# Financial Statements

SSH Communications Security Corporation

31 December 2012

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## 1. REPORT OF THE BOARD OF DIRECTORS FOR 1 JAN - 31 DEC 2012

**Net Sales**

| EUR million | 10-12/ 2012 | 7-9/ 2012 | 4-6/ 2012 | 1-3/ 2012 | 1-12/ 2012 | 10-12/ 2011 | 1-12/ 2011 |
|---|---|---|---|---|---|---|---|
| GEOGRAPHICAL SEGMENT | | | | | | | |
| Americas (AMER) | 1.8 | 1.6 | 1.5 | 1.1 | 6.0 | 1.1 | 4.8 |
| Asia and the Pacific (APAC) | 0.4 | 0.5 | 0.5 | 0.3 | 1.6 | 0.4 | 1.3 |
| Europe and the rest of the world (EROW) | 1.5 | 0.8 | 0.9 | 1.2 | 4.3 | 0.5 | 1.9 |
| SSH Communications Security Group total | 3.6 | 2.8 | 2.9 | 2.6 | 11.9 | 2.0 | 8.1 |
| BY OPERATION | | | | | | | |
| License sales | 1.4 | 1.2 | 1.4 | 1.2 | 5.0 | 0.7 | 2.8 |
| Consulting | 0.6 | | | | 0.6 | | |
| Maintenance | 1.6 | 1.7 | 1.5 | 1.4 | 6.3 | 1.3 | 5.3 |
| Total | 3.6 | 2.8 | 2.9 | 2.6 | 11.9 | 2.0 | 8.1 |

**Future Outlook**

SSH Communications Security estimates its revenue to grow significantly from 2012 driven by strong need for its products and services. The company continues to invest heavily in products, sales, and marketing, which will impact profitability in the first half of the year 2013. Nevertheless, the company estimates the year 2013 to be profitable.

Upside possibilities include patent revenue and better than expected customer demand. Downside risks include delays in product development and closing new business, competition, and macroeconomic challenges.

**Net Sales**

Consolidated net sales for January-December totaled EUR 11.9 million (EUR 8.1 million), up by 47.9%, year on year.

The majority of SSH Communications Security's invoicing is U.S. dollar based. During the reporting period, the U.S. dollar's average exchange rate to euro strengthened approximately +4.1% compared to the same period a year ago. With comparable exchange rates, 2012 net sales growth would have been +42.1% compared with 2011 corresponding period.

**Profit and Profitability Trends**

Operating profit for January–December amounted to EUR 1.1 million (EUR -2.0 million), with net profit totaling EUR 1.1 million (EUR -2.2 million).

Sales, marketing, and customer support expenses for the January-December reporting period amounted to EUR -5.9 million (EUR -5.4 million), while research and development expenses totaled EUR -2.7 million (EUR -2.5 million), and administrative expenses EUR -1.4 million (EUR -2.0 million).

Non-recurring items during January-December were EUR -0.4 million (EUR -1.1 million) due to moving the office in Helsinki, costs caused to the company due to the public tender offer of all SSH Communications Security Oyj shares, and due to the personnel related changes.

**Balance Sheet and Financial Position**

The financial position of SSH Communications Security improved clearly during the reporting period. The consolidated balance sheet total on 31 December, 2012 stood at EUR 12.5 million (EUR 6.4 million), of which liquid assets accounted for EUR 6.6 million (EUR 2.4 million), or 52.9% of the balance sheet total. On 31 December, 2012, gearing, or the ratio of net liabilities to shareholders' equity, was -105.2% ( -230.0%) and the equity ratio stood at 70.0% (36.2%). Balance sheet was strengthened by hybrid capital securities in December as announced on 21 December, 2012.

The reported gross capital expenditure for the period totaled EUR 1.2 million (EUR 0.7 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 -0.1 million).

During January-December, SSH Communications Security reported a positive cash flow of EUR 1.3 million (EUR -0.8 million) from business operations, and investments showed a negative cash flow of EUR -1.2 million (EUR -0.7 million). Cash flow from financing totaled EUR 4.1 million (EUR 2.5 million). Total cash flow from operations, investments, and financing was EUR 4.2 million (EUR 0.9 million) during the period.

