's revenue accounted for more than ten percent of the Group's net sales. In 2019, revenue share from one customer was EUR 2.0 million, which was 14 % of the Group's net sales.

4. OTHER OPERATING INCOME

Other operating income includes EUR 1.0 million received government grants (2019: EUR 0.1 million).

5. OTHER OPERATING COSTS

| EUR | 2020 | 2019 |
|-------------------------------------|-------------------|-------------------|
| Employee benefit expenses | | |
| Wages and salaries | -8 387 096 | -8 393 843 |
| Pensions, defined contribution plan | -796 193 | -912 456 |
| Other social security costs | -449 328 | -351 755 |
| Stock options issued | -131 031 | -241 304 |
| Total | -9 763 649 | -9 899 357 |

Information about remuneration of the key management personnel is presented in note 24. *Related party transactions* and information on the options granted is presented in the note 19. *Share-based payments*.

| Number of personnel | 2020 | 2019 |
|-------------------------------------|-------------|-------------|
| Average during the financial period | 88 | 88 |
| At the end of the financial period | 94 | 90 |

Personnel distribution by function on 31 Dec

| | | |
|--|-----------|-----------|
| Sales, marketing, and customer support | 31 | 32 |
| Research and development | 48 | 46 |
| Administration | 15 | 12 |
| Total | 94 | 90 |

Research and development costs recognized as costs

| EUR | 2020 | 2019 |
|--------------|-------------------|-------------------|
| Total | -5 047 946 | -4 893 415 |

Other operating costs

| EUR | 2020 | 2019 |
|-------------------|-------------------|-------------------|
| External services | -3 016 512 | -3 767 236 |
| Depreciation | -2 093 238 | -2 070 336 |
| Other costs | -1 205 792 | -1 060 986 |
| Total | -6 315 542 | -6 898 559 |

Auditor's fees

Auditor's fees categorized into service groups were:

| EUR | 2020 | 2019 |
|---|----------------|----------------|
| Principal auditor (Ernst & Young Oy) | | |
| Statutory auditing | -65 720 | -44 000 |
| Other auditing | -5 625 | -19 100 |
| Other services | -2 009 | -1 812 |
| Other auditing firms: | | |
| Statutory auditing | -7 050 | -8 091 |
| Tax guidance | -15 158 | -14 881 |
| Total | -95 562 | -87 884 |

6. DEPRECIATIONS AND IMPAIRMENTS

| EUR | 2020 | 2019 |
|-------------------------------|------------------|------------------|
| BY ASSET CATEGORY | | |
| Machinery and equipment | 76 136 | 67 629 |
| Right-of-use assets | 393 566 | 318 951 |
| Software & other tech assets | 336 704 | 395 328 |
| Capitalized development costs | 1 286 832 | 1 288 429 |
| Total | 2 093 238 | 2 070 336 |
| BY FUNCTION | | |
| Sales and marketing | 12 063 | 13 782 |
| Research and development | 1 501 520 | 1 543 740 |
| Administration | 579 655 | 512 815 |
| Total | 2 093 238 | 2 070 336 |

7. FINANCIAL INCOME

| EUR | 2020 | 2019 |
|------------------|------------|------------|
| Interest revenue | 631 | 798 |
| Total | 631 | 798 |

8. FINANCIAL COSTS

| EUR | 2020 | 2019 |
|---|-----------------|-----------------|
| Exchange rate losses, loans, and other receivables | -458 289 | -33 547 |
| Interest arising from sales contracts | -72 222 | -52 904 |
| Interest from leasing contracts | -48 314 | -33 232 |
| Other interest costs | -25 850 | -12 730 |
| Total | -604 675 | -132 413 |

9. INCOME TAXES

| EUR | 2020 | 2019 |
|--------------|---------------|-----------------|
| Income taxes | 12 162 | -146 600 |
| Total | 12 162 | -146 600 |

Reconciliation of income taxes and profit/loss before taxes

| EUR | 2020 | 2019 |
|--|---------------|-----------------|
| Profit/loss before taxes | -3 090 264 | -1 339 130 |
| Tax at parent company tax rate (20 %) | 618 053 | 267 826 |
| Effect of foreign subsidiaries' differing tax rates | -7 877 | -2 702 |
| Non-deductible expenses | -19 351 | -4 322 |
| Tax exempt revenue | 72 299 | 2 041 |
| Tax deductible hybrid loan interest expenses | 180 000 | 180 000 |
| Use of previously unrecognized tax losses | 297 264 | 347 979 |
| Tax assets not recognized for reported losses | -28 247 | -125 776 |
| Tax assets not recognized for unused tax depreciations | -1 124 324 | -679 566 |
| Income taxes from previous years | 25 938 | -30 471 |
| Other direct taxes | -1 593 | -101 609 |
| Income taxes | 12 162 | -146 600 |

The amount of Group's unused tax losses, for which no deferred tax asset has been recognized based on the prudence principle, is EUR 8.1 million (2019: EUR 10.1 million). EUR 2.8 million (2019: EUR 4.4 million) of the tax losses are in Finland, and EUR 5.2 million (2019: EUR 5.7 million) in the USA. The tax losses expire in Finland between the years 2022–2030, and in the USA between the years 2022–2035. The amount of unrecognized deferred tax assets from the tax losses is EUR 1.7 million (2019: EUR 2.1 million). The figures include use of losses in 2020 which have not yet been confirmed in taxation.

In addition, the parent company has EUR 36.8 million (2019: EUR 31.6 million) research and development expenses and depreciations not deducted in taxation and the amount of unrecognized deferred tax assets resulting from those is EUR 7.3 million (2019: EUR 6.3 million).

