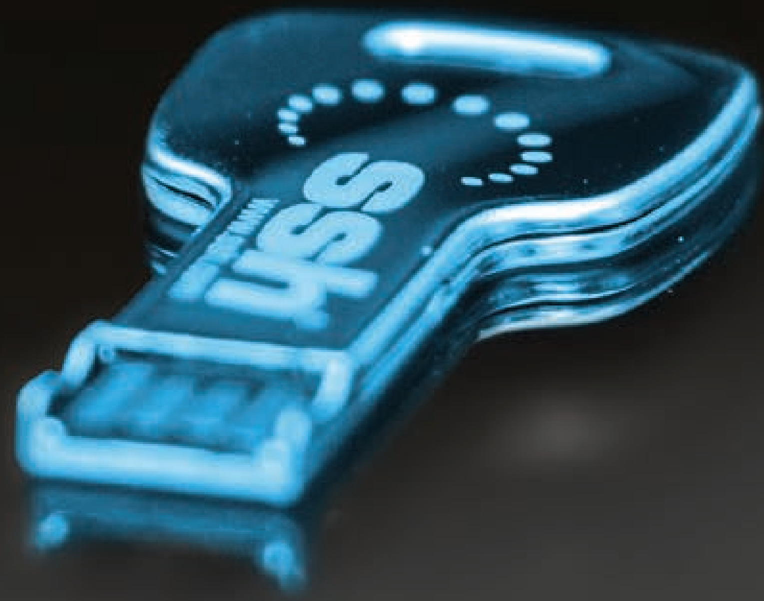
Annual Report **2013**



SECURING THE PATH

to your information assets

Contents

SSH Communications Security **In Brief**

SSH Communications Security is the market leader in developing advanced security solutions to meet today's business, security, and compliance requirements in encrypted networks. The company offers encryption, centralized management and access control, and privileged identity management solutions designed to help enterprises defend against a growing threat landscape while meeting complex compliance requirements. A global organization, the company has offices in Helsinki, Finland; Boston, USA; Frankfurt, Germany; and Hong Kong with staff representing over 20 nationalities. The company shares are quoted on the NASDAQ OMX Helsinki under the ticker symbol SSH1V.

KEY FIGURES		**2013**	2012
Net sales	KEUR	**13,343**	11,920
Operating profit / loss	KEUR	**172**	1,083
% of net sales	%	**1.3**	9.1
Profit / loss before taxes	KEUR	**155**	1,130
Earnings per share	EUR	**-0.00**	0.04
Gearing	%	**-80.1**	-105.2
Equity ratio	%	**76.6**	70.0
Personnel (year end)		**99**	70

Year 2013 in Brief

Sales
growth 2013
+12%

Year 2013 Established SSH Communications Security as a Thought Leader in Rapidly Growing Cybersecurity Marketplace

- Emerged as the market leader in key management, encryption, and server access control.
- Moderate sales growth every quarter; FY2013 +12%, Q4 +13%.
- Positive EBIT and net profit; full year EBIT and net profit 1%, Q4 EBIT 14%.
- Positive cash flow from operations.
- Further strengthening the organization for future growth; personnel +41% YoY.
- Ramped up German presence with a new office in Frankfurt, Germany.

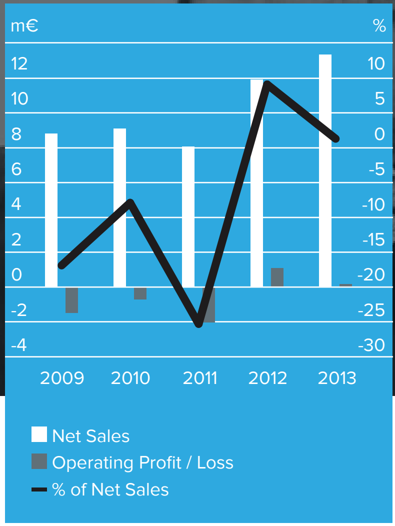
FINANCIAL PERFORMANCE

- 2013 was a year of further building levers for future growth. The company´s annual revenue was in total EUR 13.3 million (EUR 11.9 million) representing a growth of 11.9%. EBIT was EUR 0.2 million (EUR 1.1 million), 1% of revenues (9%).
- Earnings per share was EUR -0.00 (EUR 0.04). Cash flow from operations was EUR 0.4 million positive (EUR 1.3 million).
- Total operating expenses were EUR 11.4 million (EUR 10.0 million), an increase of EUR 1.4 million due to further investing in future growth. There were EUR 0.0 million of extraordinary costs (EUR -0.4 million).
- In 2013, the sales were geographically divided as follows: Americas 39.6% (50.6%), EMEA 49.5% (36.1%), and APAC 10.9% (13.2%).
- Further information on the key financial figures is presented in the Financial Statements section of this Annual Report.

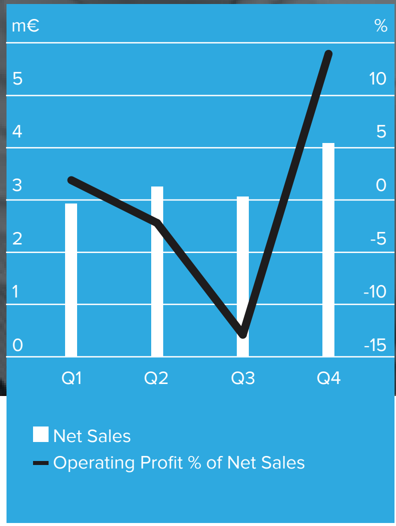
SALES AND MARKETS

In 2013, sales grew by 11.9% as buying drivers became more solidified and overall awareness of security risks associated with poor Secure Shell access controls and privileged identity management became more broadly recognized. The primary objectives for new license sales were to accelerate penetration into the financial services sector with Universal SSH Key Manager and identify

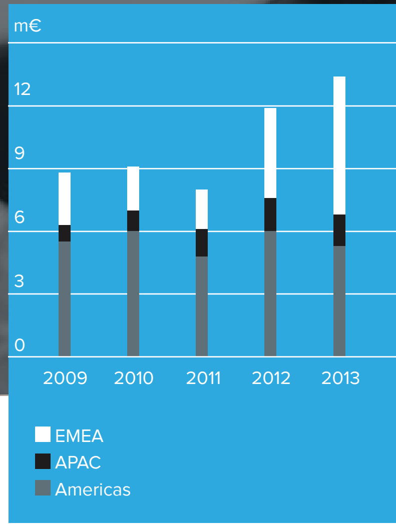
YEARLY DEVELOPMENT 2009–2013



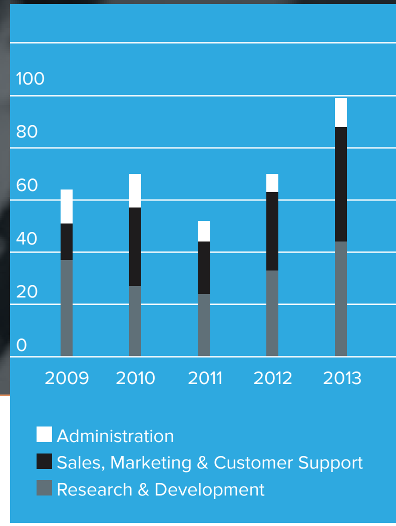
QUARTERLY DEVELOPMENT 2013



REGIONAL NET SALES SPLIT



PERSONNEL 2013 (AS OF 31 DEC)



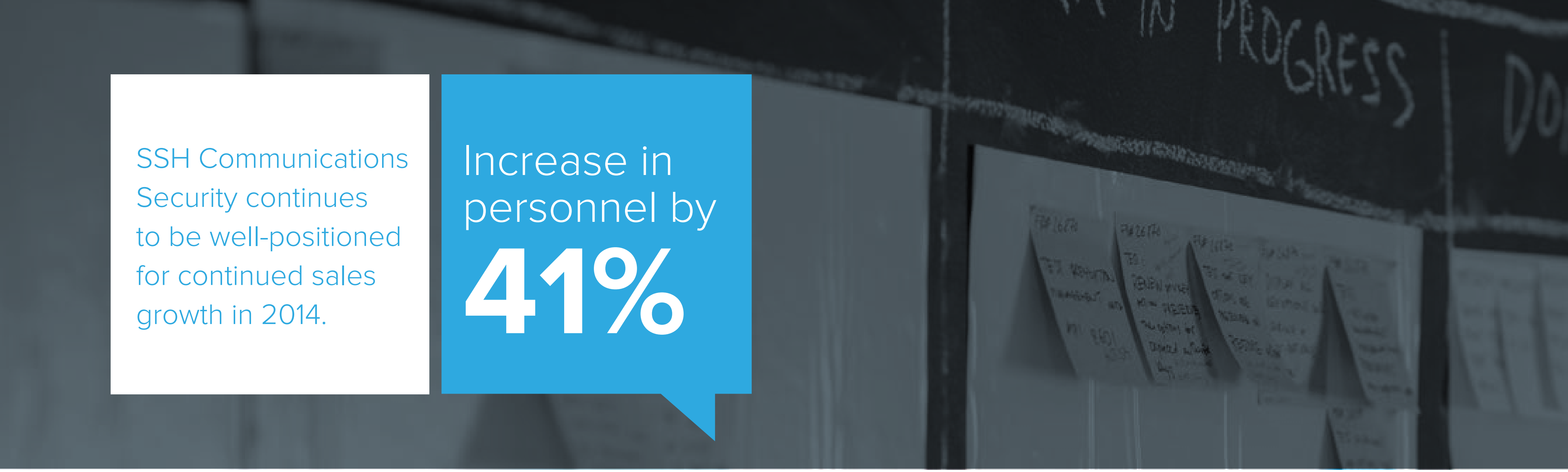
and acquire the first significant customers for CryptoAuditor. Especially in Q4, we saw a number of deals that support our approach in the marketplace. In addition, we were able to improve our customers' business processes, streamline our renewal operations, and see additional growth within our existing client/server customer base through our licensing compliance program.

Major deliveries of Universal SSH Key Manager continued with financial institutions providing strong revenue in the professional services area. New Universal SSH Key Manager license sales were slower than anticipated but still in line with a developing market segment. In 2013, compliance mandates that are favorable to our business, such as PCI DSS version 3, were not yet in place. In 2014, PCI DSS version 3 and other compliance requirements will begin to take effect and should accelerate deal closure. Other factors that impacted Universal SSH Key Manager sales were additional customer requirements and product development items as we continue to tackle complexities within our customers' environment.

The first significant CryptoAuditor deals were closed in 2013 including a USD 1.3 million deal with a large European integrator. The pipeline for CryptoAuditor continues to grow rapidly due, in part, to recent high-profile breaches, the need to enable security intelligence in encrypted channels, and the compliance requirements.

The company operates globally with regional headquarters based in Helsinki, Finland (EMEA); Boston, MA (AMER); and Hong Kong (APAC). AMER made 39.6% of the revenue in 2013 and the pipeline development continues to be strong as the company engages with some of the top banks and financial institutions, cloud service providers, government agencies, and other F500 companies. Deal closure has been slower than anticipated in the AMER region due to deal size, project scope, and the lack of compliance drivers, many of which take effect in 2014. Management changes and organizational restructuring, including consolidating financial operations into the Boston office, helped to streamline operations and improve market development in the second half of the year and should continue to bear fruit in 2014. EMEA had the highest growth making 49.5% of the revenue and delivered the strongest new license sales for Universal SSH Key Manager and CryptoAuditor. We also ramped up our DACH (Germany, Austria, and Switzerland) presence with a new office in Frankfurt, Germany. A presence in continental Europe and the ability to provide local support to customers and channel partners are crucial elements for future growth in the region. APAC deal closure was slower than expected making 10.9% of the revenue, as effort was spent building market awareness among target customers and pipeline. Despite the slight decline in overall performance, revenue increased in Singapore and Japan where SSH sees the highest level of future opportunity in the short and mid-term for its solutions. Pipeline growth continues to be healthy in APAC in particular in Singapore where new compliance mandates will require financial customers to address access-related issues in their production environments.

The company continues working in a mixed sales model dependent upon the region. EMEA runs primarily in a channel



SSH Communications Security continues to be well-positioned for continued sales growth in 2014.

Increase in personnel by **41%**

partner model, working with key integrator and value added resellers that have experience in the identity access governance and secure file transfer space and customer bases in the financial services sector. APAC works fully in a channel model via key distributors, value added resellers, and integrators to reach its key target focus markets. AMER runs via a direct model for enterprise sales and through the channel for federal government sales. AMER works with channel partners as required for fulfillment purposes and specialized partners for the company's mainframe offering.