**Research and Development**

Research and development expenses for January-December totaled EUR -2.7 million (EUR -2.5 million), the equivalent of 22.7% of net sales (31.3%).

In the reporting period, the research and development cost capitalizations amount to EUR 1.1 million (EUR 0.6 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 on 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.
- Large portion of the company revenue is invoiced in the U.S. dollar so possible large fluctuation in the U.S. dollar rates during 2013 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 70 (52) employees as at the end of December, up by 18 persons or 34.6% on the previous year. Of the employees, 45 were based in Finland, 19 in the USA, and 6 in Hong Kong.

The average age of the employees was 39.4 years. 21% of the employees were women and 79% men. At the end of the period under review, 46% of the employees worked in research and development, 41% in sales, marketing, and customer support, and 13% in corporate administration.

Tatu Ylönen is the CEO. As separately announced by the company on 10 February 2012, Jyrki Lalla, M.Sc. (Econ.), was appointed the new CFO of the company as of 1 April 2012.

At the end of the reporting period, the parent company had 45 (35) employees on its payroll, on average 40 (44) employees during the period under review. Parent company salaries, bonuses, and other personnel expenses during the financial period totaled EUR 3.4 million (3.8 million).

**Board and Auditors**

The Annual General Meeting (AGM) on 28 March 2012 elected Päivi Hautamäki, Sami Ahvenniemi, and Tatu Ylönen as the members of the Board of Directors of the company. Päivi Hautamäki was elected as the Chairman of the Board of Directors in the board's organizing meeting.

The Authorized Public Accountants KPMG Oy Ab was re-elected as the auditor of the company, with Kirsi Jantunen, authorized public accountant, as the 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 convey one vote at the shareholder's meeting. Under the Articles of Association, the CEO is appointed by the Board of Directors.

**Corporate Governance**

SSH Communications Security complies with NASDAQ OMX Helsinki Ltd, and 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 6,366,775 (valued at EUR 3,202,446). The highest quotation was EUR 0.90 and the lowest EUR 0.30. The trade-weighted average share price for the period was EUR 0.50 and the share closed at EUR 0.76 (28 December 2012).

As announced on 4 May 2012, Tatu Ylönen´s Clausal Computing Oy acquired with public tender offer about 10.3% of all shares and votes.

The company’s principal owner Tatu Ylönen holds directly and through his company, Clausal Computing Oy, now 57.7% of the company's shares, Assetman Oy holds 13.0% and SSH Management Investment Corp 4.7%. 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. Two Group companies were closed during the financial period: SSH Communications Security Licensing S.A R.L (Luxembourg) and SSH Communications Security Operations Oy branch in the United Kingdom.

SSH Management Investment Corp is part of the SSH Communications Security Group consolidated financial statements according to its shareholder agreement. More information on related party transactions concerning this arrangement is available in note 29 in the consolidated financial statements.

## Information on Shareholders

### Distribution of Ownership by Sector

| Type of sector | No. of shares | Percentage of shares and votes; % |
|---|---|---|
| Companies | 11,563,831 | 37.61 |

| | | |
|---|---|---|
| Financial and insurance institutions | 223,279 | 0.73 |
| Households and private individuals | 18,820,662 | 61.20 |
| Non-profit organizations | 80,500 | 0.26 |
| Foreign shareholders | 62,711 | 0.20 |
| 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 | 1,377 | 43.91 | 78,020 | 0.25 |
| 101-500 | 656 | 20.94 | 201,450 | 0.66 |
| 501-1,000 | 342 | 10.92 | 291,081 | 0.95 |
| 1,001-5,000 | 521 | 16.63 | 1,288,001 | 4.19 |
| 5,001-10,000 | 114 | 3.64 | 7,886,858 | 2.56 |
| 10,001-50,000 | 98 | 3.13 | 1,500,767 | 4.88 |
| 50,001-100,000 | 9 | 0.29 | 543,225 | 1.77 |
| 100,001-500,000 | 10 | 0.32 | 1,242,524 | 4.04 |
| 500,001-999,999,999 | 6 | 0.19 | 24,818,657 | 80.71 |
| **Total** | **3,133** | **100** | **30,750,983** | **100.00** |
| of which nominee-registered | 5 | | 171,503 | 0.56 |