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

10. EARNINGS PER SHARE

| EUR | 2020 | 2019 |
|---|------------|------------|
| Profit/loss for the year attributable to shareholders of the parent company | -2 834 022 | -1 264 498 |
| Hybrid loan interest expense | -1 260 000 | -900 000 |
| Weighted average number of shares in issue, 1,000 | 38 802 | 38 802 |
| Earnings per share | -0.11 | -0.06 |
| Adjusted average number of shares considering dilution effect, 1,000 | 41 529 | 41 228 |
| Earnings per share, diluted | -0.11 | -0.06 |

11. PROPERTY, PLANT AND EQUIPMENT

| EUR | 2020 | 2019 |
|---|----------------|----------------|
| Machinery and equipment | | |
| Acquisition cost 1 Jan | 2 054 825 | 2 002 996 |
| Exchange rate effect | -22 420 | 5 157 |
| Increase | 61 777 | 46 672 |
| Decrease | - | - |
| Acquisition cost 31 Dec | 2 094 182 | 2 054 825 |
| Accumulated depreciation 1 Jan | 1 936 735 | 1 874 456 |
| Exchange rate effect | -21 367 | -4 026 |
| Depreciation for the financial period | 64 486 | 66 305 |
| Accumulated depreciation on decrease | - | - |
| Accumulated depreciation 31 Dec | 1 979 855 | 1 936 735 |
| Book value 31 Dec | 114 327 | 118 090 |
| Other tangible assets | | |
| Acquisition cost 1 Jan | 52 876 | 51 878 |
| Exchange rate effect | -4 468 | 997 |
| Increase | 23 982 | - |
| Decrease | - | - |
| Acquisition cost 31 Dec | 72 389 | 52 876 |
| Accumulated depreciation 1 Jan | 35 918 | 25 620 |
| Exchange rate effect | -3 710 | 459 |
| Depreciation for the financial period | 11 650 | 9 839 |
| Accumulated depreciation on decrease | - | - |
| Accumulated depreciation 31 Dec | 43 857 | 35 918 |
| Book value 31 Dec | 28 532 | 16 958 |
| Book value of tangible assets 31 Dec | 142 859 | 135 048 |

12. RIGHT-OF-USE ASSETS

| EUR | 2020 | 2019 |
|---------------------------------------|----------------|----------------|
| Buildings | | |
| Acquisition cost 1 Jan | 581 008 | - |
| Adoption of IFRS 16 standard | - | 510 004 |
| Exchange rate effect | -34 943 | 5 600 |
| Increase | 829 623 | 69 233 |
| Decrease | - | -3 829 |
| Acquisition cost 31 Dec | 1 375 688 | 581 008 |
| Accumulated depreciation 1 Jan | 318 870 | - |
| Exchange rate effect | -23 153 | -81 |
| Depreciation for the financial period | 364 343 | 318 951 |
| Impairment | 29 223 | - |
| Accumulated depreciation on decrease | - | - |
| Accumulated depreciation 31 Dec | 689 283 | 318 870 |
| Book value 31 Dec | 686 405 | 262 138 |

Right-of-use assets include leased offices and software. The lease for the Helsinki office expired at the end of April 2020 and the company moved to new premises from the beginning of April. The new lease contract is for the period of three years and added right-of-use assets and lease liabilities with EUR 0.6 million in 2020. Subsidiary in the United States moved at the end of 2020 to New York City. Right-of-use assets and lease liabilities of EUR 0.1 million have been recognized for the new office. Lease agreement for the old office expires in September 2021 and an impairment loss of EUR 29.2 thousand was recognized in the financial statements.

More information on leases is presented in the note 22. *Leases*.

13. INTANGIBLE ASSETS

| EUR | 2020 | 2019 |
|--|------------------|------------------|
| Software | | |
| Acquisition cost 1 Jan | 2 065 632 | 2 061 841 |
| Exchange rate effect | 1 401 | 3 790 |
| Increase | 58 255 | - |
| Decrease | - | - |
| Acquisition cost 31 Dec | 2 125 288 | 2 065 632 |
| Accumulated depreciation 1 Jan | 2 057 842 | 2 052 938 |
| Exchange rate effect | 1 523 | 3 615 |
| Depreciation for the financial period | 7 667 | 1 290 |
| Accumulated depreciation on decrease | - | - |
| Accumulated depreciation 31 Dec | 2 067 033 | 2 057 842 |
| Book value 31 Dec | 58 255 | 7 789 |
| Immaterial rights | | |
| Acquisition cost 1 Jan | 15 235 306 | 13 267 829 |
| Increase | 1 537 826 | 1 967 477 |
| Decrease | - | - |
| Acquisition cost 31 Dec | 16 773 132 | 15 235 306 |
| Accumulated depreciation and impairment 1 Jan | 9 764 636 | 8 082 170 |
| Depreciation for the financial period | 1 618 751 | 1 632 655 |
| Impairment | - | 49 811 |
| Accumulated depreciation on decrease | - | - |
| Accumulated depreciation and impairment 31 Dec | 11 383 387 | 9 764 636 |
| Book value 31 Dec | 5 389 744 | 5 470 669 |
| Book value of intangible assets 31 Dec | 5 447 999 | 5 478 458 |

Impairment testing

At the end of the year, the company has tested the value of Intangible assets using a moderate growth rate compared to year 2020 net sales and year 2020 cost structure. The cash flow forecasts of new products in the market are based on year 2021 budget. The discount rate used in the testing was 12.4 %. As a result of the testing, no impairment risk was detected. According to the sensitivity analyses carried out, even a significant change in key variables (net sales, profitability and discount rate) would not create a situation where the carrying value of an asset would exceed its recoverable amount.

14. TRADE RECEIVABLES AND CONTRACT LIABILITIES

| EUR | 2020 | 2019 |
|--------------------------------|------------------|------------------|
| Total trade receivables | 2 961 250 | 5 190 952 |

| EUR | 2020 | 2019 |
|---|------------------|------------------|
| Deferred revenue | 6 361 348 | 7 606 049 |
| Government grants received | 134 729 | 730 079 |
| Total advances received and deferred revenue | 6 496 077 | 8 336 128 |

By currency

| EUR | 2020 | 2019 |
|--------------|------------------|------------------|
| EUR | 417 572 | 1 136 999 |
| USD | 2 293 408 | 3 767 489 |
| GBP | 250 270 | - |
| CHF | - | 286 464 |
| Total | 2 961 250 | 5 190 952 |

By age

| EUR | 2020 | 2019 |
|-------------------|------------------|------------------|
| Non-matured | 1 431 762 | 3 744 424 |
| Matured | | |
| < 30 days | 1 042 358 | 214 119 |
| 31-90 days | 428 128 | 872 780 |
| 91-180 days | 105 865 | 417 685 |
| > 181 days | 377 501 | 35 960 |
| Impairment losses | -424 364 | -94 017 |
| Total | 2 961 250 | 5 190 952 |

During the financial year, the Group has changed the calculation parameters of the bad debt provision calculated based on the age distribution of trade receivables and recorded a single larger impairment loss, taking into account the increased credit risk due to the COVID-19 -pandemic. The Group does not fully record impairment losses on receivables older than 90 days, as historically credit losses have been very small.