In 2013, we began to see interest in possible OEM partnerships for the Universal SSH Key Manager and CryptoAuditor. These partnerships are currently being evaluated in terms of their ability to provide greater customer value and the potential of a more rapid growth curve for SSH Communications Security. It is expected in 2014, as our technology matures, that the number of both technology partnerships and channel partnerships will grow.

TECHNOLOGIES AND PRODUCTS

In 2013, Research and Development focused their efforts on Universal SSH Key Manager and CryptoAuditor while continuing to maintain and develop our core solutions and drive customer satisfaction and retention. With our new products, we have partnered with our initial launch customers to more fully understand their use cases, work flows, business requirements, and complexities of their enterprise architecture in order to build a market leading product. Having been involved in the largest Secure Shell key remediation and deployment projects in the world has given our R&D team great insight into what customers need and want.

Due to new compliance requirements, high-profile security incidents, and overall awareness, we are expecting Secure Shell key management and access control issues to become more urgent during 2014. As the inventor of the Secure Shell protocol, we are uniquely positioned to provide the market with full lifecycle solutions that allow our customers to meet or exceed their security, compliance, and business objectives.

MARKET VIEW

SSH Communications Security continues to be well-positioned for continued sales growth in 2014. Newly published compliance drivers around Secure Shell access management and governance from Payment Cards Industry Standards, Monetary Authority of Singapore, as well as the National Institute of Standards and Technology in the United States have established a firm degree of urgency for commercial and public sector entities to address the risks related to Secure Shell access and continuous monitoring and control of encrypted communications. Highly regulated industries such as the financial services, telecommunications, energy, high-tech information technology, and public sector will have the highest pressure to address these issues in the short and medium term. With the recent highly publicized breaches of commercial and public sector entities, we see a noticeable uptick in inbound queries related to Secure Shell access management, suggesting the issues related to the topic are no longer confined to the world of Unix administrators but rather gaining mainstream acceptance from security executives. We have the unique opportunity to capitalize on this development and continue to embed ourselves as the thought and technology leader in this space into 2014 and beyond.

CEO Letter

DEAR CUSTOMERS, PARTNERS, EMPLOYEES, AND SHAREHOLDERS,

First of all, I would like to thank everyone for making 2013 a successful year for SSH Communications Security. Despite the generally challenging economic environment, growth in the cybersecurity market continues to be strong, and the demand for advanced cybersecurity solutions is expected to continue to increase over the next 5 years and beyond. The strength in the cybersecurity market overall as well as our continued success in acquiring new customers and expanding deployments within our current customer base resulted in a 12% year-over-year increase in revenue and an increase in personnel by 41%. In addition, 2013 was profitable with positive operational cash flow even with heavy investments into market awareness and R&D in support of our new solutions.

In many ways, 2013 was a year when our new solutions (Universal SSH Key Manager and CryptoAuditor) and the market matured, and we are now seeing growing market interest and acceptance. We invested heavily into marketing, product development, quality control, and customer services in 2013, which has laid

Demand for advanced cybersecurity solutions is expected to continue to increase over the next 5 years and beyond.

the groundwork for 2014. From a momentum standpoint, we closed several significant deals with some of the largest financial institutions and system integrators in the world, and we are seeing new market opportunities emerge in the management of machine-to-machine identities, privileged access, and encryption in large IT environments.

One of the more interesting – and disturbing – trends in 2013 was the growth in nation-state sponsored cyber attacks and cyber espionage. It is now evident that many governments are engaged in widespread hacking of both friend and foe alike. Where in the past attacks were coming from criminal organizations, malicious insiders, and a handful of known nation-state actors, today the threat landscape is now truly multi-dimensional. From a market perspective, enterprises and governments alike are looking for ways to enhance their security posture to defend against these new threats.

As the inventor of the Secure Shell protocol and a recognized leader in encryption, key management, access controls, and privileged identity management, we are well positioned to benefit from these new trends. In addition, our patent portfolio is well positioned to both ensure our market leadership as well as engage with other technology providers with patent licensing agreements.

In 2014, I believe we will continue to enhance our position as a market leader in the cybersecurity marketplace, to grow our reputation as a trusted vendor for all of our customers, and to serve an increasing number of customers with quality products and services.

I wish everyone a prosperous year ahead!

Tatu Ylönen, CEO

Board of Directors

The Annual General Meeting held on 20 March 2013, elected Päivi Hautamäki, Sami Ahvenniemi, and Tatu Ylönen as members of the Board of Directors. Sami Ahvenniemi was the Chairman of the Board of Directors until 31 July 2013. From 1 August 2013 onwards, Päivi Hautamäki was elected as the Chairman of the Board of Directors.

The minority of the Board members are independent of the company. Päivi Hautamäki is deemed to be an independent Board member. Not independent of the company are the Board members Tatu Ylönen and Sami Ahvenniemi. Tatu Ylönen is the CEO and the largest shareholder, who owns directly and through his holdings about 57.7% of SSH Communications Security shares. From 12 August 2013 onwards, Sami Ahvenniemi is the CEO and President of the America operations (and a member of the Group Management team).

After Sami Ahvenniemi joined the company, SSH Communications Security deviates the recommendation 14 (the amount of independent board members) of The Finnish Corporate Governance Code. The main reasons for deviation are ownership structure of the company and importance of the U.S. operations and markets for the company at this stage.

PÄIVI HAUTAMÄKI
born 1964, LL.M.

- Board member since 2012
- Chairman of the Board since 2013
- General Counsel at Eltel Group

Päivi Hautamäki has extensive experience in energy, IT, and industrial field. She is the General Counsel at Eltel Group. Prior to joining the company in 2012, she was the General Counsel at Winwind Ltd, a wind turbine manufacturer, the General Counsel at F-Secure Corporation, an anti-virus and computer security and computer software company, and the Legal Counsel at Fortum Oyj, a Finnish energy company. Ms. Hautamäki does not own any SSH shares.

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

- Board member since 2012
- CEO and President, Americas, since 2013

Sami Ahvenniemi heads the company's operations across the Americas. A seasoned business executive and former venture capitalist, Mr. Ahvenniemi brings over 15 years of experience leading high-technology companies as CEO, board member, and investor. Prior to joining the company, he was a partner and co-founder at Conor Venture Partners where he led investments into and served on the board of number of leading technology companies including Neo Technology, Sensinode, and Behaviometrics. Prior to this, he held a number of executive level positions in sales and product management at SSH Communications Security and was the founding CEO of the company's Americas division. Mr. Ahvenniemi has 250,000 option rights.

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

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

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

Executive Management Team

TATU YLÖNEN

CEO and President

born 1968,
Lic.Sc. (Technology)

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

JYRKI LALLA

Chief Financial Officer (CFO)

born 1964,
M.Sc. (Economics)

Jyrki Lalla is responsible for financial management, treasury, human resources, corporate development, and corporate governance. He also acts as Secretary to the Board of Directors. Prior to joining the company in February 2012, Mr. Lalla held several senior financial management positions at Nokia Corporation and Nokia Siemens Networks in Finland, Italy, Great Britain, and Germany. Mr. Lalla owns 100,000 SSH shares and has 150,000 option rights.

MATTHEW MCKENNA

Chief Operating Officer & Executive Vice President

born 1973,
B.A., MBA

Matthew McKenna is responsible for sales and marketing globally. Prior to joining the company, Mr. McKenna served as a member of executive management team of ADP Dealer Services Nordic and Automaster Oy where he was responsible for international channel operations and manufacturer relations. In addition, he was responsible for key accounts including Mercedes Benz, General Motors, and Scania CV. Mr. McKenna owns 25,000 SSH shares directly, 7,000 SSH shares through holding of interest parties, and has 300,000 option rights.

KALLE JÄÄSKELÄINEN

Vice President, Product Management and Services

born 1977,
B.A. (Science)

Kalle Jääskeläinen is responsible for Product Management and Customer Services globally, for delivering high performance solutions and services that enable customers to protect their data. He has previously held several key management positions in R&D and product management and has over ten years of experience in the information security and communications network industry. Mr. Jääskeläinen owns 10,000 SSH shares and has 300,000 option rights.

SAMI AHVENNIEMI

CEO and President, Americas

born 1972,
M.Sc. (Technology)

Sami Ahvenniemi heads the company's operations across the Americas. A seasoned business executive and former venture capitalist, Mr. Ahvenniemi brings over 15 years of experience leading high-technology companies as CEO, board member, and investor. Prior to joining the company, he was a partner and co-founder at Conor Venture Partners where he led investments into and served on the board of number of leading technology companies including Neo Technology, Sensinode, and Behaviometrics. Prior to this, he held a number of executive level positions in sales and product management at SSH Communications Security and was the founding CEO of the company's Americas division. Mr. Ahvenniemi has 250,000 option rights.

ANTTI HUIMA

CTO & Vice President, Engineering

born 1975
M.Sc. (Technology)

Antti Huima is responsible for the global R&D and directs the company's technology strategy. Prior to joining SSH, he served as CTO, CEO, and inside director at Conformiq, a Silicon Valley based software test design automation company. Before joining Conformiq, Mr. Huima was Research Manager at SSH Communications Security leading contribution to the software architecture. Mr. Huima has lectured cryptography, computer security, and theory of testing on university level and has served several academic program committees. Mr. Huima does not own any SSH shares but has 30,000 option rights.

MIKA LAUHDE

VP, Government Relations and Business Development

born 1964
B.A. (Science)

Mika Lauhde is responsible for government relations and business development. Prior to joining SSH Communications Security, Mr. Lauhde headed the Business Security and Continuity in Nokia Corporation where he was responsible for government relations in the IT security space. Mr. Lauhde has extensive experience in security-related topics and governmental institutions both in Europe and the USA. Currently, he is a member of ENISA (European Network and Information Security Agency) Permanent Stakeholder Group, the European Cyber Security Research Center, and the Finnish Government Cyber Security working group. Mr. Lauhde does not own any SSH shares nor option rights.

Financial Statements 2013

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REPORT OF THE BOARD OF DIRECTORS FOR 1 JAN–31 DEC 2013

NET SALES EUR million	10–12/ 2013	7–9/ 2013	4–6/ 2013	1–3/ 2013	1–12/ 2013	10–12/ 2012	1–12/ 2012
GEOGRAPHICAL SEGMENT							
Americas (AMER)	1.3	1.3	1.4	1.3	5.3	1.8	6.0
Asia and the Pacific (APAC)	0.4	0.3	0.3	0.4	1.5	0.4	1.6
Europe, Middle East, and Africa (EMEA)	2.4	1.4	1.6	1.2	6.6	1.5	4.3
SSH Communications Security Group Total	**4.1**	**3.1**	**3.3**	**2.9**	**13.3**	**3.6**	**11.9**
BY OPERATION							
License Sales	1.9	0.7	1.0	1.0	4.6	1.4	5.0
Consulting	0.8	0.9	0.8	0.5	3.0	0.6	0.6
Maintenance	1.4	1.4	1.4	1.5	5.6	1.6	6.3
Total	**4.1**	**3.1**	**3.3**	**2.9**	**13.3**	**3.6**	**11.9**

FUTURE OUTLOOK

SSH Communications Security estimates its revenue to grow significantly and profitability to improve. During the first half of the year, sales growth can be smaller with possibilities for losses due to timing of sizeable deals.

NET SALES

Consolidated net sales for January-December totaled EUR 13.3 million (EUR 11.9 million), up by 11.9%, year on year. Sales growth was due to strong sales growth of Universal SSH Key Manager and CryptoAuditor, especially in EMEA. Consulting sales around new solutions grew remarkably. Longer than anticipated sales cycles impacted license sales growth. Negative development in maintenance revenue was mainly caused by cleaning customer maintenance contracts during 2012 (additional maintenance revenue in 2012) and the weakening of U.S. dollar. Customers in AMER and APAC started to move to new solutions more slowly than anticipated. The majority of SSH Communications Security's invoicing is U.S. dollar based. During the reporting period, the U.S. dollar's average exchange rate to euro weakened approximately -3.3% compared to the same period a year ago. With comparable exchange rates, 2013 net sales growth would have been +13.8% compared with 2012 corresponding period.

PROFIT AND PROFITABILITY TRENDS

Operating profit for January–December amounted to EUR 0.2 million (EUR 1.1 million), with net profit totaling EUR 0.2 million (EUR 1.1 million). The company was profitable despite heavy investments in R&D and market creation.

Sales, marketing, and customer support expenses for the January-December reporting period amounted to EUR -6.9 million (EUR -5.9 million), while research and development expenses totaled EUR -3.0 million (EUR -2.7 million), and administrative expenses EUR -1.5 million (EUR -1.4 million).

Non-recurring items during January-December were EUR 0.0 million (EUR -0.4 million).