**The Ten Largest Shareholders as of 31 December 2012, Excluding Nominee-Registered**

| | % | Shares |
|---|---|---|
| Ylönen Tatu | 45.26 | 13,919,048 |
| Assetman Oy | 13.01 | 4,000,000 |
| Clausal Computing Oy | 12.39 | 3,808,650 |
| SSH Management Investment Oy | 4.66 | 1,433,750 |
| Gaselli Capital Oy | 3.74 | 1,150,000 |
| Siltanet Oy | 1.65 | 507,209 |

| | | |
|---|---|---|
| Autocarrera Oy Ab | 1.07 | 330,115 |
| Nordea Bank Finland Plc | 0.52 | 158,629 |
| Poutanen Jukka Tapani | 0.49 | 150,000 |
| Altonen Manu Veikko | 0.44 | 136,400 |
| Total | 83.23 | 25,593,801 |
| Nominee-registered | 0.56 | 171,503 |

**Share Capital and Board Authorizations**

The registered share capital of SSH Communications Security Corporation as of 31 December 2012 was EUR 922,529, divided into 30,750,983 shares.

**Share Subscriptions Using Option Certificates from the Company Stock Option Plans in 2012 and 2011 (no. of shares):**

| | **2012** | **2011** |
|---|---|---|
| I/1999 option plan class C option certificates | | 250 |
| I/1999 option plan class D option certificates | | 250 |
| I/1999 option plan class E option certificates | 375 | |
| I/1999 option plan class F option certificates | 1,525 | 500 |
| I/1999 option plan class G option certificates | 1,650 | |
| I/1999 option plan class H option certificates | 925 | |
| Total | **4,475** | **1,000** |

The stock option subscriptions led to an increase of EUR 134.25 (EUR 30.00) in share capital.

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon the issuing of in total 5,500,000 shares, 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 2013 at the latest. The Board of Directors decided on 27 July 2012 an option plan I/2012 of maximum 2,000,000 options, each of which entitles to subscribe one share at a price of EUR 0.65. The Board of Directors decided on 4 December, 2012, upon a share issue directed to personnel, from which 197,300 shares were subscribed increasing the shareholder´s equity with EUR 5,919.

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, and 2012.

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. The stock option plan (I/1999) class G and H certificates are also traded on the NASDAQ OMX Helsinki.

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 2012. As announced on December 21, 2012, hybrid capital securities were subscribed by Tatu Ylönen. During the reporting period, there has not been any other significant transactions with related parties.

**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 2012-31 Dec 2012 | 1 Jan 2011-31 Dec 2011 | 1 Jan 2010-31 Dec 2010 |
|---|---|---|---|
| Net sales, EUR | 11,919,987 | 8,058,571 | 9,099,750 |
| Operating profit/loss, EUR | 1,083,333 | -2,036,349 | -717,676 |
| % of net sales | 9.1 | -25.3 | -7.9 |
| Profit/loss before taxes, EUR | 1,130,209 | -2,172,958 | -454,391 |
| % of net sales | 9.4 | -27.0 | -5.0 |
| Return on equity, % | 30.9 | -110.0 | -12.8 |
| Return on investments, % | 28.1 | -99.6 | -10.5 |
| Net interest-bearing debt, EUR | -6,577,651 | -2,495,335 | -3,995,216 |
| Gearing, % | -105.2 | -230.0 | -121.0 |
| Equity ratio, % | 70.0 | 36.2 | 69.1 |
| Gross investments in tangible and intangible assets, EUR | 1,185,655 | 709,944 | 97,800 |
| % of net sales | 10.0 | 8.8 | 1.2 |
| Research and development costs, EUR | 2,703,540 | 2,518,805 | 2,314,400 |
| % of net sales | 22.7 | 31.3 | 25.2 |
| Research and development costs without | 3,646,148 | 3,092,979 | 2,314,400 |

| | | | |
|---|---|---|---|
| investments, EUR | | | |
| % of net sales | 30.5 | 38.3 | 25.2 |
| Personnel on average | 61 | 61 | 68 |
| Personnel at the end of the period | 70 | 52 | 70 |
| Salaries and fees, EUR | 4,338,157 | 5,040,780 | 4,890,580 |