15. OTHER RECEIVABLES

| € | 2020 | 2019 |
|------------------------------|----------------|----------------|
| VAT receivables | 150 020 | 332 396 |
| Deposits | 157 669 | 84 807 |
| Other short-term receivables | 184 836 | 5 142 |
| Total | 492 525 | 422 345 |

16. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The book value of trade receivables and trade payables equals their fair value because the impact of discounting is not significant considering the maturity of these items.

17. 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 in the Trade Register and fully paid up as of 31 December 2020 was EUR 1,164,066.99 (2019: EUR 1,164,066.99), and the number of shares was 38,802,233 (2019: 38,802,233).

| Changes in the share capital | Number of shares | Share capital, EUR |
|---------------------------------------|-------------------|--------------------|
| 31 Dec 2019 | 38 802 233 | 1 164 067 |
| Subscriptions under stock option plan | - | - |
| Subscriptions under share issue | - | - |
| 31 Dec 2020 | 38 802 233 | 1 164 067 |

DESCRIPTION OF THE EQUITY RESERVES:

Share capital

The share capital includes the share subscription prices from share issues and share subscriptions through options unless the conditions of the share issue stipulate that the subscription price shall be registered in the unrestricted invested equity fund. Expenses related to share issue 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 two different funds: a fair value reserve for available-for-sale investments and a hedging reserve for changes in the fair value of cash flow hedging instruments. In the 2020 and 2019 financial periods, SSH Communications Security had no available-for-sale financial assets and did not apply hedge accounting.

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 based on a specific decision.

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 any rights of shareholders and do not dilute the holdings of the current shareholders.

The other equity fund consists of hybrid capital securities of EUR 12 million issued in March 2015, subscribed by institutional investors. The principal owner of the parent company, Mr. 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 to 11.5 per cent. 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 had the right to convert the capital loan into the Company's shares at EUR 4.76 per share until 30 March 2020.

18. CAPITAL MANAGEMENT

The objective in managing Group capital is to secure the ability to continue operating. The structure of the capital can be managed through decisions concerning, for instance, 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. In March 2015 the Group issued hybrid capital securities which are included in the Group's equity.

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

| Net liabilities | | |
|---------------------------|-------------------|--------------------|
| EUR | 2020 | 2019 |
| Borrowings | 582 000 | 582 000 |
| Lease liabilities | 714 772 | 274 162 |
| Cash and cash equivalents | 8 517 698 | 11 968 885 |
| Net liabilities | -7 220 926 | -11 112 723 |
| | | |
| Equity total | 8 492 206 | 12 046 059 |
| | | |
| Equity ratio | 69,7 % | 78,0 % |
| Gearing | -85,3 % | -92,3 % |

The interest-bearing liabilities consist of the subordinated loan which Kyberleijona Oy has taken out from the non-controlling interest holder State Security Networks Group Finland. The capital and interest of the subordinated loan can only be repaid in circumstances permitted by Chapter 12 of the Finnish Limited Liability Companies Act. The capital of the subordinated loan can only be repaid to the extent the unrestricted shareholders' equity and the total amount of the subordinated loan at the time of the repayment exceeds the loss that is to be confirmed for the company's latest financial year or is included in the balance sheet of more recent financial statements. The annual interest for the loan, three per cent (3 %), has been recognized as expense.

19. 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, such as options. Personnel of the company belong to options plans. An employee leaving the company before the vesting of the options forfeits their options.

On the balance sheet date, SSH Communications Security had 2,727,000 stock options outstanding (2019: 2,425,575), representing 6.6 % of shares and 6.6 % of votes. The weighted average exercise price of outstanding stock options was EUR 1.9 (2019: EUR 2.29). The weighted average of the remaining subscription period was 2.2 years (2019: 1.0 years). The exercise price varies from EUR 0.93 to EUR 2.09, and the remaining subscription period from 1.2 years to 3.3 years.

A person holding option rights is entitled to subscribe shares if employed by SSH at the beginning of the subscription period.

Information about option plans:

| Option plan | Option certificate | Release date | Subscription period | | Subscription price, EUR | Options not exercised |
|--------------|--------------------|--------------|---------------------|-------------|-------------------------|-----------------------|
| | | | Begin | End | | |
| I/2015 | I/2015 A | 4 Feb 2015 | 15 Mar 2018 | 30 May 2020 | 3.45 | 0 |
| | I/2015 B | 4 Feb 2015 | 15 Mar 2019 | 30 May 2020 | 3.45 | 0 |
| | I/2015 C | 4 Feb 2015 | 15 Mar 2020 | 30 May 2020 | 3.45 | 0 |
| I/2016 | I/2016 A | 26 May 2016 | 15 Mar 2017 | 30 May 2020 | 3.45 | 0 |
| | 2018 | 22 Feb 2018 | 1 Dec 2020 | 31 Mar 2022 | 2.09 | 980 000 |
| 2019 A | 2019 A | 18 Dec 2018 | 1 Dec 2021 | 31 Mar 2023 | 1.56 | 980 000 |
| 2020 A | 2020 A | 13 Feb 2020 | 1 Dec 2022 | 31 Mar 2024 | 0.93 | 980 000 |
| Total | | | | | | 2 940 000 |

Changes in outstanding stock options:

| | 2020 | 2019 |
|---|------------------|------------------|
| At the beginning of the financial period | 2 425 575 | 1 496 000 |
| Stock options granted | 1 688 000 | 1 034 000 |
| Stock option forfeited | 710 100 | 104 425 |
| Stock options canceled | 676 475 | - |
| Stock options exercised | - | - |
| At the end of the financial period | 2 727 000 | 2 425 575 |
| Exercisable option rights at the end of the financial period | 2 727 000 | 2 425 575 |