BALANCE SHEET AND FINANCIAL POSITION

The financial position of SSH Communications Security remained strong during the reporting period. The consolidated balance sheet total on 31 December 2013 stood at EUR 13.5 million (EUR 12.5 million; 31 December 2012), of which liquid assets accounted for EUR 6.0 million (EUR 6.6 million), or 44.3% of the balance sheet total. On 31 December 2013, gearing, or the ratio of net liabilities to shareholders' equity, was -80.1% (-105.2%) and the equity ratio stood at 76.6% (70.0%). During 2013, SSH Management Investment Ltd., which was established for the share incentive plan of previous management team, has been liquidated (Extraordinary general meeting 23 December 2013). SSH Management Investment sold all shares (4.7%) of SSH Communications Security, paid back the loan it had taken for acquiring these shares and is no longer consolidated to SSH Communications Security. Due to the transaction, fund for own shares is released which increases equity per share by EUR 0.03, and the parent company has recorded EUR 0.1 million gain.

The reported gross capital expenditure for the period totaled EUR 2.0 million (EUR 1.2 million). The reported financial income and expenses consisted mainly of interest on deposits and exchange rate gains or losses. Financial income and expenses totaled EUR -0.0 million (EUR 0.0 million).

During January-December, SSH Communications Security reported a cash flow of EUR 0.4 million (EUR 1.3 million) from business operations, and investments showed a negative cash flow of EUR -2.0 million (EUR -1.2 million). Cash flow from financing totaled EUR -1.2 million (EUR 4.1 million). Total cash flow was EUR -2.8 million (EUR 4.2 million) largely due to EUR 2.0 million investment made on fixed income fund.

RESEARCH AND DEVELOPMENT

Research and development expenses for January-December totaled EUR -3.0 million (EUR -2.7 million), the equivalent of 22.3% of net sales (22.7%).

In the reporting period, the research and development cost capitalizations amount to EUR 1.6 million (EUR 1.1 million).

RISKS AND UNCERTAINTIES

The largest risks that might impact the profitability of the company are listed below. Other risks, which are currently either unknown or considered immaterial to the company, may, however, become material in the future. The largest risks:

- Continuing uncertainty of the macroeconomic environment.
- Delays in product development and closing new business.
- Competitiveness of the product portfolio including intellectual property (IPR).
- Litigation, especially in the U.S. market.
- Competitive dynamics in the industry.
- Ability of the organization to scale up operations with the growth.
- A large portion of the company revenue is invoiced in U.S. dollars so possible large fluctuations in the U.S. dollar rates during 2014 could have unpredictable effects for profitability that are at the time difficult to estimate. Currently the U.S. dollar position is not hedged, and the company decides hedging of the U.S. dollar based contracts case by case.

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

HUMAN RESOURCES AND ORGANIZATION

The group had 99 (70) employees as at the end of December, up by 29 persons or 41% on the previous year. Of the employees, 61 were based in Finland, 3 in Germany, 27 in the USA, and 8 in Hong Kong.

The average age of the employees was 38.7 years. 19% of the employees were women and 81% men. At the end of the period under review, 44% of the employees worked in research and development, 43% in sales, marketing, and customer support, and 13% in corporate administration.

Tatu Ylönen is the CEO. During 2013, Group Management Team of SSH Communications Security was strengthened by appointments of Sami Ahvenniemi, President and CEO, Americas; Mika Lauhde, Vice President, Government Relations and Business Development; and Antti Huima, Chief Technology Officer and Vice President, Engineering.

At the end of the reporting period, the parent company had 61 (45) employees on its payroll, on average 53 (40) employees during the period under review. Parent company salaries, bonuses, and other personnel expenses during the financial period totaled EUR 3.1 million (3.4 million).

BOARD AND AUDITORS

The Annual General Meeting (AGM) on 20 March 2013 elected Päivi Hautamäki, Sami Ahvenniemi, and Tatu Ylönen as the directors of the company. Sami Ahvenniemi was elected as the Chairman of the Board of Directors in the board's organizing meeting. As announced on 5 July 2013, SSH Communications Security has appointed M.Sc. (Technology) Sami Ahvenniemi to a member of the Group Management Team responsible for operations in the North and South America from 12 August 2013. Ahvenniemi has continued as a member of the Board. The Chairman of the Board of Directors of SSH Communications Security is Päivi Hautamäki from 1 August 2013 onwards. The Authorized Public Accountants KPMG Oy Ab was re-elected as the auditor of the company, with Kirsi Jantunen, authorized public accountant, as the principal auditor.

PRINCIPAL PROVISIONS OF THE ARTICLES OF ASSOCIATION

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

CORPORATE GOVERNANCE

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

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

SHARES, SHAREHOLDING, AND CHANGES IN GROUP STRUCTURE

The reported trading volume of SSH Communications Security Corporation shares totaled 9,872,101 (valued at EUR 20,848,204). The highest quotation was EUR 4.50 and the lowest EUR 0.75.

The trade-weighted average share price for the period was EUR 2.11 and the share closed at EUR 2.91 (30 December 2013).

The company's principal owner, Tatu Ylönen, holds directly and through his company, Clausal Computing Oy, currently 57.7% of the company's shares, Assetman Oy holds 11.2%, and Gaselli Capital 4.1%. More information about the shareholding can be obtained from the company's website. The company has the subsidiaries SSH Communications Security Inc. in the USA, SSH Communications Security Ltd in Hong Kong, and SSH Communications Security Operations Oy and SSH Communications Security Solutions Oy in Finland. SSH Communications Security Operations Oy has a branch in Germany.

SSH Management Investment Ltd. has been liquidated (AGM 23 December 2013) and is no longer consolidated to SSH Communications Security.

THE TEN LARGEST SHAREHOLDERS

as of 31 December 2013, Excluding Nominee-Registered	%	Shares
Ylönen Tatu	45.3	13,919,048
Clausal Computing Oy	12.4	3,808,650
Assetman Oy	11.2	3,450,000
Gaselli Capital Oy	4.1	1,250,000
Maijos Oy	3.8	1,176,247
Autocarrera Oy Ab	1.6	500,000
Siltanet Oy	0.8	240,000
Syrjälä Timo Kalevi	0.7	230,000
Pulli Anita Irmeli	0.7	207,610
Poutanen Jukka Tapani	0.6	180,000
Total	**81.2**	**24,961,555**
Nominee-registered	0.31	104,470

INFORMATION ON SHAREHOLDERS

DISTRIBUTION OF OWNERSHIP BY SECTOR

Type of sector	No. of shares	Percentage of shares and votes, %
Companies	10,750,736	34.96
Financial and insurance institutions	141,559	0.46
Households and private individuals	19,713,677	64.11
Non-profit organizations	86,500	0.28
Foreign shareholders	58,511	0.19
Total	**30,750,983**	**100.00**

DISTRIBUTION OF HOLDINGS BY NUMBER OF SHARES

Shares	No. of shareholders	Percentage of shareholders, %	Total no. of shares	Percentage of shares, %
1–100	1,487	38.09	83,677	0.27
101–500	1,038	26.59	315,717	1.03
501–1,000	514	13.17	431,305	1.40
1,001–5,000	585	14.98	1,407,246	4.58
5,001–10,000	112	2.87	810,684	2.64
10,001–50,000	135	3.46	1,672,017	5.44
50,001–100,000	17	0.44	652,202	2.12
100,001–500,000	11	0.28	1,774,190	5.77
500,001–999,999,999	5	0.13	23,603,945	76.76
Total	**3,904**	**100.00**	**30,750,983**	**100.00**
of which nominee-registered	6		104,470	0.34

SHARE CAPITAL AND BOARD AUTHORIZATIONS

The registered share capital of SSH Communications Security Corporation as of 31 December 2013 was EUR 922,529, divided into 30,750,983 shares.

Share Subscriptions Using Option Certificates from the Company Stock Option Plans in 2013 and 2012 (no. of shares):	2013	2012
I/1999 option plan class C option certificates		
I/1999 option plan class D option certificates		
I/1999 option plan class E option certificates		375
I/1999 option plan class F option certificates		1,525
I/1999 option plan class G option certificates		1,650
I/1999 option plan class H option certificates		925
Total	**0**	**4,475**

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon the issuing of 6,000,000 shares in total, in one or more tranches, as share issues against payment or by giving stock options or other special rights entitling to shares, as defined in Chapter 10 Section 1 of the Finnish Companies Act, either in accordance with the shareholders' pre-emptive right to share subscription or deviating from this right. The authorization will be valid until the next Annual General Meeting, but will expire on 30 June 2014 at the latest. The Board of Directors decided on 4 June 2013 an option plan I/2013 of maximum 1,700,000 options, each of which entitles to subscribe one share at a price of EUR 1.66.

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon the acquiring of a maximum of 2,000,000 of the company's own shares, in one or more tranches, with assets belonging to the company's non-restricted equity. This amount corresponds approximately to 6.55% of all shares of the company. The compensation to be paid for the acquired shares shall be determined on the date of acquisition on the basis of the trading rate determined for the company's share in the public trading arranged by NASDAQ OMX Helsinki Ltd. The authorization to acquire the shares will be valid at most for eighteen (18) months after the decision of the Annual General Meeting.

SHARE-BASED PAYMENTS

The share-based payments of SSH Communications Security are stock options. Stock option programs have been in effect in the reporting period or in the comparison year from the years 1999, 2000, 2002, 2012, and 2013.

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 20 in the consolidated financial statements.

RELATED PARTY TRANSACTIONS

Clausal Computing Oy, a wholly-owned company of SSH Communications Security Corporation's CEO Tatu Ylönen, has delivered the company mainly R&D services valued in total EUR 0.4 million during January-December 2013. During the reporting period, there has not been any other significant transactions with related parties.

Hybrid capital securities (EUR 4.0 million) of the company was subscribed by CEO Tatu Ylönen 2012.

EVENTS AFTER THE BALANCE SHEET DATE

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

DIVIDEND AND OTHER DISTRIBUTION OF ASSETS

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

FINANCIAL INDICATORS

	1 Jan 2013– 31 Dec 2013	1 Jan 2012– 31 Dec 2012	1 Jan 2011– 31 Dec 2011
Net sales, EUR	13,343,060	11,919,987	8,058,571
Operating profit/loss, EUR	172,187	1,083,334	-2,036,349
% of net sales	1.3	9.1	-17.1
Profit/loss before taxes, EUR	155,193	1,130,210	-2,172,958
% of net sales	1.2	9.5	-27.0
Return on equity, %	2.2	30.9	-110.0
Return on investments, %	1.9	28.1	-99.6
Net interest-bearing debt, EUR	-5,959,951	-6,577,651	-2,495,335
Gearing, %	-80.1	-105.2	-230.0
Equity ratio, %	76.6	70.0	36.2
Gross investments in tangible and intangible assets, EUR	2,031,791	1,185,655	709,944
% of net sales	15.2	9.9	8.8
Research and development costs, EUR	2,970,651	2,703,540	2,518,805
% of net sales	22.3	22.7	31.3
Research and development costs without investments, EUR	4,029,998	3,646,148	3,092,979
% of net sales	30.2	30.6	38.4
Personnel on average	85	61	61
Personnel at the end of the period	99	70	52
Salaries and fees, EUR	6,652,704	4,338,157	5,040,780

INDICATORS PER SHARE

	1 Jan 2013–31 Dec 2013	1 Jan 2012–31 Dec 2012	1 Jan 2011–31 Dec 2011
Earnings per share, EUR	-0.00	0.04	-0.07
Earnings per share, considering dilution effect, EUR	-0.00	0.04	-0.07
Equity per share[1], EUR	0.24	0.20	0.03
Dividends, EUR	0	0	0
Dividends per share, EUR	0.00	0.00	0.00
Dividend pay-out ratio, %	0	0	0
Effective dividend yield, %	0	0	0
Return of capital, EUR	0	0	0
Return of capital per share, EUR	0	0	0
Adjusted average number of shares during the period, 1,000	30,751	30,552	30,549
Adjusted average number of shares at the end of the period, 1,000	30,751	30,751	30,549
Adjusted average number of shares considering dilution effect, 1,000	33,946	30,754	30,563
Price per earnings ratio (P/E)	neg.	19.5	-4.2
Market capitalization at the end of the period, EUR million	89.5	23.4	9.2

	1 Jan 2013–31 Dec 2013	1 Jan 2012–31 Dec 2012	1 Jan 2011–31 Dec 2011
Share performance on the Helsinki Stock Exchange, EUR			
Average price	2.11	0.50	0.51
Share price, year end	2.91	0.76	0.30
Lowest quotation	0.75	0.30	0.29
Highest quotation	4.50	0.90	0.89
Volume of shares traded, millions	9.9	6.4	2.3
Volume of shares traded, % of total number	33.4	20.7	7.5
Volume of shares traded, EUR million	20.8	3.2	1.2