**Indicators Per Share**

| | 1 Jan 2012-31 Dec 2012 | 1 Jan 2011-31 Dec 2011 | 1 Jan 2010-31 Dec 2010 |
|---|---|---|---|
| Earnings per share, EUR | 0.04 | -0.07 | -0.02 |
| Earnings per share, considering dilution effect, EUR | 0.04 | -0.07 | -0.02 |
| Equity per share, EUR | 0.20 | 0.03 | 0.10 |
| Dividends, EUR | 0 | 0 | - |
| Dividends per share, EUR | 0.00 | 0.00 | 0.00 |
| Dividend pay-out ratio, % | - | - | - |
| Effective dividend yield, % | 0.0 | 0.0 | 0.0 |
| Return of capital, EUR | 0.0 | 0.0 | 1,494,922 |
| Return of capital per share, EUR | 0.00 | 0.00 | 0.05 |
| Adjusted average number of shares during the period, 1,000 | 30,552 | 30,549 | 29,900 |
| Adjusted average number of shares at the end of the period, 1,000 | 30,751 | 30,549 | 30,548 |
| Adjusted average number of shares considering dilution effect, 1,000 | 30,754 | 30,563 | 30,585 |
| Price per earnings ratio (P/E) | 19.5 | -4.2 | -52.1 |
| Market capitalization at the end of the period, EUR million | 23.4 | 9.2 | 24.8 |

| | 1 Jan 2012-31 Dec 2012 | 1 Jan 2011-31 Dec 2011 | 1 Jan 2010-31 Dec 2010 |
|---|---|---|---|
| Share performance on the Helsinki Stock Exchange, EUR | | | |
| Average price | 0.50 | 0.51 | 0.91 |
| Share price, year end | 0.76 | 0.30 | 0.83 |
| Lowest quotation | 0.30 | 0.29 | 0.76 |
| Highest quotation | 0.90 | 0.89 | 1.15 |
| | | | |
| Volume of shares traded, millions | 6.4 | 2.3 | 4.5 |
| Volume of shares traded, % of total number | 20.7 | 7.5 | 15.1 |
| Volume of shares traded, EUR million | 3.2 | 1.2 | 4.1 |

### Calculation of Financial Ratios

**Return on Equity, % (ROE)**

$$\frac{\text{Profit/loss for the financial period}}{\text{Equity (average during the financial period)}} \, x\, 100$$

**Return on Investment, % (ROI)**

$$\frac{\text{Profit/loss before taxes} + \text{interest and other financial costs}}{\text{Balance sheet total - non - interest bearing debts (average during financial period)}} \, x\, 100$$

**Equity Ratio, %**

$$\frac{\text{Equity}}{\text{Balance sheet total - advance payments received}} \, x\, 100$$

**Earnings Per Share (EPS)**

$$\frac{\text{Profit/loss for the financial period}}{\text{Average number of outstanding shares during the financial period}}$$

**Diluted EPS**

$$\frac{\text{Profit/loss for the financial period - interest from hybrid capital securities}}{\text{Adjusted average number of shares considering dilution effect}}$$

**Dividend Per Share**

$$\frac{\text{Dividend}}{\text{Number of outstanding shares during the financial period}}$$