The fair value of option programs is determined at the time the options are granted and is recorded as an expense in the profit/loss during the period of inception. The fair value is determined using the Black-Scholes pricing model. The parameters for options granted in 2020 are:

| | 2020 |
|--|-----------------|
| Share price at grant, EUR | 1.25 |
| Share price at financial period end, EUR | 1.70 |
| Exercise price, EUR | 1.32 |
| Expected volatility ¹ | 62.0 % |
| Maturity, years | 2.9 |
| Risk-free rate | -0.69 % |
| Expected dividends, EUR | 0.00 |
| Valuation model | Black & Scholes |
| Fair value 31 Dec 2020, EUR | 767 763 |

¹ The expected volatility has been determined by calculating the historical volatility of the company's shares using monthly observations over corresponding maturity.

| Share-based payments recognized as an expense, EUR | 2020 | 2019 |
|---|-------------|-------------|
| Share-based payments | 131 031 | 241 304 |
| Liability from share-based payments 31 Dec | - | - |

20. TRADE AND OTHER PAYABLES

| EUR | 2020 | 2019 |
|-------------------|------------------|------------------|
| Trade payables | 398 156 | 430 047 |
| Personnel related | 1 559 165 | 1 499 585 |
| Accruals | 95 733 | 93 583 |
| VAT liabilities | 75 967 | 246 796 |
| Other liabilities | 248 029 | 262 314 |
| Total | 2 377 051 | 2 532 325 |

21. 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 based on net position, using foreign exchange forwards or options. Currently the net position is not hedged. The company decides on

the hedging on case by case basis. Currently the Group is not using hedging accounting. Any gains or losses realized through hedging actions are thus recognized in profit/loss.

A 10 % strengthening of the U.S. dollar against the Euro using with net position on 31 Dec 2020 would increase the pre-tax profit of the Group by 68,000 euros. Similarly, a 10 % weakening of the U.S. dollar against the Euro would decrease the pre-tax profit of the Group by 55,000 euros.

Interest Rate Risk

The interest-bearing debt of the Group at the end of the review period was 582,000 euro and it consisted of a subordinated loan taken by a subsidiary company from a non-controlling interest holder. The annual interest of the loan is three per cent (3 %).

The money market investments of the Group expose the cash flow to interest rate risk, but their impact is not material.

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. At the end of the financial year, the Group recorded impairment losses of EUR 0.4 million to cover doubtful receivables (2019: EUR 0.1 million). The aging distribution of trade receivables is presented in note 14. *Trade receivables*.

Liquidity Risk

The Group's cash and cash equivalents on 31 Dec 2020 were 8,517,698 euros (2019: 11,968,885 euros). 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 had trade payables and other short-term debts amounting 2,377,051 euros (2019: 2,532,325 euros).

The tables below present the Group's maturity of the financial liabilities:

31 Dec 2020

| EUR | Less than 1 year | 1 to 5 years | Over 5 years | Total |
|--------------------------|---------------------|----------------|-----------------|------------------|
| Borrowings | - | - | 582 000 | 582 000 |
| Lease liabilities | 329 417 | 385 355 | - | 714 772 |
| Trade and other payables | 2 377 051 | - | - | 2 377 051 |
| Total | 2 706 468 | 385 355 | 582 000 | 3 673 823 |

31 Dec 2019

| EUR | Less than 1 year | 1 to 5 years | Over 5 years | Total |
|--------------------------|-----------------------------|---------------------|-------------------------|------------------|
| Borrowings | - | - | 582 000 | 582 000 |
| Lease liabilities | 200 925 | 73 237 | - | 274 162 |
| Trade and other payables | 2 532 325 | - | - | 2 532 325 |
| Total | 2 733 250 | 73 237 | 582 000 | 3 388 486 |

The tables below present changes in liabilities arising from financing activities:

| EUR | 1 Jan 2020 | Cash flows | Foreign exchange movement | New leases | Other | 31 Dec 2020 |
|--|-----------------------|-----------------------|--|-----------------------|--------------|------------------------|
| Current lease liabilities | 200 925 | -374 466 | -9 977 | 297 180 | 215 756 | 329 417 |
| Non-current interest-bearing borrowings | 582 000 | - | - | - | - | 582 000 |
| Non-current lease liabilities | 73 237 | - | -4 569 | 532 443 | -215 756 | 385 355 |
| Total liabilities from financing activities | 856 162 | -374 466 | -14 546 | 829 623 | 0 | 1 296 772 |

| EUR | 1 Jan 2019 | Cash flows | Foreign exchange movement | New leases | Other | 31 Dec 2019 |
|--|-----------------------|-----------------------|--|-----------------------|----------------|------------------------|
| Current lease liabilities | 310 508 | -304 277 | 5 667 | - | 189 027 | 200 925 |
| Non-current interest-bearing borrowings | 162 000 | 420 000 | - | - | - | 582 000 |
| Non-current lease liabilities | 199 496 | - | - | 74 255 | -200 515 | 73 237 |
| Total liabilities from financing activities | 672 004 | 115 723 | 5 667 | 74 255 | -11 488 | 856 162 |

Lease liabilities have been recognized on adoption of IFRS 16 on January 1, 2019. The column "Other" includes non-cash movements, such as reclassification from non-current to current.

22. LEASES

Leases in the balance sheet

The Group has recognized the following amounts related to the leases in the balance sheet:

Right-of-use assets

| EUR | 2020 | 2019 |
|--------------|----------------|----------------|
| Offices | 554 973 | 262 138 |
| Software | 131 432 | 0 |
| Total | 686 405 | 262 138 |

Lease liabilities

| EUR | 2020 | 2019 |
|--------------|----------------|----------------|
| Current | 329 417 | 200 925 |
| Non-current | 385 355 | 73 237 |
| Total | 714 772 | 274 162 |

Additions to the right-of-use assets during 2020 were in total EUR 0.8 million (2019: EUR 0.1 million). Changes in right-of-use assets have been presented in note 12. *Right-of-use assets*.

Leases in the income statement

The Group has recognized the following amounts related to the leases in the income statement:

| EUR | 2020 | 2019 |
|--|-------------|-------------|
| Depreciation charge of right-of-use assets | -393 566 | -318 951 |
| Interest expenses (included in financial costs) | -48 314 | -33 232 |
| Expense relating to short-term leases (included in other operating costs) | -59 131 | -52 533 |
| Expense relating to leases of low-value assets (included in other operating costs) | -1 791 | -1 738 |

The cash outflow for leases in 2020 was in total EUR 0.4 million (2019: EUR 0.3 million).