[1] equity per share is impacted by unpaid interest of hybrid capital securities

CALCULATION OF FINANCIAL RATIOS

Return on Equity, % (ROE) $= \dfrac{\text{Profit / loss for the financial period}}{\text{Equity (average during the financial period)}} \times 100$

Return on Investment, % (ROI) $= \dfrac{\text{Profit / loss before taxes + interest and other financial costs}}{\text{Balance sheet total – non-interest bearing debts (average during financial period)}} \times 100$

Equity Ratio, % $= \dfrac{\text{Equity}}{\text{Balance sheet total – advance payments received}} \times 100$

Earnings Per Share (EPS) $= \dfrac{\text{Profit / loss for the financial period}}{\text{Average number of outstanding shares during the financial period}}$

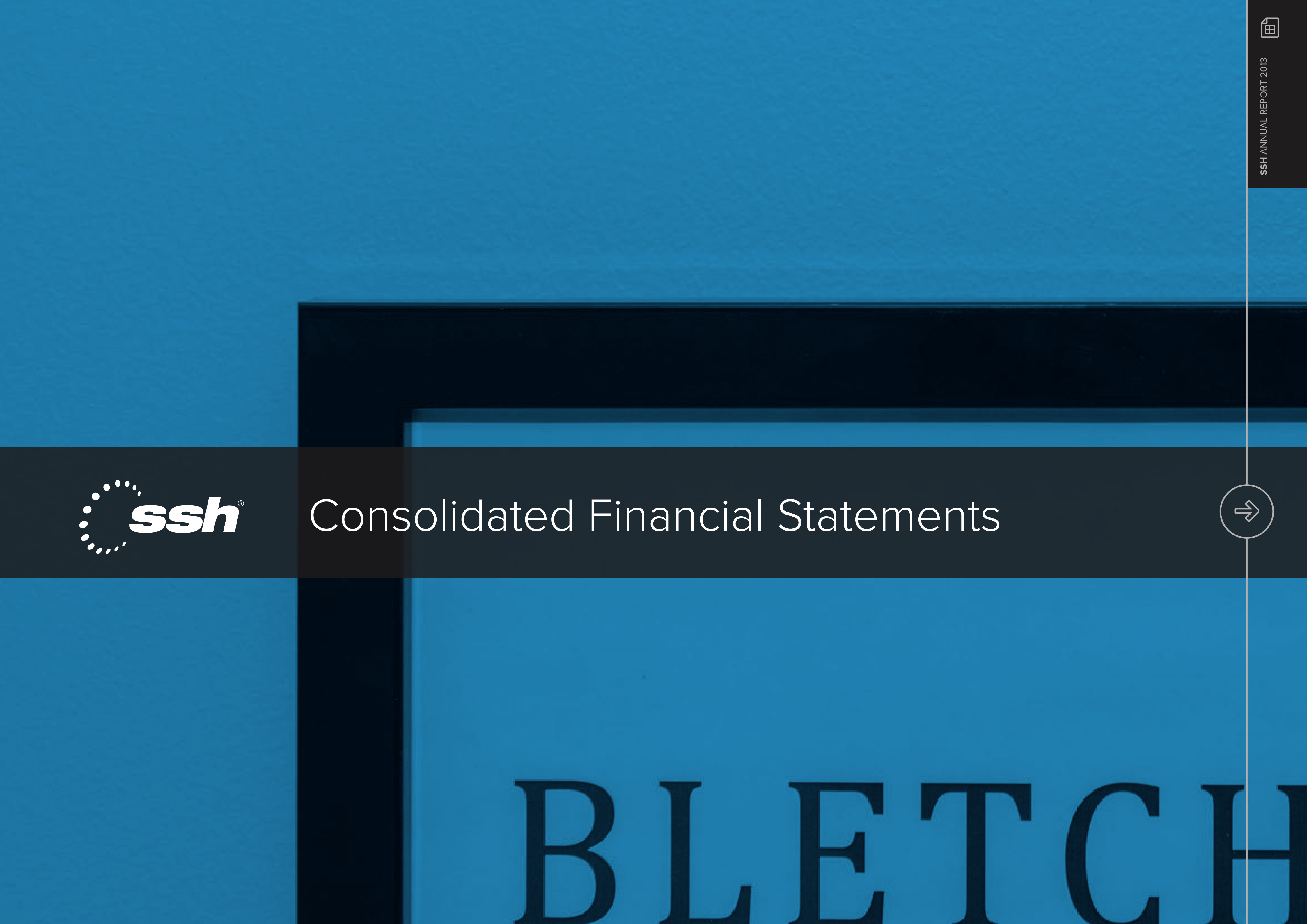
Diluted EPS $= \dfrac{\text{Profit / loss for the financial period – interest from hybrid capital securities}}{\text{Adjusted average number of shares considering dilution effect}}$

Dividend Per Share $= \dfrac{\text{Dividend}}{\text{Number of outstanding shares during the financial period}}$

Dividend Pay-out Ratio, % $= \dfrac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$

Equity Per Share $= \dfrac{\text{Equity}}{\text{Number of outstanding shares on the financial statement date, adjusted for share issue}}$

Gearing, % $= \dfrac{\text{Interest bearing debt – liquid assets}}{\text{Equity}} \times 100$



Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

EUR	Note*	1 Jan 2013–31 Dec 2013	1 Jan 2012–31 Dec 2012
NET SALES	4	**13,343,060**	**11,919,987**
Cost of goods sold		1,910,755	939,873
GROSS MARGIN		**11,432,305**	**10,980,114**
Other operating income	5	95,811	1,169
Sales and marketing costs	6, 7	6,878,392	5,885,169
R&D costs	6, 7	2,970,651	2,703,540
Administrative costs	6, 7	1,506,886	1,309,240
OPERATING PROFIT/LOSS		**172,187**	**1,083,334**
Financial income	8	90,549	187,330
Financial costs	9	107,543	140,454
PROFIT/LOSS BEFORE TAXES		**155,193**	**1,130,210**
Income tax	10	4,346	7,635
PROFIT/LOSS FOR THE FINANCIAL PERIOD		**150,848**	**1,122,575**

OTHER COMPREHENSIVE INCOME/COSTS			
Translation differences		1,562	- 133,644
COMPREHENSIVE PROFIT/LOSS FOR THE FINANCIAL PERIOD		**152,410**	**988,931**
Profit/loss for the financial period attributable to:			
equity holders of the parent company		150,848	1,135,036
non-controlling interest [1]		0	-12,462
Comprehensive profit/loss for the financial period attributable to:			
equity holders of the parent company		152,410	1,001,392
non-controlling interest [1]		0	-12,462
Earnings per share (undiluted)	11	-0.00	0.04
Earnings per share (diluted)	11	-0.00	0.04

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

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

EUR	Note*	31 Dec 2013	31 Dec 2012
ASSETS			
NON-CURRENT ASSETS			
Tangible assets	12		
Machinery & equipment		223,079	128,465
Other tangible assets		9,622	153
Tangible assets, total		**232,701**	**128,618**
Intangible assets	13		
Immaterial rights		3,122,958	2,054,548
Intangible assets, total		**3,122,958**	**2,054,548**
Investments			
Other shares		11,000	11,000
Investments, total		**11,000**	**11,000**
NON-CURRENT ASSETS, TOTAL		**3,366,659**	**2,194,166**
CURRENT ASSETS			
Short-term receivables			
Accounts receivable	14	3,703,591	3,109,627
Other receivables	15	460,390	391,701
Prepaid expenses and accrued expenses	16	109,505	199,836
Current receivables, total		**4,273,486**	**3,701,164**
Cash and cash equivalents	**17**	**5,832,207**	**6,613,742**
CURRENT ASSETS, TOTAL		**10,105,693**	**10,314,906**
ASSETS, TOTAL		**13,472,352**	**12,509,072**

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

CONSOLIDATED BALANCE SHEET

EUR	Note*	31 Dec 2013	31 Dec 2012
SHAREHOLDERS' EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY SHAREHOLDERS			
Share capital		922,529	922,529
Fair value and other reserves		486,865	225,058
Translation differences		-1,313,177	-1,314,739
Unrestricted invested equity fund		4,561,663	4,561,663
Other fund		85,000	85,000
Other equity fund		3,974,347	3,974,346
Fund for own shares		0	-980,240
Retained earnings		-1,290,841	-1,441,689
		7,426,386	**6,031,928**
NON-CONTROLLING INTEREST			
Non-controlling interest [1]		0	221,738
EQUITY, TOTAL	18	**7,426,386**	**6,253,666**
NON-CURRENT LIABILITIES			
Financial liabilities		63,341	130,082
NON-CURRENT LIABILITIES, TOTAL		**63,341**	**130,082**
CURRENT LIABILITIES			
Capital loan		4,000	36,091
Advances received	22	3,814,938	3,579,281
Accounts payable	23	732,260	546,382
Accrued expenses	24	1,119,936	1,410,626
Tax liabilities		2,607	29,320
Other liabilities	25	308,884	523,625
CURRENT LIABILITIES, TOTAL		**5,982,625**	**6,125,325**
LIABILITIES, TOTAL		**6,045,966**	**6,255,407**
EQUITY AND LIABILITIES, TOTAL		**13,472,352**	**12,509,073**

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

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

CONSOLIDATED CASH FLOW STATEMENT

EUR	Note*	1 Jan 2013–31 Dec 2013	1 Jan 2012–31 Dec 2012
CASH FLOW FROM BUSINESS OPERATIONS			
Sales revenue	4, 14, 22	13,006,397	10,907,655
Revenue from other business operations		-	1,169
Costs of business operations	6, 7, 23, 24, 25	-12,634,926	-9,595,805
Interest and payments on other financial costs of business operations		-106,637	-124,888
Interest and other financial revenue from business operations		90,461	167,309
Taxes paid		-	-6,556
Cash flow from business operations		**355,296**	**1,348,884**
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in tangible and intangible assets	12, 13	-1,953,885	-1,208,605
Cash flow from investing activities		**-1,953,885**	**-1,208,605**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from short-term financial investments		-2,000,897	4,000,000
SMI shares selling price		1,385,000	-
SMI prepayment for shareholders		-459,000	-
Loan payment		-32,091	-79,597
Proceeds from issuance of share capital		-	134
Personnel share issue	18	-	138,244
Cash flow from financing activities		**-1,106,988**	**4,058,781**
CHANGE IN LIQUID ASSETS		**-2,705,577**	**4,199,060**
Liquid assets at beginning of period		**6,613,741**	**2,414,681**
Exchange rate adjustments		-76,854	-
Change in liquid assets		-2,705,577	4,199,060
Liquid assets at end of period		**3,831,310**	**6,613,741**

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

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

EUR	Note	Share capital	Fair value and other reserves	Other fund	Other equity fund	Translation differences	Unrestricted invested equity fund	Fund for own shares	Retained earnings	Non-controlling interest	Equity total
Equity 1 Jan 2012		**916,476**	**151,682**	**85,000**		**-1,181,095**	**4,429,472**	**-980,240**	**-2,576,726**	**234,200**	**1,078,769**
Comprehensive profit/loss											
Profit/loss for the period									1,135,036	-12,462	1,122,574
Other comprehensive items											
Translation differences						-133,644					-133,644
Comprehensive profit/loss for financial period, total		**0**	**0**	**0**		**-133,644**	**0**	**0**	**1,135,036**	**-12,462**	**988,930**
Hybrid capital securities	18				3,974,346						3,974,346
Shares subscribed on option rights	20	134									134
Personnel share issue	18	5,919					132,191				138,110
SSH Management Investment Oy	6		73,376								73,376
Transactions with shareholders, total		**6,053**	**73,376**		**3,974,346**		**132,191**				**4,185,966**
Equity 31 Dec 2012		**922,529**	**225,058**	**85,000**	**3,974,346**	**-1,314,739**	**4,561,663**	**-980,240**	**-1,441,690**	**221,738**	**6,253,665**
Equity 1 Jan 2013		**922,529**	**225,058**	**85,000**	**3,974,346**	**-1,314,739**	**4,561,663**	**-980,240**	**-1,441,690**	**221,738**	**6,253,665**
Comprehensive profit/loss											
Profit/loss for the period									150,848		150,848
Other comprehensive items											
Translation differences						1,562					1,562
Comprehensive profit/loss for the financial period, total		**0**	**0**	**0**		**1,562**	**0**	**0**	**150,848**	**0**	**152,410**
Hybrid capital securities											0
Costs of option plan	18		261,807								261,807
Personnel share issue											0
SSH Management Investment Oy	29							980,240		-221,738	758,502
Transactions with shareholders, total		**0**	**261,807**		**0**		**0**	**980,240**		**-221,738**	**1,020,309**
Equity 31 Dec 2013		**922,529**	**486,865**	**85,000**	**3,974,346**	**-1,313,177**	**4,561,663**	**0**	**-1,290,841**	**0**	**7,426,386**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

The SSH Communications Security Group consists of SSH Communications Security Corporation and its wholly-owned subsidiaries. SSH Communications Security Corporation is domiciled in Helsinki, Finland and is a publicly traded company, whose share is quoted in NASDAQ OMX Helsinki Oy (SSH1V). The subsidiaries of SSH Communications Security are SSH Communications Security Inc. (USA), SSH Communications Security Ltd. (Hong Kong), SSH Communications Security Solutions Oy, and SSH Communications Security Operations Oy, which has operations in Finland and Germany. SSH Communications Security Corporation has its registered office at Takomotie 8, 00380 Helsinki, Finland.