**Dividend Pay-out Ratio %**

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} x\, 100$$

**Equity Per Share**

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

**Gearing %**

**Interest bearing debt – liquid assets** **Equity**

## 2. CONSOLIDATED FINANCIAL STATEMENTS

### 2.1. Consolidated Comprehensive Income Statement

# Comprehensive Income Statement

| EUR | Note * | **1 Jan-31 Dec 2012** | **1 Jan-31 Dec 2011** |
|---|---|---|---|
| NET SALES | 4 | **11,919,987** | **8,058,572** |
| Cost of goods sold | | 939,873 | 139,772 |
| GROSS MARGIN | | **10,980,113** | **7,918,800** |
| Other operating income | 5 | 1,169 | 1,536 |
| Sales and marketing costs | 6, 7 | 5,885,169 | 5,418,678 |
| R&D costs | 6, 7 | 2,703,540 | 2,518,805 |
| Administrative costs | 6, 7 | 1,309,240 | 2,019,202 |

| | | | |
|---|---|---|---|
| OPERATING PROFIT/LOSS | | **1,083,333** | **-2,036,349** |
| Financial income | 8 | 187,330 | 71,154 |
| Financial costs | 9 | 140,454 | 207,815 |
| PROFIT/LOSS BEFORE TAXES | | **1,130,209** | **-2,173,010** |
| Income tax | 10 | 7,635 | 21,234 |
| PROFIT/LOSS FOR THE FINANCIAL PERIOD | | **1,122,574** | **-2,194,244** |
| OTHER COMPREHENSIVE INCOME/COSTS | | | |
| Translation differences | | - 133,644 | 73,170 |
| COMPREHENSIVE PROFIT/LOSS FOR THE FINANCIAL PERIOD | | **988,930** | **-2,121,074** |
| Profit/loss for the financial period attributable to | | | |
| equity holders of the parent company | | 1,135,036 | -2,177,230 |
| non-controlling interest | | -12,462 | -17,014 |
| Comprehensive profit/loss for the financial period attributable to: | | | |
| equity holders of the parent company | | 1,001,392 | -2,104,060 |
| non-controlling interest 1) | | -12,462 | -17,014 |
| Earnings per share (undiluted) | 11 | 0.04 | -0.07 |
| Earnings per share (diluted) | 11 | 0.04 | -0.07 |

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

### 2.2. Consolidated Balance Sheet

## Balance Sheet

| EUR | Note * | 31 Dec 2012 | 31 Dec 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS | | | |
| Tangible assets | 12 | | |
| Machinery & equipment | | 128,465 | 141,367 |
| Other tangible assets | | 153 | 1,090 |
| Tangible assets, total | | **128,618** | **142,457** |
| Intangible assets | 13 | | |
| Immaterial rights | | 2,054,548 | 1,302,701 |
| Intangible assets, total | | **2,054,548** | **1,302,701** |
| Investments | | | |
| Other shares | | 11,000 | 14,467 |
| Investments, total | | **11,000** | **14,467** |
| NON-CURRENT ASSETS, TOTAL | | **2,194,165** | **1,459,626** |
| CURRENT ASSETS | | | |
| Short-term receivables | | | |
| Accounts receivable | 14 | 3,109,627 | 2,090,774 |
| Other receivables | 15 | 391,701 | 332,557 |

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

| | | | |
|---|---|---|---|
| Prepaid expenses and accrued income | 16 | 199,836 | 59,826 |
| Current receivables, total | | **3,701,164** | **2,483,157** |
| Cash and cash equivalents | 17 | **6,613,742** | **2,414,681** |
| CURRENT ASSETS, TOTAL | | **10,314,907** | **4,897,838** |
| **ASSETS, TOTAL** | | **12,509,073** | **6,357,464** |

# Balance Sheet

| EUR | Note* | 31 Dec 2012 | 31 Dec 2011 |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| EQUITY ATTRIBUTABLE TO THE PARENT COMPANY SHARE-HOLDERS | | | |
| Share capital | | 922,529 | 916,476 |
| Fair value and other reserves | | 225,058 | 151,682 |
| Translation differences | | -1,314,739 | -1,181,095 |
| Unrestricted invested equity fund | | 4,561,663 | 4,429,472 |
| Other fund | | 85,000 | 85,000 |
| Other equityfund | | 3,974,346 | - |
| Fund for own shares | | -980,240 | -980,240 |
| Retained earnings | | -1,441,689 | -2,576,725 |
| | | **6,031,928** | **844,570** |
| NON-CONTROLLING INTEREST | | | |
| Non-controlling interest 1) | | 221,738 | 234,200 |
| EQUITY, TOTAL | 18 | **6,253,666** | **1,078,770** |
| NON-CURRENT LIABILITIES | | | |
| Financial liabilities | 21 | 130,082 | 121,652 |
| NON-CURRENT LIABILITIES, TOTAL | | **130,082** | **121,652** |
| CURRENT LIABILITIES | | | |
| Capital loan | | 36,091 | 115,688 |
| Advances received | 22 | 3,579,281 | 3,373,604 |