23. GUARANTEES GIVEN AND OTHER COMMITMENTS

| EUR | 2020 | 2019 |
|-----------------------------|-------------|-------------|
| Rental guarantees (pledged) | 157 669 | 84 807 |
| Hybrid Loan, Interest | 1 035 000 | 675 000 |

24. GROUP COMPANIES AND RELATED PARTY TRANSACTIONS

SSH Communications Security Corporation, its subsidiaries, its CEO, and its Board members and companies controlled by them belong to related party of the Group. The Group management team is not considered as part of related party as they do not have direct decision-making authority.

Group companies Dec 31 2020

| Group company | Domicile | Group holding, % | Votes, % |
|---|----------------|------------------|----------|
| SSH Communications Security Oyj, Helsinki | Finland | | |
| SSH Communications Security Inc., New York City | USA | 100 | 100 |
| SSH Operations Oy, Helsinki | Finland | 100 | 100 |
| SSH Communications Security Ltd., Hong Kong | Hong Kong | 100 | 100 |
| Kyberleijona Oy, Helsinki | Finland | 65 | 65 |
| SSH Government Solutions Inc., New York City | USA | 100 | 100 |
| SSH Technology Oy, Helsinki | Finland | 100 | 100 |
| SSH Communications Security UK Ltd, London | United Kingdom | 100 | 100 |

Employee benefits of the management

The key management personnel of the Group are defined consisting of the CEO of the parent company. The employee benefits of the CEO are presented in the table below. The sums of employee benefits are shown on an accrual basis. The CEO of SSH Communications Security Corporation has been Mr. Teemu Tunkelo as of 24 March 2020.

Remuneration and fees - CEO

| EUR | 2020 | 2019 |
|---|----------------|----------------|
| Salary and other short-term employee benefits | 284 978 | 221 762 |
| Termination benefits | 111 451 | - |
| Share-based payments | - | - |
| Total | 396 428 | 221 762 |

Fees to Members of the Board of Directors

| EUR | 2020 | 2019 |
|---|----------------|----------------|
| Curry Sam (until 26 March 2020) | 7 500 | 32 500 |
| Kellomäki Sampo (as of 26 March 2020) | 18 000 | - |
| Kiianmies Aino-Mari (as of 26 March 2020) | 18 000 | - |
| Kiuru Sauli (until 26 March 2020) | 7 500 | 22 500 |
| Kuivala Petri (until 26 March 2020) | 8 750 | 35 000 |
| Tavakka Kai (as of 26 June 2020) | 12 286 | - |
| Syrjälä Timo (until 26 March 2020) | 7 500 | 30 000 |
| Ylönen Tatu | 7 500 | 30 000 |
| Zettlemoyer Anne Marie (until 26 March 2020) | 7 500 | 32 500 |
| Österlund Henri (as of 26 June 2020, Chairman of the Board) | 14 743 | - |
| Total | 109 279 | 182 500 |

| Share and stock option holdings of Board members | 31 Dec 2020 | | 31 Dec 2019 | |
|--|------------------|----------|-------------------|----------|
| | Shares | Options | Shares | Options |
| Kellomäki Sampo | - | - | - | - |
| Kiianmies Aino-Mari | - | - | - | - |
| Tavakka Kai | - | - | - | - |
| Ylönen Tatu | 6 987 123 | - | 18 317 123 | - |
| Österlund Henri | 61 060 | - | - | - |
| Total | 7 048 183 | - | 18 317 123 | - |

| Share and stock option holdings of the management | 31 Dec 2020 | | 31 Dec 2019 | |
|---|---------------|------------------|-------------|----------------|
| | Shares | Options | Shares | Options |
| Tunkelo Teemu (CEO as of 24 March 2020) | 20 300 | 475 000 | - | - |
| Mononen Jussi | - | 305 000 | - | 130 000 |
| Nordström Niklas | - | 370 000 | - | 95 000 |
| Total | 20 300 | 1 150 000 | - | 225 000 |

Compensation of the key management personnel of the group

| EUR | 2020 | 2019 |
|--|-----------|-----------|
| Wages and other short-term employee benefits | 1 179 520 | 1 446 330 |
| Share-based payments | - | - |

On 31 December 2020, the CEO and members of the Board of Directors of SSH Communications Security owned 18.2 % (2019: 47.2 %) 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 0.1 % (2019: 0 %) of company shares and have a total of 1,150,000 (2019: 225,000) option rights.

The key conditions of the option right arrangements are described in note 19. *Share-based payments*.

Related party transactions

During the reporting period, there have not been any significant transactions with related parties.

25. EVENTS AFTER THE BALANCE SHEET DATE

On January 29, 2021 SSH Communications Security Corporation's subsidiary Kyberleijona Oy has agreed to acquire all shares of Deltagon Oy from Leijonaverkot Oy, a subsidiary of Suomen Erillisverkot Oy.

Deltagon Oy develops and sells secure messaging and transaction solutions to various industries, including finance and the public sector. The acquisition strengthens SSH's position as a provider of secure networking and messaging solutions that safeguard key national cybersecurity interests and offer security-critical networking, encryption, and other solutions to the public sector in a coordinated manner. After closing, Deltagon becomes a subsidiary of Kyberleijona and part of the SSH group. The acquisition is expected to close during the first half of 2021, subject to regulatory approvals and fulfillment of customary closing conditions.

The total acquisition price is approximately EUR 15.4 million. The cash flow impact of the acquisition price to SSH is EUR 10 million over the next four years. The parties have also agreed on an earnout payment of no more than EUR 1.3 million, subject to certain conditions being fulfilled in the three-year period after the acquisition.