The SSH Communications Security Board of Directors approved this financial statement for publication at its meeting on 5 February 2013. Under the Finnish Limited Liability Companies Act, the shareholders can accept or reject the financial statement at the AGM held after its publication. The AGM is also entitled to alter the financial statement. A copy of the financial statements is published as a part of the company's annual report. The annual report is available on the company website at www.ssh.com, or at the head office of SSH Communications Security Corporation. All stock exchange bulletins are available on the company website.

2. ACCOUNTING PRINCIPLES

Basis of Preparation

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) including the International Accounting Standard (IAS) and International Financial Reporting Standards (IFRS) as well as the interpretations by Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) in force as of 31 December 2013. 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 that supplements IFRS regulations.

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.

Subsidiaries

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

Group-internal share ownership is eliminated using the purchase method. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date on which that control ceases. All Group-internal transactions, receivables and debts, unrealized profit, and profit distribution have been eliminated.

Converting Foreign Currency Transactions

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

Transactions in Foreign Currency

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

Translation of Financial Statements of Foreign Subsidiaries

The comprehensive income statements 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, consulting sales, and maintenance fees. Net sales comprise the invoiced value for the sale of goods and services adjusted with any discounts given, sales taxes, and exchange rate differences.

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

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

Government Grants

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

Property, Plant, and Equipment

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

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

- Machinery and equipment: 5 years from month of acquisition.
- Computer hardware: 3 years from month of acquisition.
- Major renovations of rental premises: According to length of the rental agreement, though no more than 7 years from year of acquisition.

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

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

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

Intangible Assets

Research and Development Costs

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

Incomplete assets are tested annually for impairment. After initial recognition, capitalized development costs are measured at cost less accumulated depreciation and impairment losses. Capitalized development costs are depreciated on a straight-line basis over their economic lifetime, estimated at 3–5 years.

Software

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

Other Immaterial Rights

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

Impairment of Tangible and Intangible Assets

The Group will review on each balance sheet date whether there is any indication of an impaired asset. Whenever indicators of impairment exist, the book value of such an asset is compared with its recoverable amount. The recoverable amount is the fair value of the asset less the costs of its sale, or its value in use, whichever is the higher. The value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The discount rate used to calculate the above is pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

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

Financial Assets and Liabilities

Financial Assets

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

Investments held to maturity are financial assets other than derivative assets whose payments are made according to a fixed plan, which mature on a defined date and which the Group can and intends to keep until they mature. These are measured at amortized acquisition cost and recognized under current assets. Loans and other receivables are assets other than derivative assets and with a fixed or definite series of payments. These assets are unlisted and not held for trading. They are measured at amortized acquisition cost. They are recognized under current or non-current financial assets in the balance sheet depending on their nature: assets expiring in more than 12 months are recognized under non-current assets.

Cash and Cash Equivalents

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

Impairment of Financial Assets

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

The Group recognizes an impairment loss on trade receivables when there is objective evidence that a receivable is not fully collectible. Significant financial difficulties, likelihood of bankruptcy, neglect of payments, or delay of payment by more than 90 days on part of a debtor may be considered to constitute such evidence for an impairment loss on trade receivables. The impairment loss recognized in the income statement is the difference between the book value and current value of estimated future cash flows of a receivable discounted at the effective interest rate. If impairment loss is decreased during any later period and the basis for this can objectively be related to an event occurred after the original impairment, the reversal will be recognized in profit/loss in the income statement.

Financial Liabilities

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

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

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

During 2013, the Group did not have any derivative contracts.

Leases

Lease liabilities on tangible assets which expose the Group to significant risks and rewards inherent in holding such assets are classified as finance leases. Finance leasing agreements are capitalized at the beginning of the lease at the fair value of the leased asset or the current value of the minimum lease payments, whichever is lower. An asset based on a finance leasing agreement will be depreciated over its useful life or within the lease term, whichever is shorter. Lease payments are apportioned between the finance charge and repayment on the outstanding liability over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Rental obligations are included in interest-bearing liabilities. The Group did not have significant financial leasing agreements in 2013 and 2012.

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

Earnings Per Share

The undiluted earnings per share is calculated by dividing the net profit/loss for the financial year by the weighted average number of ordinary shares outstanding during the financial year. Treasury shares held by the Group are not included in the number of outstanding shares. A dilutive effect caused by stock options exists when the subscription price of a share is lower than the fair value of the share. In the calculation of diluted earnings per share, stock options are only considered dilutive when their conversion to ordinary shares would decrease earnings per share or increase the loss per share from continuing operations. In other words, when the Group declares a loss, no dilutive effect will be calculated. Equity per share is impacted by unpaid interest of hybrid capital securities.

Share Capital

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

Share Issue Costs

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

Own Shares

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

Gross Margin

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

Operating Profit/Loss

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

Income Tax

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

Deferred taxes are calculated on all temporary differences between the book value and taxable value. The largest temporary differences arise from the financial leasing agreements and unused tax losses which are deductible at a later date.

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

Employee Benefits

Pensions

The Group's pension schemes comply with the relevant regulations and practices in each relevant country. Pension security for Group personnel is handled through external pension insurance companies. The Group applies defined-contribution pension plans, in which the Group pays fixed contributions to an outside unit. The Group has no obligation to make additional payments in case the recipient of the aforementioned contributions cannot discharge its pension payment obligations. Contributions under the defined-contribution plan are recognized in the income statement for the financial period during which the contributions were made.

Equity-Based Benefits

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

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

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, when it is probable that expenditure will be required to settle the obligation, and when a reliable estimate of the amount can be made. If the Group expects an obligation to be partly reimbursed by a third party, the reimbursement is recognized as a separate asset but only when the reimbursement is certain in practical terms. The Group recognizes a provision on loss-making agreements when the expected benefits of an agreement are less than the unavoidable costs of meeting the obligations under the agreement. Provisions are measured at the current value of the costs required to discharge the obligation. The discount rate is determined to reflect current market assessments of the time value of money and the risks specific to the obligation. The Group did not have provisions by the end of 2013.

New and amended standards applied in financial year ended

SSH Communications Security has applied as from 1 January 2013 the following new and amended standards that have come into effect. These had no significant impact on the consolidated financial statements for the financial year 2013.

- Amendments to IAS 1 *Presentation of Financial Statements*: The major change is the requirement to group items of other comprehensive income as to whether or not they will be reclassified subsequently to profit or loss when specific conditions are met. The amendments have only had an impact on the presentation of the Company´s other comprehensive income.
- Amendment to IAS 19 *Employee Benefits*: The major changes are as follows: all actuarial gains and losses are immediately recognized in other comprehensive income, i.e., the corridor approach is no longer applied, and finance costs are calculated on a net funding basis. The amended standard has been applied retrospectively as required under the transitional provisions. This change does not have an impact to the Company.
- IFRS 13 *Fair Value Measurement*: IFRS 13 establishes a single source for all fair value measurements and disclosure requirements for use across IFRSs. The new standard also provides a precise definition of fair value. IFRS 13 does not extend the use of fair value accounting, but it provides guidance on how to measure fair value under IFRSs when fair value is required or permitted. IFRS 13 has expanded some notes to the Company’s consolidated financial statements.
- *Annual Improvements to IFRSs 2009-2011* (May 2012): The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in total five standards. Their impact has not been significant to the Company.
- Amendments to IFRS 7 *Financial Instruments: Disclosures*: The amendments clarify disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amended standard has not had a significant impact on the Company’s consolidated financial statements.

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

SSH Communications Security has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

* = not yet endorsed for use by the European Union as of 31 December 2013.

- IFRS 12 *Disclosures of Interests in Other Entities* and subsequent amendments (in the EU effective for financial years beginning on or after 1 January 2014): IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including associates, joint arrangements, structured entities and other off-balance sheet vehicles. The new standard will expand the notes the Group provides for its interests in other entities. The new standard is not assessed to have a material impact on the Company’s consolidated financial statements.
- IAS 28 *Investments in Associates and Joint Ventures* (revised 2011) (in the EU effective for financial years beginning on or after 1 January 2014): Following the issue of IFRS 11 the revised IAS 28 includes the requirements for joint ventures, as well as associates, to be equity accounted. The revised standard is not assessed to have a significant impact on the Company’s consolidated financial statements.
- Amendments to IAS 32 *Financial Instruments: Presentation* (effective for financial years beginning on or after 1 January 2014): The amendments provide clarifications on the application of presentation requirements for offsetting financial assets and financial liabilities on the statement of financial position and give more related application guidance. The amendments are not assessed to have a significant impact on the Company’s consolidated financial statements.
- Amendments to IAS 36 *Impairment of Assets* (effective for financial years beginning on or after 1 January 2014): The objective of the amendments is to clarify that the scope of the disclosures of information about the recoverable amount of assets, where that amount is based on fair value

less costs of disposal, is limited to impaired assets. The amended standard is not assessed to have a significant impact on the Company's consolidated financial statements.

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* (effective for financial years beginning on or after 1 January 2014): The amendments made to IAS 39 provide an exception to the requirement to discontinue hedge accounting in certain circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. The amendments are not assessed to have an impact on the Company's consolidated financial statements.
- IFRIC 21 *Levies** (effective for financial years beginning on or after 1 December 2014): The interpretation clarifies the accounting treatment of levies. A liability for a levy is recognised when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation is applicable to all levies other than income taxes, fines, penalties, and outflows that are in scope of other standards. The interpretation is not assessed to have a significant impact on the Company's consolidated financial statements.
- *Annual Improvements to IFRSs* (2011–2013 cycle* and 2011–2012 cycle*, December 2013) (effective for financial years beginning on or after 1 July 2014): The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in total four (2011–2013 cycle) and seven (2010–2012 cycle) standards. Their impacts vary standard by standard but are not significant to the Company.
- IFRS 9 *Financial Instruments** and subsequent amendments (the effective date (previously 1 January 2015) has been postponed and will be determined in due course): IFRS 9 is the first step of the IASB's originally three-phase project to replace the current IAS 39 Financial Instruments: Recognition and Measurement. The amendments resulting from the first phase (published in November 2009) address the classification and measurement of financial assets. Based on measurement, financial assets are classified into two main groups: financial assets at amortized cost and financial assets at fair value. Classification depends on a company's business model and the characteristics of contractual cash flows. The amendments published in October 2010 deal with the classification and measurement of financial liabilities, and the standard retains most of the related IAS 39 requirements. Amendments dealing with general hedge accounting were issued in November 2013. The unfinished part of IFRS 9, impairment of financial assets, is still a work in progress. Furthermore, the IASB is also considering limited amendments regarding the classification and measurement of financial assets. The macro hedge accounting phase has been taken apart from the IFRS 9 project as a separate project. As the IFRS 9 project is incomplete, the impacts of the standard on the Company's consolidated financial statements cannot yet be assessed.

Other changes in amended standards and interpretations do not expect to impact to the Company when taken into use.