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

| | | | |
|---|---|---|---|
| Accounts payable | 23 | 546,382 | 496,253 |
| Accrued expenses | 24 | 1,410,626 | 906,263 |
| Tax liabilities | 24 | 29,320 | 32,084 |
| Other liabilities | 25 | 523,625 | 233,149 |
| CURRENT LIABILITIES, TOTAL | | **6,125,325** | **5,157,041** |
| LIABILITIES, TOTAL | | **6,255,407** | **5,276,003** |
| **EQUITY AND LIABILITIES, TOTAL** | | **12,509,073** | **6,357,464** |

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

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

**2.3. Consolidated Cash Flow Statement**

## Cash flow statement

| | Note* | 31 Dec 2012 | 31 Dec 2011 |
|---|---|---|---|
| **Cash flow from business operations** | | | |
| Sales revenue | 4,14,22 | 10,907,655 | 8,623,700 |
| Revenue from other business operations | | 1,169 | 1,536 |
| Costs of business operations | 6,7,23, 24,25 | -9,595,805 | -9,348,864 |
| Interest and payments on other financial costs of business operations | | -124,888 | -117,049 |
| Interest and other financial revenue from business operations | | 167,309 | 6,401 |
| Taxes paid | | -6,556 | -5,604 |
| Cash flow from business operations | | 1,348,885 | -839,880 |
| **Cash flow from investing activities** | | | |

| | | | |
|---|---|---|---|
| Investments in tangible and intangible assets | 12,13 | -1,208,605 | -693,897 |
| **Cash flow from investing activities** | | **- 1,208,605** | **-693,897** |
| | | | |
| **Cash flow from financing activities** | | | |
| Proceeds from short-term financial investments | | 4,000,000 | 2,452,744 |
| Paid liabilities | | -79,597 | - |
| Proceeds from issuance of share capital | | 134 | 30 |
| Personnel share issue | 20 | 138,244 | - |
| **Cash flow from financing activities** | | **4,058,781** | **2,452,744** |
| | | | |
| **Change in liquid assets** | | **4,199,061** | **918,997** |
| | | | |
| **Liquid assets at beginning of period** | 19 | 2,414,681 | 1,495,684 |
| Exchange rate adjustment | | | |
| Change in liquid assets | | 4,199,061 | 918,997 |
| **Liquid assets at end of period** | 19 | **6,613,742** | **2,414,681** |

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

## 2.4. Statement of Changes in Consolidated Equity

### Equity Attributable to the Parent Company Shareholders

| | 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 2011** | | **916,446** | **139,150** | **85,000** | | **-1,254,265** | **4,429,472** | **-980,240** | **-399,496** | **251,214** | **3,187,282** |
| **Comprehensive profit/loss** | | | | | | | | | | | |
| Profit/loss for the period | | | | | | | | | -2,177,230 | -17,014 | - 2,194,244 |
| Other comprehensive items | | | | | | | | | | | |
| Translation differences | | | | | | 73,170 | | | | | 73,170 |
| **Comprehensive profit/loss for financial period, total** | | | | | | **73,170** | | | **-2,177,230** | **-17,014** | **- 2,121,287** |
| Shares subscribed on option rights | 20 | 30 | | | | | | | | | 30 |
| SSH Management Investment Oy | | | 12,532 | | | | | | | | 12,532 |
| **Transactions with shareholders, total** | 3 0 | | 12,532 | | | | | | | | 12,562 |
| **Equity 31 Dec 2011** | | **916,476** | **151,682** | **85,000** | | **-1,181,095** | **4,429,472** | **-980,240** | **-2,576,725** | **234,200** | **1,078,770** |