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY FINANCIAL STATEMENTS**PARENT COMPANY INCOME STATEMENT**

| EUR | Note | 1 Jan-31 Dec 2020 | 1 Jan-31 Dec 2019 |
|--|----------|----------------------|----------------------|
| NET SALES | 1 | 7 006 767,78 | 9 365 109,50 |
| Purchasing and production costs | | -451,33 | -32 404,91 |
| GROSS MARGIN | | 7 006 316,45 | 9 332 704,59 |
| Other operating income | | 645 229,02 | 77 268,32 |
| Research and development costs | 2, 3, 6 | -5 159 333,65 | -5 136 015,12 |
| Sales and marketing costs | 2, 3, 6 | -2 615 628,82 | -2 968 791,29 |
| Administrative costs | 2, 3, 6 | -2 369 383,91 | -2 375 260,97 |
| OPERATING PROFIT/LOSS | | -2 492 800,91 | -1 070 094,47 |
| Financial income | 7 | | |
| Interest revenue and other financing income | | 548 857,58 | 529 494,18 |
| Interest costs and other financing costs | | -465 899,39 | -14 432,45 |
| PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES | | -2 409 842,72 | -555 032,74 |
| Appropriations | 8 | | |
| Group contribution received | | 16 864,78 | 8 154,97 |
| PROFIT/LOSS BEFORE TAXES | | -2 392 977,94 | -546 877,77 |
| Taxes | | 0,00 | -100 397,38 |
| PROFIT/LOSS FOR THE FINANCIAL PERIOD | | -2 392 977,94 | -647 275,15 |

PARENT COMPANY FINANCIAL STATEMENTS**PARENT COMPANY BALANCE SHEET****ASSETS**

| EUR | Note | 31 Dec 2020 | 31 Dec 2019 |
|-------------------------------------|------|----------------------|----------------------|
| NON-CURRENT ASSETS | | | |
| Intangible assets | 9 | | |
| Immaterial rights | | 3 162 965,59 | 3 299 080,81 |
| Intangible assets, total | | 3 162 965,59 | 3 299 080,81 |
| Tangible assets | 9 | | |
| Machinery & equipment | | 116 918,81 | 84 049,23 |
| Tangible assets, total | | 116 918,81 | 84 049,23 |
| Investments | | | |
| Shares in Group companies | 9,17 | 3 889 689,01 | 3 889 689,01 |
| Other shares | | 11 000,00 | 11 000,00 |
| Investments, total | | 3 900 689,01 | 3 900 689,01 |
| NON-CURRENT ASSETS, TOTAL | | 7 180 573,41 | 7 283 819,05 |
| CURRENT ASSETS | | | |
| Current receivables | | | |
| Trade receivables | | 488 393,59 | 269 725,43 |
| Receivables from Group companies | 10 | 5 328 229,56 | 8 124 686,12 |
| Prepaid expenses and accrued income | 11 | 216 048,95 | 157 808,59 |
| Other receivables | 12 | 317 283,49 | 56 156,56 |
| Current receivables, total | | 6 349 955,59 | 8 608 376,70 |
| Cash and cash equivalents | | 2 744 865,26 | 3 979 808,06 |
| CURRENT ASSETS, TOTAL | | 9 094 820,85 | 12 588 184,76 |
| ASSETS, TOTAL | | 16 275 394,26 | 19 872 003,81 |

PARENT COMPANY FINANCIAL STATEMENTS**PARENT COMPANY INCOME STATEMENT****EQUITY AND LIABILITIES**

| EUR | Note | 31 Dec 2020 | 31 Dec 2019 |
|--------------------------------------|-------------|----------------------|----------------------|
| EQUITY | 13 | | |
| Share capital | | 1 164 066,99 | 1 164 066,99 |
| Unrestricted invested equity fund | | 22 720 155,85 | 22 720 155,85 |
| Hybrid capital securities | 14 | 12 000 000,00 | 12 000 000,00 |
| Retained profit/loss | | -20 410 104,85 | -18 862 829,70 |
| Profit/loss for financial period | | -2 392 977,94 | -647 275,15 |
| EQUITY, TOTAL | | 13 081 140,05 | 16 374 117,99 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Advances received | | 1 080 577,73 | 1 266 366,60 |
| Trade payables | | 326 744,86 | 278 721,43 |
| Payables to Group Companies | | 398 369,66 | 589 223,21 |
| Accrued expenses and deferred income | 15 | 1 219 070,76 | 1 009 770,73 |
| Other liabilities | | 169 491,20 | 353 803,85 |
| CURRENT LIABILITIES, TOTAL | | 3 194 254,21 | 3 497 885,82 |
| LIABILITIES, TOTAL | | 3 194 254,21 | 3 497 885,82 |
| EQUITY AND LIABILITIES, TOTAL | | 16 275 394,26 | 19 872 003,81 |

PARENT COMPANY FINANCIAL STATEMENTS**PARENT COMPANY CASH FLOW STATEMENT**

| EUR | 1 Jan-31 Dec 2020 | 1 Jan-31 Dec 2019 |
|--|----------------------|----------------------|
| Cash flow from business operations | | |
| Receipts from customers | 9 461 880,39 | 7 582 734,85 |
| Payments to suppliers and employees | -9 001 780,48 | -8 960 731,37 |
| Cash flow from business operations before financial items and taxes | 460 099,91 | -1 377 996,52 |
| Interest and other financial costs | -26 641,36 | -71 789,74 |
| Interest and other financial revenue | 507 457,58 | 506 856,44 |
| Income tax paid | 0,00 | -397,38 |
| Cash flow from business operations | 940 916,13 | -943 327,20 |
| Cash flow from investing activities | | |
| Investments in tangible and intangible assets | -1 555 202,07 | -1 206 587,10 |
| Receipt of government grants | 271 188,17 | 922 340,47 |
| Cash flow from investing activities | -1 284 013,90 | -284 246,63 |
| Cash flow from financing activities | | |
| Interest on hybrid capital securities | -900 000,00 | -900 000,00 |
| Subordinated loan to related parties | - | -780 000,00 |
| Group contribution received | 8 154,97 | 11 658,14 |
| Cash flow from financing activities | -891 845,03 | -1 668 341,86 |
| Change in liquid assets | -1 234 942,80 | -2 895 915,69 |
| Liquid assets in the beginning of period | 3 979 808,06 | 6 875 723,75 |
| Change in liquid assets | -1 234 942,80 | -2 895 915,69 |
| Liquid assets at the end of period | 2 744 865,26 | 3 979 808,06 |

PARENT COMPANY FINANCIAL STATEMENTS

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

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 (Note 21. *Financial Risk Management*).

Principles of revenue recognition

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. Control is transferred to the buyer at the point of time.