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

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

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

3. SEGMENT INFORMATION

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

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

The Group's operating segments are:

- North and South America (AMERICAS)
- Europe, Middle East, and Africa (EMEA), and
- Asia and the Pacific (APAC)

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

GEOGRAPHICAL DISTRIBUTION OF NET SALES

SEGMENT	2013	2012
Finland	1,384,716	1,086,374
EMEA (Excl. Finland)	5,215,633	3,222,660
AMERICAS	5,281,948	6,034,700
APAC	1,460,762	1,576,253
Total	**13,343,060**	**11,919,987**

INCOME STATEMENT

EUR	EMEA	AMERICAS	APAC	Unallocated costs*	Group total
2013					
NET SALES	**6,586,182**	**5,281,948**	**1,474,929**		**13,343,060**
Cost of goods sold	-1,883,957	-26,798			-1,910,755
GROSS MARGIN	**4,072,225**	**5,255,150**	**1,474,929**		**11,432,305**
Other operating income	95,811				95,811
Segment costs and depreciations	-711,220	-4,504,400	-751,754	-5,388,556	-11,355,929
OPERATING PROFIT/LOSS	**4,086,816**	**750,750**	**723,175**	**-5,388,556**	**172,187**
Financial income					90,549
Financial costs					-107,543
PROFIT/LOSS BEFORE TAXES					**155,193**
Income tax					4,346
PROFIT/LOSS FOR THE FINANCIAL PERIOD					**150,848**
Segment assets	2,949,400	4,126,298	629,388	5,767,265	13,472,352
2012					
NET SALES	**4,309,034**	**6,034,700**	**1,576,253**		**11,919,987**
Cost of goods sold	-804,809	-135,065	0		-939,874
GROSS MARGIN	**3,504,225**	**5,899,635**	**1,576,253**		**10,980,113**
Other operating income				1,169	1,169
Segment costs and depreciations	-251,950	-3,491,660	-756,673	-5,397,665	-9,897,948
OPERATING PROFIT/LOSS	**3,252,275**	**2,407,975**	**819,580**	**-5,396,496**	**1,083,334**
Financial income					187,996
Financial costs					-140,454
PROFIT/LOSS BEFORE TAXES					**1,130,876**
Income tax					-7,635
PROFIT/LOSS FOR THE FINANCIAL PERIOD					**1,123,241**
Segment assets	965,122	2,360,551	437,388	8,746,012	12,509,073

In the financial year 2013, revenue share from one customer was EUR 3.3 million, which was 25 % of the net sales of the Group. These sales are reported in EMEA. In the financial year 2012, revenue share of any customer was less than 10%.
* Group-level costs consist mainly of Group R&D and Group administration costs.

4. NET SALES, EUR

	2013	2012
Income from license sales	4,648,399	4,867,537
Income from maintenance	5,643,581	6,381,896
Consulting and other income	3,051,080	670,553
Total	13,343,060	11,919,986

5. OTHER OPERATING INCOME, EUR

	2013	2012
Sales of fixed assets	95,811	1,169
Total	95,811	1,169

6. OTHER OPERATING COSTS

Employee benefits, EUR	2013	2012
Wages and salaries	6,452,994	4,854,008
Pensions, defined-contribution plan	547,033	548,852
Other ancillary personnel costs	444,222	234,941
Stock options issued	261,806	73,375
Total	7,706,055	5,711,176

Information about management employment benefits and options granted are disclosed in note 29. Information about benefits group companies and related party transactions are disclosed in note 20.

Personnel	2013	2012
Average during the financial period	85	61
At the end of the financial period	99	70

Personnel distribution by business area on 31 Dec	2013	2012
Sales, marketing, and customer support	42	29
Research and development	44	32
Administration	13	9
Total	99	70

Research and development costs recognized as costs, EUR	2013	2012
Total	2,970,651	2,703,540

Other operating costs, EUR	2013	2012
External services	1,966,829	2,132,259
Other costs	2,736,395	2,690,264
Total	4,703,225	4,822,523

Auditor's fees

Auditor's fees by service category were as follows:

- Audit: KPMG EUR 20,000 (EUR 19,000), others EUR 8,395 (EUR 8,599)
- Tax guidance: KPMG EUR 9,827 (KPMG EUR 2,065, others EUR 13,462)
- Other services: KPMG EUR 3,299 (3,887)

7. DEPRECIATIONS, EUR

By asset category	2013	2012
On machinery and equipment	56,908	48,580
On other tangible assets	1,564	940
On software and other tech assets	197,857	186,828
On capitalized development costs	525,063	234,247
Total	781,393	470,597

By function	2013	2012
Sales and marketing costs	110,221	136,404
Research and development costs	637,848	303,652
Administrative costs	33,324	30,541
Total	781,393	470,597

8. FINANCIAL INCOME, EUR

	2013	2012
Interest revenue	39,754	9,291
Exchange rate gains, loans, and other receivables	50,794	178,039
Total	90,549	187,330

9. FINANCIAL COSTS, EUR

	2013	2012
Interest costs on financial leasing, amortized liabilities	0	11,450
Exchange rate losses, loans, and other receivables	106,637	124,888
Other interest costs	906	4,116
Total	107,543	140,454

10. TAXES, EUR

The Group's unrecognized tax losses on deferred tax assets are EUR 16.8 million (EUR 17.5 million). EUR 8.1 million (EUR 10.1 million) of the tax losses are in Finland, and EUR 6.7 million (EUR 7.0 million) in the USA. The tax losses expire in Finland between the years 2014–2018, and in the USA between the years 2021–2030. The amount of unrecognized deferred tax assets from the tax losses is EUR 4.7 million (EUR 5.4 million).

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

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

	2013	2012
Income tax	4,346	7,635
Total	4,346	7,635

	2013	2012
Profit/income before taxes	155,193	1,122,574
Tax at 24.5%	-38,022	-275,031
Effect of foreign subsidiaries' differing tax rates	-10,778	-45,125
Expenses not deductible for tax purposes	71,411	143
Tax-free revenue	0	0
Use of previously unrecognized tax losses	213,583	265,106
Tax assets not recognized for reported losses	0	-38,982
Other taxes	3,768	3,843
Tax in comprehensive income statement	4,346	7,635

11. EARNINGS PER SHARE, EUR

	2013	2012
Profit/loss attributable to shareholders of the parent company	150,848	1,135,036
Interest from Hybrid loan	-200,000	0
Weighted average number of shares in issue (1,000)	30,751	30,552
Earnings per share (undiluted) (EUR per share)	-0.00	0.04
Adjusted average number of shares considering dilution effect (1,000)	33,946	30,754
Earnings per share (diluted) (EUR per share)	-0.00	0.04

12. TANGIBLE ASSETS, EUR

Machinery and equipment	2013	2012
Acquisition cost 1 Jan	1,341,945	1,303,132
Translation difference	4,260	14,951
Increase	146,711	51,789
Decrease	1,091	27,927
Acquisition cost 31 Dec	1,494,007	1,341,945
Accumulated depreciation 1 Jan	1,213,481	1,181,847
Translation difference	0	16,793
Depreciation for the financial period	57,229	48,580
Translation difference on depreciation for the financial period	0	0
Accumulated depreciation on decrease	0	0
Accumulated depreciation 31 Dec	1,270,710	1,213,481
Book value 31 Dec	223,297	128,464

Other tangible assets	2013	2012
Acquisition cost 1 Jan	4,405	4,492
Translation difference	0	-87
Increase	10,529	0
Decrease	0	0
Acquisition cost 31 Dec	14,934	4,405
Accumulated depreciation 1 Jan	4,252	3,402
Translation difference	0	0
Depreciation for the financial period	1,279	850
Accumulated depreciation on decrease	0	0
Accumulated depreciation 31 Dec	5,531	4,252
Book value 31 Dec	9,403	153
Balance sheet value of tangible assets 31 Dec	232,701	128,617

13. INTANGIBLE ASSETS, EUR

Software	2013	2012
Acquisition cost 1 Jan	1,852,070	1,935,265
Translation difference	21,080	-76,000
Increase	49,240	-7,195
Acquisition cost 31 Dec	1,922,863	1,852,070
Accumulated depreciation 1 Jan	1,830,929	1,896,151
Translation difference	21,553	-54,446
Depreciation for the financial period	13,011	10,777
Accumulated depreciation on decrease	0	0
Accumulated depreciation 31 Dec	1,865,493	1,830,929
Book value 31 Dec	57,371	21,141

Immaterial rights	2013	2012
Acquisition cost 1 Jan	2,653,903	1,477,048
Increase	1,742,090	1,176,855
Acquisition cost 31 Dec	4,395,993	2,653,903
Accumulated depreciation 1 Jan	620,497	213,461
Depreciation for the financial period	709,909	410,298
Translation difference	0	-3,262
Accumulated depreciation 31 Dec	1,330,406	620,497
Book value 31 Dec	3,065,587	2,033,406
Balance sheet value of intangible assets 31 Dec	3,122,958	2,054,547

14. ACCOUNTS RECEIVABLES, EUR

Accounts receivable	2013	2012
	3,703,591	**3,109,627**

Accounts receivable by currency	2013	2012
EUR	799,802	346,161
USD	2,548,278	2,951,903
GBP	193,451	188,396
CHF	162,060	352,199
Total (EUR)	3,703,591	3,109,627

Accounts receivable by age

EUR	2013	Net value 2013	2012	Net value 2013
Non-matured	1,879,096	1,879,096	1,892,849	1,892,849
Matured				
< 30 days	1,338,005	1,338,005	983,485	983,485
30–60 days	210,711	210,711	84,254	84,254
> 60 days	275,779	275,779	149,039	149,039
Total	3,703,591	3,703,591	3,109,627	3,109,627

15. OTHER RECEIVABLES, EUR

	2013	2012
Advances paid	339,143	151,768
VAT receivables	-86,968	109,866
Other current receivables	208,215	130,067
Total	460,390	391,701

16. PREPAID EXPENSES AND ACCRUED INCOME, EUR

	2013	2012
Personnel-related	77,192	127,971
Other prepaid expenses and accrued income	32,313	71,866
Total	109,505	199,836

17. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES, EUR

Fair value of short term investment is determined from quoted prices available from markets. Financial investment belongs to level 1 according to IFRS 7. Market value of financial investment was EUR 2.0 million (EUR 0.0 million) and nominal value EUR 2.0 million.

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

18. NOTES TO EQUITY

According to the Articles of Association, SSH Communications Security Corporation has a minimum share capital of EUR 600,000 and a maximum share capital of EUR 2,400,000, within which limits the share capital may be raised or lowered without amending the Articles of Association. The nominal value of one share is EUR 0.03; hence, the minimum number of shares is 20 million and maximum number is 80 million. The company has one series of shares; each share entitles its holder to one vote at the shareholders' meeting. The share capital of the company, registered with the Trade Register and fully paid up as of 31 December 2013, was EUR 922,529 (EUR 922,529), and the number of shares was 30,750,983 (30,750,983).

Changes in the share capital:	Number of shares	Share capital
31 Dec 2011	**30,549,208**	**916,476**
Subscriptions under stock option plan 1/1999	4,475	134
Subscriptions under share issue	197,300	5,919
31 Dec 2012	**30,750,983**	**922,529**
Subscriptions under stock option plan	0	0
Subscriptions under share issue	0	0
31 Dec 2013	**30,750,983**	**922,529**

Description of the equity reserves:

Share capital

The share capital includes the share subscription prices unless registered as unrestricted invested equity fund decided by conditions of share issues.

Translation differences

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

Fair value and other reserves

The item 'Fair value and other reserves' consists of three different funds: a fair value reserve for available-for-sale investments, a hedging reserve for changes in the fair value of cash flow hedging instruments, and a reserve for the costs of granted stock option rights. In the 2013 and 2012 financial periods, SSH Communications Security had no saleable financial assets and did not apply hedging.

Unrestricted invested equity fund

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

Fund for own shares

The fund for own shares comprised the purchase cost of own shares eliminated in the group consolidation of SSH Management Investment Oy before the liquidation of the Company in the financial year 2013.

More information about SSH Management Investment is disclosed in the note 29 "Group companies and related party transactions".

Other fund

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

Other equity fund

The item 'Other equity fund' is the conditional purchase price liability for the Siltanet acquisition realized in 2010. Additional purchase price treated as equity is not revaluated.

Other equity

Hybrid capital securities is an instrument that is subordinated to the Company's other debt obligations and that is treated as equity in the IFRS financial statements. Hybrid capital securities do not confer to their holders the right to vote at shareholder meetings and do not dilute the holdings of the current shareholders.

The coupon rate of the capital securities is fixed for the first three years (5% until 28 December 2013, 9% until 28 December 2014 and 13% until 28 December 2015) and floating thereafter. The capital securities have no maturity but the company may exercise an early redemption option on each interest payment date. Unpaid interest from hybrid capital security at year end was EUR -200,000 (EUR 0).

19. CAPITAL MANAGEMENT

The objective in managing Group capital is to secure the ability to continue operating. The structure of the capital can be managed, for instance, through decisions concerning dividends and other distribution of assets, purchase of the company's own shares and share issues. The Group issued hybrid loan in December 2012, which is recognized in equity.

Capital management concerns equity recognized in the balance sheet. There are no requirements imposed by outside parties on the Group's capital management. The indicators depicting the capital structure are the equity ratio and gearing.