| € | 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** | **-2,576,725** | **234,200** | **1,078,770** |
| **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 the financial period, total** | | **0** | **0** | **0** | | **-133,644** | **0** | **0** | **1,135,036** | **-12,462** | **988,930** |
| Hybrid capital securities | | | | | 3 974 346 | | | | | | 3,974,346 |
| Shares subscribed on option rights | 20 | 134 | | | | | | | | | 134 |
| Share issue | | 5,919 | | | | | 132,191 | | | | 138,110 |
| SSH Management Investment Oy | | | 73,376 | | | | | | | | 73,376 |
| **Transactions with shareholders, total** | | 6,053 | 73,376 | 85 000 | | 0 | 132,191 | 0 | 0 | | 4,185,966 |
| **Equity 31 Dec 2012** | | **922,529** | **225,058** | **85 000** | **3 974 346** | **-1,314,739** | **4,561,663** | **-980,240** | **-1,441,689** | **221,738** | **6,253,666** |

## Notes to the Consolidated Financial Statements

## 1 General Information

SSH Communications Security Corporation (formerly Tectia 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. 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 address Takomotie 8, 00380 Helsinki, Finland.

The SSH Communications Security Board of Directors approved this financial statement for publication at its meeting on 13 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 2012. The aforementioned standards are the standards and interpretations thereof approved for use in the EU pursuant to Regulation (EC) No. 1606/2002 implemented in the Finnish Accounting Act and legislation based thereon. The notes to the consolidated financial statements are also compliant with Finnish accounting and company legislation.

The consolidated financial statements are based on original acquisition costs unless otherwise noted in the accounting principles. The consolidated financial statements are presented in full euros unless otherwise stated.

In November 2009, the former Management Group and former CEO of the Group set up a company named SSH Management Investment Oy (SMI), through which the management incentive scheme has been implemented. The company owns 1,433,750 shares in the parent company. This arrangement is explained in more detail under note 29 ‘Group companies and related party transactions’ to the consolidated financial statement. The parent company holds a controlling interest in SSH Management Investment Oy pursuant to the terms and conditions of the shareholders’ agreement, and accordingly the company is incorporated in the consolidated financial statements. The shares in the parent company held by SSH Management Investment Oy are deducted from the Group’s unrestricted equity. The deduction from equity is recognized under the fund for own shares. The investments made in the company by the shareholders of SSH Management Investment Oy are recognized as noncontrolling interest in the consolidated balance sheet.

**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 of subsidiaries whose functional currency is other than EUR are translated into euros using the exchange rate of the transaction dates. In practice, the translations are done once a month using the monthly average exchange rate. Balance sheet items are translated into euros with the exchange rate of the balance sheet date. The translation of the comprehensive profit/loss for the financial period using different exchange rates in the comprehensive income statement on the one hand and in the balance sheet on the other causes a translation difference recognized under Group equity under other comprehensive profit/loss items. Translation differences generated through elimination of the acquisition costs of foreign subsidiaries and translation of equity items accrued after acquisition are recognized under other comprehensive profit/loss items. When a subsidiary is sold, accumulated translation differences are recognized in the income statement as part of the gain or loss on the sale.

**Revenue Recognition**

SSH Communications Security net sales derive mainly from software license sales and 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.
- Leased assets based on finance leasing agreements: 3–5 years from month of acquisition, depending on the depreciation period for corresponding items.
- Major renovations of rental premises: According to length of the rental agreement, though no more than 7 years from year of acquisition.

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

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

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

## Intangible Assets

### *Research and Development Costs*

Research costs are recognized as costs in the income statement. Development costs (related to the design and testing of new or improved products) are recognized as intangible assets if capitalization criteria are fulfilled and if it is probable that their economic benefits will accrue to the company pursuant to IAS 38. The most significant development costs to be capitalized constitute R&D personnel costs and subcontracting costs. Other development costs are recognized directly as costs. Development costs once recognized as costs are not capitalized in subsequent financial periods.