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

The revenue of royalties from licenses is recognized according to the actual content of the contract at the point of time.

Apportioning of costs to functions

Costs are apportioned to functions according to the matching principle.

Leases

The parent company has rental agreement for office premises at Karvaamokuja 2B, Helsinki and minor other assets. 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 2.7 million (2019: EUR 4.2 million). In addition, the parent company has EUR 36.8 million (2019: EUR 31.6 million) research and development expenses and depreciations not deducted in taxation, whereof no deferred tax asset has been recognized.

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 month of acquisition |
| Development costs | 5 years from month of capitalization |
| Other capitalized expenditure | 5 years from year of capitalization |
| Leasehold improvements 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 financing income and costs.

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.

Hybrid capital securities

Hybrid capital securities is an equity-related instrument that is presented as a separate item in equity. Interest payments on hybrid capital securities are decided by the Board. Unpaid interest accumulated at the balance sheet date is presented in note 16. *Other commitments.*

NOTES TO THE INCOME STATEMENT

1. NET SALES BY MARKET AREA

| EUR | 2020 | 2019 |
|----------------|---------------------|---------------------|
| Finland | 2 432 052,63 | 2 742 375,86 |
| Rest of Europe | 1 214 151,04 | 1 596 088,03 |
| Other | 3 360 564,11 | 5 026 645,61 |
| Total | 7 006 767,78 | 9 365 109,50 |

2. OPERATING COSTS

| EUR | 2020 | 2019 |
|------------------------------|----------------------|----------------------|
| Other operating costs | | |
| External services | -1 832 280,68 | -2 153 629,70 |
| Depreciation | -1 221 521,35 | -1 424 148,88 |
| Other | -1 766 820,27 | -1 801 478,13 |
| Total | -4 820 622,30 | -5 379 256,71 |

Auditor's fees

| EUR | 2020 | 2019 |
|---|-------------------|-------------------|
| Principal auditor (Ernst & Young Oy) | | |
| Statutory auditing | -65 720,00 | -44 000,00 |
| Other auditing | -7 305,00 | -20 719,00 |
| Other services | -329,00 | -192,60 |
| Total | -73 354,00 | -64 911,60 |

3. PERSONNEL COSTS AND AVERAGE NUMBER OF EMPLOYEES

| EUR | 2020 | 2019 |
|---------------------------------|----------------------|----------------------|
| Wages and salaries | -5 507 723,65 | -4 865 593,85 |
| Pension costs | -765 499,67 | -886 875,37 |
| Other ancillary personnel costs | -184 601,46 | -220 415,32 |
| Total | -6 457 824,78 | -5 972 884,54 |

| | 2020 | 2019 |
|-----------------------------|------|------|
| Average number of employees | 66 | 63 |

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

| | 2020 | 2019 |
|--------------------------|-------------|-------------|
| Research and development | 47 | 43 |
| Sales and marketing | 13 | 11 |
| Administration | 13 | 10 |
| Total | 73 | 64 |

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

See note 24 in the consolidated financial statements.

6. DEPRECIATION AND IMPAIRMENT

| EUR | 2020 | 2019 |
|-------------------------------|---------------------|---------------------|
| Immaterial rights | 195 229,45 | 260 229,51 |
| Capitalized development costs | 977 883,03 | 1 119 307,90 |
| Machinery and equipment | 48 408,87 | 44 611,47 |
| Total | 1 221 521,35 | 1 424 148,88 |

In 2019, impairment of immaterial rights related to patents totaled EUR 49,811.32. In 2020, the company did not record any impairments.

7. FINANCIAL INCOME AND COSTS

| EUR | 2020 | 2019 |
|---|------------------|-------------------|
| Interest revenue | 56 284,71 | 68 791,00 |
| Received payments of impaired internal loan | 492 572,87 | 468 695,03 |
| Exchange rate gains and losses (net) | -460 208,29 | -21 681,83 |
| Interest and other financial costs | -5 691,10 | -742,47 |
| Total | 82 958,19 | 515 061,73 |

8. APPROPRIATIONS

| EUR | 2020 | 2019 |
|---|------------------|-----------------|
| Group contribution from SSH Technology Oy | 16 864,78 | 8 154,97 |
| Total | 16 864,78 | 8 154,97 |

NOTES TO THE BALANCE SHEET

9. INTANGIBLE AND TANGIBLE ASSETS AND LONG-TERM INVESTMENTS

| EUR | 2020 | 2019 |
|---------------------------------------|---------------------|---------------------|
| Immaterial rights | | |
| Acquisition cost 1 Jan | 13 806 553,00 | 12 631 531,34 |
| Increase | 1 039 879,33 | 1 175 021,66 |
| Decrease | - | - |
| Acquisition cost 31 Dec | 14 846 432,33 | 13 806 553,00 |
| Accumulated depreciation 1 Jan | 10 507 472,19 | 9 127 934,94 |
| Depreciation for the financial period | 1 175 994,55 | 1 379 537,25 |
| Accumulated depreciation on decreases | - | - |
| Accumulated depreciation 31 Dec | 11 683 466,74 | 10 507 472,19 |
| Book value 31 Dec | 3 162 965,59 | 3 299 080,81 |
| Machinery and equipment | | |
| Acquisition cost 1 Jan | 1 769 775,43 | 1 738 210,15 |
| Increase | 81 278,45 | 31 565,28 |
| Decrease | - | - |
| Acquisition cost 31 Dec | 1 851 053,88 | 1 769 775,43 |
| Accumulated depreciation 1 Jan | 1 685 726,20 | 1 641 114,73 |
| Depreciation for the financial period | 48 408,87 | 44 611,47 |
| Accumulated depreciation on decreases | - | - |
| Accumulated depreciation 31 Dec | 1 734 135,07 | 1 685 726,20 |
| Book value 31 Dec | 116 918,81 | 84 049,23 |
| Investments | | |
| Book value 1 Jan | 3 900 689,01 | 3 120 689,01 |
| Increase | - | 780 000,00 |
| Decrease | - | - |
| Book value 31 Dec | 3 900 689,01 | 3 900 689,01 |

The parent company has granted a subordinated loan in total of EUR 1,080,000 (2019: EUR 1,080,000) to Kyberleijona Oy. The capital and interest of the subordinated loan can only be repaid in circumstances permitted by Chapter 12 of the Finnish Limited Liability Companies Act. The capital of the subordinated loan can only be repaid to the extent the unrestricted shareholders' equity and the total amount of the subordinated loan at the time of the repayment exceeds the loss that is to be confirmed for the company's latest financial year or is included in the balance sheet of more recent financial statements. The annual interest for the loan is three per cent (3 %). As part of the cooperation agreement between SSH and State Security Networks Group Finland, SSH has strengthened the equity of Kyberleijona in 2018 by EUR 2,532,022.86.