Gearing	2013	2012
Interest-bearing financial liabilities	4,000	36,091
Interest-bearing receivables	131,744	0
Cash and cash equivalents	5,832,207	6,613,742
Net liabilities	-5,959,951	-6,577,651
Equity total	7,426,386	6,253,666
Equity ratio	76.6 %	70.0 %
Gearing	-80.1 %	-105.2 %

20. SHARE-BASED PAYMENTS

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

On the balance sheet date, SSH Communications Security had 3,271,750 stock options outstanding (2,007,126), representing 9.6% of shares and 9.6% of votes. The weighted average exercise price of outstanding stock options was EUR 1.16 (EUR 0.67). The weighted average of the remaining subscription period was 3.1 years (3.1). The exercise price varies from EUR 0.65 to EUR 13.87, and the remaining subscription period from 4 months to 4.7 years.

Cost of option plan I/2013 is calculated based on strike price EUR 1.66, interest rate of 1.98% and 50% volatility. The income statement for 2013 includes costs from option plans EUR 274,367. Option plan costs are booked during the existence of the plan i.e. during 5 years. To be able to subscribe granted options, one must work for the Company by the time release date is due for the option series in question.

SSH COMMUNICATIONS SECURITY SHARE-BASED PAYMENTS CONSIST OF THE FOLLOWING OPTION PLANS

Option plan	Option certificate	Release date	Subscription period		Subscription price, EUR	Options not exercised
			Begin	End		
II/2000	II/2000F	22 Mar 2001	1 May 2004	1 May 2014	13.87	875
	II/2000G	22 Mar 2001	1 Nov 2004	1 Nov 2014	13.87	875
						1,750
I/2012	I/2012A	27 Jul 2012	1 Jun 2014	1 Sep 2017	0.65	541,200
	I/2012B	27 Jul 2012	1 Jun 2016	1 Sep 2017	0.65	541,200
	I/2012C	27 Jul 2012	1 Jun 2017	1 Sep 2017	0.65	557,600
						1,640,000
I/2013	I/2013 A	4 Jun 2013	1 Jun 2015	1 Sep 2018	1.66	514,800
	I/2013 B	4 Jun 2013	1 Jun 2017	1 Sep 2018	1.66	514,800
	I/2013 C	4 Jun 2013	1 Jun 2018	1 Sep 2018	1.66	530,400
	I/2013 D	4 Jun 2013	15 Feb 2015	1 Sep 2018	1.66	35,000
	I/2013 E	4 Jun 2013	15 Feb 2016	1 Sep 2018	1.66	21,000
	I/2013 F	4 Jun 2013	15 Feb 2017	1 Sep 2018	1.66	14,000
						1,630,000

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

	2013		2012	
	Weighted average exercise price, EUR	**Number of stock options**	**Weighted average exercise price, EUR**	**Number of stock options**
At the beginning of the financial period	0.67	2,007,126	4.65	65,875
Stock options granted	1.66	1,555,000	0.65	1,450,000
Stock options forfeited	0.00	0	0	0
Stock options canceled	0.49	290,376	4.73	54,274
Stock options exercised	0.00	0	0.03	4,475
At the end of the financial period	1.16	3,271,750	0.67	2,007,126
Exercisable option rights at the end of the financial period	1.16	3,271,750	0.67	2,007,126

The weighted average price of SSH Communications Security shares in 2013 was EUR 2.11 (EUR 0.50).

21. FINANCIAL LIABILITIES, EUR

Rent liability EUR 63,641.

22. ADVANCES RECEIVED, EUR

	2013	2012
	3,814,938	3,579,281

23. ACCOUNTS PAYABLE, EUR

	2013	2012
	732,260	546,382

24. ACCRUED LIABILITIES AND DEFERRED INCOME, EUR

	2013	2012
Personnel-related	982,262	960,098
Accruals	126,631	324,528
Other accrued liabilities and deferred income	11,043	126,000
Total	1,119,936	1,410,626

25. OTHER LIABILITIES, EUR

	Note	2013	2012
Personnel-related		93,667	108,681
VAT liabilities	21	0	2,560
Other current liabilities		215,217	412,348
Total		308,884	523,589

26. FINANCIAL RISK MANAGEMENT

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

Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange risk, the most significant currency being the U.S. dollar. The company reduces risk by using net position when feasible. Currently, the U.S. dollar currency position is not hedged, and the company decides hedging of U.S. dollar based contracts case by case. At the moment, the Group is not using hedging accounting. Any gains or losses realized through hedging actions are thus recognized in profit/loss.

Impact of the U.S. dollar change on profits: +-10% = +-200/-200 EUR in thousands.

Interest Rate Risk

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

Market Risk Related to Investments

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

Credit Risk

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

Liquidity Risk

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

The Group has accounts payables and other liabilities on 31 December 2013 totaling to EUR 1,041,144 with following maturity structure:	
< 1 month	780,858
< 3 month	156,172
< 6 month	104,114

27. OTHER RENTAL AGREEMENTS

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

THE GROUP AS LESSEE

Non-terminable rental agreements for office facilities – minimum rents , EUR	**2013**	**2012**
Within one year	485,987	441,054
Within more than one year but no more than 5 years	371,799	102,819
Total	857,786	543,873

Non-terminable rental agreements for IT services – minimum rents, EUR	**2013**	**2012**
Within one year	9,451	14,177
Within more than one year but no more than 5 years	0	9,451
Total	9,451	23,628

Non-terminable rental agreements for vehicles – minimum rents, EUR	**2013**	**2012**
Within one year	0	6,228
Within more than one year but no more than 5 years	0	0
Total	0	6,228

The Group rents the office facilities it uses. The duration of the rental agreements is usually 3 to 5 years, and normally the agreements include options to renew past the original termination date. The index, renewal, and other terms and conditions differ from agreement to agreement. The comprehensive income statement for 2013 includes rents based on rental agreements totaling EUR 393,919 (EUR 398,258). The Group sub-let part of its office facilities in the 2013 financial period.

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

The Group also rents out vehicles. Rents are at fixed rates, and the agreement period generally 3 to 4 years. The income statement for 2013 includes vehicle leasing costs totaling EUR 18,379 (EUR 48,266).

28. GUARANTEES GIVEN AND OTHER COMMITMENTS, EUR

	2013	**2012**
Rental guarantees (pledged)	131,744	129,824
Unpaid interest of the hybrid loan	200,000	0

29. GROUP COMPANIES AND RELATED PARTY TRANSACTIONS

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

During 2013, SSH Management Investment Ltd., which was established for the share incentive plan of previous management team, has been liquidated (Extraordinary general meeting 23 December 2013). SSH Management Investment sold all of its shares (4.7%) of SSH Communications Security, paid back its loan, and is no longer consolidated to SSH Communications Security. Due to the transaction, fund for own shares is released which increases equity per share by EUR 0.03, and SSH Communications Security has recorded a EUR 0.1 million gain.

As of 31 December 2012, the CEO and members of the Board of Directors of SSH Communications Security owned 57.7% (57.7%) of the shares and votes in the company, either directly or indirectly through companies they own. Sami Ahvenniemi has 250,000 options. The CEO and other board member have no option rights. The company does not have any specific pension arrangements for the CEO or any other group management members.

Management group members apart from the CEO directly or indirectly held about 0.4% (0.4%) of the company shares and have a total of 1,030,000 (0) option rights.

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

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

Salaries and Fees Paid to Members of the Board of Directors, EUR	2013	2012
Board / Juhani Harvela (until 28 Mar 2012)	0	7,500
Board / Pyry Lautsuo (until 28 Mar 2012)	0	6,300
Chairman of the Board / Juho Lipsanen (until 28 Mar 2012)	0	14,500
Board / Tiia Tuovinen (until 28 Mar 2012)	0	6,500
Chairman of the Board / Päivi Hautamäki (as of 28 Mar 2012)	22,000	18,000
Board / Sami Ahvenniemi (as of 28 Mar 2012)	12,500	13,500
Board / Tatu Ylönen	0	0

Remuneration and fees – CEO, EUR	2013	2012
Salary and other short term employee benefits	174,000	225,000
Share-based payment	0	0
Total	174,000	225,000

Related Party Transactions

Clausal Computing Oy, a company wholly-owned by Tatu Ylönen, CEO of SSH Communications Security Corporation, supplied SSH Communications Security Corporation with R&D services worth EUR 0.4 million (EUR 0.4 million) in the course of the year 2013. There were no other essential related party transactions during the period under review. The hybrid capital securities (EUR 4.0 million) of the company were subscribed by CEO Tatu Ylönen in 2012.

Dividend and Other Distribution of Assets

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

30. EVENTS AFTER THE BALANCE SHEET DATE

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

Share and stock option holdings of Board members	31 Dec 2013 Shares	31 Dec 2013 Options	31 Dec 2012 Shares	31 Dec 2012 Options
Sami Ahvenniemi	0	250,000	0	0
Päivi Hautamäki	0	0	0	0
Pyry Lautsuo (until 28 Mar 2012)	0	0	12,500	0
Juho Lipsanen (until 28 Mar 2012)	0	0	21,865	0
Tatu Ylönen (CEO)	17,727,698	0	17,727,698	0
Total	17,727,698	250,000	17,762,063	0

Share and stock option holdings of the management group	31 Dec 2013 Shares	31 Dec 2013 Options	31 Dec 2012 Shares	31 Dec 2012 Options
Tatu Ylönen	17,727,698	0	17,727,698	0
Kalle Jääskeläinen	10,000	300,000	10,000	100,000
Matthew McKenna	25,000	300,000	25,000	200,000
Jyrki Lalla	100,000	150,000	100,000	100,000
Sami Ahvenniemi	0	250,000	0	0
Antti Huima	0	30,000	0	0
Mika Lauhde	0	0	0	0
Total	17,862,698	1,030,000	17,862,698	400,000

Parent Company Financial Statements

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT

EUR	Note	1 Jan 2013–31 Dec 2013	1 Jan 2012–31 Dec 2012
NET SALES	1	**6,973,618.10**	**6,619,939.35**
Purchasing and production costs		2,278,271.52	878,670.73
GROSS MARGIN		**4,695,346.58**	**5,741,268.62**
Research and development costs	2, 3, 6	2,970,651.00	2,703,540.29
Sales and marketing costs	2, 3, 6	745,079.04	899,482.83
Administrative costs	2, 3, 6	379,460.10	1,309,240.00
Other operating income and costs	7	-40,726.66	-1,654.88
OPERATING PROFIT/LOSS		**640,883.10**	**830,660.38**
Financial income and costs	8		
Interest revenue and other financing income		300,383.87	193,958.50
Interest costs and other financing costs		291,379.58	136,128.07
Financial income and costs, total		9,004.29	57,830.43
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS		**649,887.39**	**888,490.81**
Extraordinary items			
Extraordinary income	9	0.00	759,000.00
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES		**649,887.39**	**1,647,490.81**
PROFIT/LOSS BEFORE TAXES		649,887.39	1,647,490.81
PROFIT/LOSS FOR THE FINANCIAL PERIOD		**649,887.39**	**1,647,490.81**

PARENT COMPANY BALANCE SHEET

EUR	Note	31 Dec 2013	31 Dec 2012
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	10		
Immaterial rights		3,119,732.83	2,048,990.40
Intangible assets, total		**3,119,732.83**	**2,048,990.40**
Tangible assets	10		
Machinery and equipment		159,621.94	78,488.13
Tangible assets, total		**159,621.94**	**78,488.13**
Investments	10		
Shares in Group companies		**104,309.32**	**104,309.18**
Other shares		11,000.00	11,000.00
Investments, total		**115,309.32**	**115,309.18**
Non-current receivables			
Receivables from Group companies	11	0.00	720,000.00
Non-current receivables, total		**0.00**	**720,000.00**
NON-CURRENT ASSETS, TOTAL		**3,394,664.09**	**2,242,787.71**
Current receivables			
Accounts receivable		1,322,380.43	226,901.97
Receivables from Group companies	11	1,956,255.35	1,219,186.49
Prepaid expenses and accrued income	12	13,468.20	82,253.09
Other receivables	13	183,942.53	116,415.58
Current receivables, total		**3,478,163.82**	**1,644,757.13**
Financial instruments		4,555,359.88	6,109,389.14
CURRENT ASSETS, TOTAL		**8,031,406.39**	**7,754,146.27**
ASSETS, TOTAL		**11,426,070.48**	**10,716,933.98**

PARENT COMPANY BALANCE SHEET

EUR	Note	31 Dec 2013	31 Dec 2012
EQUITY AND LIABILITIES			
EQUITY	14		
Share capital		922,529.49	922,529.49
Unrestricted invested equity fund		6,204,663.35	6,204,663.35
Retained profit/loss		-2,387,992.84	-4,035,631.40
Profit/loss for financial period		649,887.39	1,647,490.81
EQUITY, TOTAL		**5,389,087.39**	**4,739,052.25**
LIABILITIES			
Long-term liabilities			
Other liabilties		4,000,000.00	4,000,000.00
Current liabilities			
Subordinated loans	15	4,000.00	36,090.67
Advances received		102,798.52	173,757.29
Accounts payable		684,775.88	296,210.96
Accrued expenses and deferred income	16	812,529.04	1,346,240.70
Other liabilities	17	432,879.65	125,583.11
Current liabilities, total		**2,036,983.09**	**1,977,881.73**
LIABILITIES, TOTAL		**6,036,983.09**	**5,977,881.73**
EQUITY AND LIABILITIES, TOTAL		**11,426,070.48**	**10,716,933.98**

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY CASH FLOW STATEMENT

EUR	1 Jan 2013–31 Dec 2013	1 Jan 2012–31 Dec 2012
CASH FLOW FROM BUSINESS OPERATIONS		
Sales revenue	5,355,748.05	5,533,962.45
Revenue from other business operations	0.00	1,654.88
Costs of business operations	-5,704,290.21	-5,119,593.83
Cash flow from business operations before financial items and taxes	-348,542.16	416,023.50
Interest and payments on other financial costs of business operations	-94,486.89	-113,988.20
Interest and other financial revenue from business operations	39,286.62	175,698.63
Cash flow from business operations	**-403,742.43**	**477,733.93**
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in tangible and intangible assets	-1,906,069.47	-1,178,367.61
Cash flow from investing activities	**-1,906,069.47**	**-1,178,367.61**
CASH FLOW FROM FINANCING ACTIVITIES		
Long-term loans raised		4,000,000.00
Proceeds from short-term financial investments	-2,000,897.00	0.00
Capital loan paid back	690,000.00	0.00
Capital loan interest income	95,756.00	0.00
Loan repayment	-32,091.00	-79,596.94
Share subscriptions	0.00	134.00
Group contribution received	0.00	759,000.00
Payments received from share issue	0.00	138,244.00
Cash flow from financing activities	**-1,247,232.00**	**4,817,781.06**
Change in liquid assets	**-3,557,043.90**	**4,117,147.38**
Liquid assets at beginning of period	**6,109,389.14**	**1,992,241.76**
Change in liquid assets	-3,557,043.90	4,117,147.38
Liquid assets at end of period	**2,552,345.24**	**6,109,389.14**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

The financial statement of the parent company, SSH Communications Security Corporation, is drawn up in accordance with the Finnish Accounting Standards. Figures are given to an accuracy of one cent (EUR 0.01). All items in the balance sheet are recognized at original acquisition cost. Information on financial risk management is presented in the consolidated financial statements (note 26).

Principles of Revenue Recognition

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

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

Apportioning of Costs to Functions

Costs are apportioned to functions according to the matching principle.

Rental and Leasing Agreements

The parent company has rental and leasing agreements principally concerning IT services, vehicles, and other assets. Rents and leasing payments paid pursuant to these agreements are recognized as costs over the rental or leasing period under 'Other operating costs'.

Income Tax

The income tax in the income statement comprises direct taxes based on the taxable profit for the financial period and adjustments to taxes on previous financial periods. The parent company does not recognize deferred tax receivables or liabilities in its financial statement. The parent company has confirmed losses of EUR 8.1 million (10.5 million) that have not been recognized as deferred tax receivables.

Fixed Assets

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

THE ASSET CATEGORIES AND THEIR DEPRECIATION PERIODS ARE:

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

Research and Development Costs

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

Foreign Currency Transactions

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

Option Rights

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

1. NET SALES BY MARKET AREA, EUR

	2013	2012
Finland	1,384,716	1,086,374
Rest of Europe	4,499,987	2,256,289
North America	501,957	2,424,409
Other	586,959	852,867
Total	6,973,618	6,619,939

2. OPERATING COSTS, EUR

Other operating costs	2013	2012
External services	1,346,810.95	1,718,825.35
Bad debt release	-1,256,374.69	-526,028.18
Other	890,539.39	1,109,636.73
Total	980,975.65	2,302,433.90

Auditor's fees

Auditor's fees by service category were as follows:

- Audit: EUR 20,000 (EUR 19,000)
- Tax guidance: EUR 9,827 (EUR 2,065)
- Other services: EUR 3,299 (EUR 3,887)

3. PERSONNEL COSTS AND AVERAGE NUMBER OF EMPLOYEES

Personnel costs, EUR	2013	2012
Wages and salaries	3,421,435.82	2,805,036.96
Pension costs	544,442.79	548,852.74
Other ancillary personnel costs	217,450.90	194,894.87
Total	4,183,329.51	3,548,784.57
Average number of employees	53	40

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

	2013	2012
Research and development	41	31
Sales and marketing	11	7
Administration	9	7
Total	61	45

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

See note 29 in the consolidated financial statements.

6. DEPRECIATION AND IMPAIRMENT, EUR

	2013	2012
On immaterial rights	195,997.73	184,582.77
On research and development costs	525,063.16	234,247.83
On machinery and equipment	33,132.34	32,098.55
Total	754,193.23	450,929.15

No impairments were recognized in 2013 nor 2012.

7. OTHER OPERATING INCOME AND COSTS

Other operating income for 2013 comprises an income item of EUR 40,727.

Other operating income for 2012 comprised rental income of EUR 1,654.88.

Other operating costs for 2013 included written-off bad debts from wholly-owned subsidiaries to a total of EUR 1,256,374.69.

8. FINANCING INCOME AND COSTS, EUR

	2013	2012
Interest revenue	266,226.90	16,409.31
Revenue from financial securities	38,232.59	4,284.18
Exchange rate gains and losses (net)	-94,486.89	53,321.02
Interest costs	-200,928.31	-16,184.03
Total	9,044.29	57,830.48

9. EXTRAORDINARY INCOME, EUR

	2013	2012
Group contribution, SSH Communications Security Operations Oy	0	759,000

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

Immaterial rights	2013	2012
Acquisition cost 1 Jan	4,574,456	3,401,169
Increase	1,791,802	1,176,856
Decrease	0	-3,569
Acquisition cost 31 Dec	6,366,258	4,574,456
Accumulated depreciation 1 Jan	2,525,466	2,106,635
Depreciation for the financial period	721,061	418,830
Accumulated depreciation 31 Dec	3,246,526	2,525,465
Book value 31 Dec	3,119,733	2,048,991

Machinery and equipment	2013	2012
Acquisition cost 1 Jan	1,183,005	1,177,654
Increase	114,266	20,285
Decrease	0	-14,934
Acquisition cost 31 Dec	1,297,271	1,183,005
Accumulated depreciation 1 Jan	1,104,517	1,072,419
Depreciation for the financial period	33,132	32,098
Accumulated depreciation 31 Dec	1,137,649	1,104,517
Book value 31 Dec	159,622	78,488

Investments	2013	2012
Book value 1 Jan	115,309	115,309
Increase	0	0
Book value 31 Dec	115,309	115,309

11. RECEIVABLES FROM GROUP COMPANIES, EUR

	2013	2012
Accounts receivable	1,956,255.35	1,219,186.49
Loan receivables	0.00	720,000.00
Total	1,956,255.35	1,939,186.49

12. PREPAID EXPENSES AND ACCRUED INCOME, EUR

	2013	2012
Interest receivables	11,276.52	39,255.00
Personnel related items	2,191.68	42,998.00
Other	0	0
Total	13,468.20	82,253.00

13. OTHER RECEIVABLES, EUR

	2013	2012
Advances paid	61,067.92	10,958.67
Other current receivables	124,991.92	105,456.91
Total	186,059.84	116,415.58

14. EQUITY, EUR

	2013	2012
Share capital 1 Jan	922,529	916,476
Increase in share capital	0	6,053
Share capital 31 Dec	922,529	922,529
Unrestricted invested equity fund 1 Jan	6,203,663	6,072,472
Subscription from personnel share issue	0	131,191
Unrestricted invested equity fund 31 Dec	6,203,663	6,203,663
Retained earnings	-2,387,140	-4,035,631
Profit/loss for the financial period	649,887	1,647,490
Equity Total	5,388,940	4,738,051

Statement on Distributable Funds	2013	2012
Retained earnings	-2,387,140	-4,035,631
Profit/loss for the financial period	649,887	1,647,490
Unrestricted invested equity fund	6,203,663	6,203,663
Total	4,466,410	3,815,522

15. CAPITAL LOAN

Transferred as part of the Siltanet business operations transaction in 2010, the company has an R&D capital loan from TEKES (the Finnish Funding Agency for Technology and Innovation). The remaining value of the capital loan is EUR 4,000. In 2013, the interests for the capital loan were EUR 442.06. The terms of the loan correspond to the Companies Act's terms for subordinated loans.

16. ACCRUED LIABILITIES AND DEFERRED INCOME, EUR

	2013	2012
Personnel related items	668,086.98	789,485.99
Accruals	0	324,528.00
Other accrued liabilities and deferred income	144,442.06	232,226.71
Total	812,529.04	1,346,240.70

17. OTHER LIABILITIES, EUR

	2013	2012
Personnel related items	84,617	108,543
Hybrid/interest	200,000	
VAT liabilities	148,262	17,040
Total	432,880	125,583

18. OTHER COMMITMENTS, EUR

Non-terminable rental agreements for office facilities – future rent payment	2013	2012
Within one year	308,030.00	313,510.72
Within more than one year but no more than 5 years	0.00	60,843.00
Total	308,030.00	374,353.72

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

Non-terminable rental agreements for IT services – future rent payment	2013	2012
Within one year	9,451.81	14,177.72
Within more than one year but no more than 5 years	0.00	9,451.81
Total	9,451.81	23,629.53

Non-terminable rental agreements for vehicles – future rent payment	2013	2012
Within one year	0.00	6,228.54
Within more than one year but no more than 5 years	0.00	0.00
Total	0.00	6,228.54

Guarantees given	2013	2012
Rental guarantees (pledged)	105,278	105,278

19. GROUP COMPANIES

Group companies, 31 December 2013	Domicile	Group holding, %	Votes, %
SSH Communications Security Corporation, Helsinki	Finland		
SSH Communications Security Inc., Redwood City	USA	100	100
SSH Communications Security Operations Oy, Helsinki	Finland	100	100
SSH Communications Security Ltd, Hong Kong	Hong Kong	100	100
SSH Communications Security Solutions Oy, Helsinki	Finland	100	100

SIGNATURES TO THE BOARD OF DIRECTORS REPORT AND FINANCIAL STATEMENTS

HELSINKI, 5 FEBRUARY 2014

PÄIVI HAUTAMÄKI
Chairman of the Board of Directors

SAMI AHVENNIEMI
Member of the board

TATU YLÖNEN
CEO

AUDITOR'S NOTE

We have today issued an auditors' report based on our audit.
Helsinki, 27 February 2014

KPMG Oy Ab

KIRSI JANTUNEN
APA

List of accounting books and voucher types and method of storage

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

AUDITOR'S REPORT

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

TO THE ANNUAL GENERAL MEETING OF SSH COMMUNICATIONS SECURITY CORPORATION

We have audited the accounting records, the financial statement, the report of the Board of Directors, and the administration of SSH Communications Security Corporation for the year ended December 31, 2013. The financial statements comprise the consolidated balance sheet, comprehensive income statement, statement of changes in equity and cash flow statement, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement, and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

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

Auditor's responsibility

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

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

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

Opinion on the consolidated financial statements

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

Opinion on the company's financial statements and the report of the Board of Directors

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

Helsinki, 27 February 2014

KPMG OY AB

KIRSI JANTUNEN
Authorized Public Accountant

Corporate **Governance**

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

More information on governance practices of the company is available at http://www.ssh.com/index.php/investor-relations/corporate-governance.html. Corporate Governance Statement 2014 is also published in the same page. The tasks of the Annual General Meeting and the Board of Directors are governed by the Finnish Companies Act, the Articles of Association of the Company, decisions of the General Meetings of Shareholders, legislation regarding accounting rules and IFRS as well as the Securities Market, and the rules of the NASDAQ OMX Helsinki Ltd., and other regulations.

Information for **Shareholders**

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

ANNUAL GENERAL MEETING

The company's Annual General Meeting will be held at Valimotie 8, Helsinki, Finland, on Thursday, 20 March 2014 at 10:00 a.m. More information on how to attend as well as the documents for the meeting are available on the company's website www.ssh.com → About → Investor Relations.

2014 FINANCIAL CALENDAR

The company will publish the following financial reports during 2014:

Financial Statements Bulletin for 2013	6 February
Annual Report 2013	During week 9
Interim Report 1 January to 31 March 2014	24 April
Interim Report 1 January to 30 June 2014	23 July
Interim Report 1 January to 30 September 2014	22 October

SSH COMMUNICATIONS SECURITY SHARE FACTS

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

INVESTOR RELATIONS CONTACTS

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

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