10. RECEIVABLES FROM GROUP COMPANIES

| EUR | 2020 | 2019 |
|-------------------------------|---------------------|---------------------|
| Trade receivables | 5 311 364,78 | 8 116 531,15 |
| Group contribution receivable | 16 864,78 | 8 154,97 |
| Total | 5 328 229,56 | 8 124 686,12 |

11. PREPAID EXPENSES AND ACCRUED INCOME

| EUR | 2020 | 2019 |
|------------------|-------------------|-------------------|
| Prepaid expenses | 216 048,95 | 157 808,59 |
| Total | 216 048,95 | 157 808,59 |

12. OTHER RECEIVABLES

| EUR | 2020 | 2019 |
|-------------------|-------------------|------------------|
| VAT receivables | - | - |
| Other receivables | 317 283,49 | 56 156,56 |
| Total | 317 283,49 | 56 156,56 |

13. EQUITY

| EUR | 2020 | 2019 |
|--------------------------------------|----------------------|----------------------|
| Share capital 1 Jan | 1 164 066,99 | 1 164 066,99 |
| Increase in share capital | - | - |
| Share capital 31 Dec | 1 164 066,99 | 1 164 066,99 |
| Unrestricted invested equity fund | 22 720 155,85 | 22 720 155,85 |
| Hybrid capital securities | 12 000 000,00 | 12 000 000,00 |
| Retained earnings | -20 410 104,85 | -18 862 829,70 |
| Profit/loss for the financial period | -2 392 977,94 | -647 275,15 |
| Total | 13 081 140,05 | 16 374 117,99 |

| Statement on Distributable Funds, EUR | 2020 | 2019 |
|---------------------------------------|----------------------|-------------------|
| Retained earnings | -20 410 104,85 | -18 862 829,70 |
| Profit/loss for the financial period | -2 392 977,94 | -647 275,15 |
| Unrestricted invested equity fund | 22 720 155,85 | 22 720 155,85 |
| Capitalized development costs | -2 025 684,59 | -2 288 661,49 |
| Total | -2 108 611,53 | 921 389,51 |

14. HYBRID CAPITAL SECURITIES/SHAREHOLDERS' EQUITY

A hybrid capital security is an instrument that is subordinated to the Company's other debt obligations and it does not have a maturity date (i.e. it is perpetual). It is treated as equity in the financial statements. Hybrid capital securities do not confer to their holders any shareholder rights and do not dilute the holdings of the current shareholders.

Hybrid capital securities in the amount of EUR 12 million were issued in March 2015 and subscribed by institutional investors. 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 had the right to convert the capital loan into the Company's shares at EUR 4.76 per share until 30 March 2020.

Paid interest from hybrid capital securities reduces the amount of retained earnings. Unpaid interest from hybrid capital securities is presented in note 16. *Other commitments*. Paid interest in the financial year 2020 was EUR 900,000 (2019: EUR 900,000).

15. ACCRUED LIABILITIES AND DEFERRED INCOME

| EUR | 2020 | 2019 |
|-------------------|---------------------|---------------------|
| Personnel related | 1 159 848,13 | 980 770,73 |
| Accruals | 59 222,63 | 29 000,00 |
| Total | 1 219 070,76 | 1 009 770,73 |

16. OTHER COMMITMENTS

| EUR | 2020 | 2019 |
|--|-------------------|-------------------|
| Non-cancellable lease agreements for office facilities - future rent payments | | |
| Within one year | 262 020,78 | 243 907,27 |
| Within more than one year but no more than 5 years | 362 049,24 | 543 125,25 |
| Total | 624 070,02 | 787 032,52 |
| Guarantees given and other commitments | | |
| EUR | 2020 | 2019 |
| Rental guarantees (pledged) | 130 696,90 | 55 390,40 |
| Hybrid Loan, Interest | 1 035 000,00 | 675 000,00 |

17. GROUP COMPANIES

Parent and subsidiary relationships of the Group 31 December 2020

| Group companies | Domicile | Group holding, % | Votes, % |
|---|-----------------|-------------------------|-----------------|
| SSH Communications Security Oyj, Helsinki | Finland | | |
| SSH Communications Security Inc., New York City | USA | 100 | 100 |
| SSH Operations Oy, Helsinki | Finland | 100 | 100 |
| SSH Communications Security Ltd., Hong Kong | Hong Kong | 100 | 100 |
| Kyberleijona Oy, Helsinki | Finland | 65 | 65 |
| SSH Government Solutions Inc., New York City | USA | 100 | 100 |
| SSH Technology Oy, Helsinki | Finland | 100 | 100 |
| SSH Communications Security UK Ltd, London | United Kingdom | 100 | 100 |

DIVIDEND PROPOSAL AND SIGNATURES

DIVIDEND PROPOSAL

The parent company's distributable funds are EUR -2,108,611.53, of which the loss for the financial year is EUR -2,392,977.94. The Board of Directors proposes to the Annual General Meeting on 25 March 2021 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 retained earnings in the shareholders' equity.

SIGNATURES FOR THE FINANCIAL STATEMENTS AND REPORT OF THE BOARD OF DIRECTORS

Helsinki, 17 February 2021

Henri Österlund
Chairman of the Board of Directors

Sampo Kellomäki
Member of the Board of Directors

Aino-Mari Kiiänmies
Member of the Board of Directors

Kai Tavakka
Member of the Board of Directors

Tatu Ylönen
Member of the Board of Directors

Teemu Tunkelo
Chief Executive Officer

AUDITOR'S NOTE

Our auditors' report has been issued today.

Helsinki, 17 February 2021

Ernst & Young Oy
Authorized Public Accountants

Erkka Talvinko
Authorized Public Accountant