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

### *Software*

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

### *Other Immaterial Rights*

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

## Impairment of Tangible and Intangible Assets

The Group will review on each balance sheet date whether there is any indication of an impaired asset. Whenever indicators of impairment exist, the book value of such an asset is compared with its recoverable amount. The recoverable amount is the fair value of the asset less the costs of its sale, or its value in use, whichever is 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 finance leasing liabilities and accounts payable. They are initially recognized at fair value. After the original recognition, other financial liabilities are measured at amortized acquisition cost using the effective interest rate method.

### Leases

Lease liabilities on tangible assets which expose the Group to significant risks and rewards inherent in holding such assets are classified as finance leases. Finance leasing agreements are capitalized at the beginning of the lease at the fair value of the leased asset or the current value of the minimum lease payments, whichever is lower. An asset based on a finance leasing agreement will be depreciated over its useful life or within the lease term, whichever is shorter. Lease payments are apportioned between the finance charge and repayment on the outstanding liability over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Rental obligations are included in interest-bearing liabilities.

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 straightline 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.

### 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. Company didn´t have significiant financial leasing agreements in 2012 and 2011.

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 share capital 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.

***New or Amended IFRS Standards***

The following standards, interpretations, and amendments that entered into force during the 2012 financial period did not have a substantial impact on the Group's financial statement:

- Amendments to IFRS 7 Financial Instruments: Disclosures (effective for financial periods beginning on or after 1 July 2011): Enhancing disclosures about transfers of financial assets, disclosures about fair value and liquidity risk, and their impact on a company's financial position, especially in the case of securitization of financial assets. The changes have impact on the notes of the Group's financial statements.

The following, already published new or amended by IASB, standards and interpretations have not yet been applied by SSH Communications Security. The Group will introduce these as of the effective date of each standard or interpretation or, if the effective date is not the first day of the financial period, from the beginning of the financial period following the effective date.

* = This amendment has not yet been accepted for application in the EU.

Financial period 2013

- Amendments to IAS 1 Presentation of Financial Statements (effective for financial periods beginning on or after 1 July 2012): The key change here is the requirement to revise the way items under other comprehensive income are presented depending on whether they may later be recognized in profit/loss if certain criteria are fulfilled. The amendments have impact on the presentation of the Group's other comprehensive income/cost.
- Amendments to IAS 19 Employee Benefits (effective for financial periods beginning on or after 1 January 2013): In the future, all actuarial gains and losses will be recognized immediately under other items in the comprehensive income statement, i.e., the 'pipe method' will be abandoned and the financing cost will be determined on an offset basis.
- IFRS 13 Fair Value Measurement (effective for financial periods beginning on or after 1 January 2013): IFRS 13 is a compilation of the requirements for measuring fair value and for presenting related information in financial statements, together with a new definition of 'fair value'. The application of fair value is not extended, but the standard provides instructions on how to determine fair value when it is applicable or required under another standard. The standard is not estimated to have an impact on the Group's consolidated financial statements.

- Annual Improvements to IFRSs 2009-2011, May 2012* (effective for financial periods beginning or after 1 January 2013): The Annual improvements procedure gathers all minor and less urgent amendments into one collection implemented once a year. The amendments concern five standards and vary by standard, but they do not have substantial impact.
- Amendments to IFRS 7 Financial Instruments: Disclosures (effective for financial periods beginning on or after 1 January 2013): The revised standard requires disclosure of any information related to the impact of offsetting arrangements in the balance sheet. The notes required by these amendments must be presented retroactively. The changes are not estimated to have an impact on the Group's consolidated financial statements.

Financial period 2014

- IFRS 10 Consolidated Financial Statements (effective for financial periods beginning on or after 1 January 2014): In accordance with current principles, IFRS 10 defines controlling interest as the key factor for deciding whether to incorporate a company in the consolidated financial statement. The standard also provides further instructions on how to determine a controlling interest in situations where it is difficult to estimate. The new standard is not estimated to have a substantial impact on the Group's consolidated financial statements.
- IFRS 11 Joint Arrangements (effective for financial periods beginning on or after 1 January 2014): IFRS 11 describes the accounting for joint arrangements with joint control. There are two forms of joint arrangements: joint operations and joint ventures. The reporting of the joint ventures is required to be done using one unified method, the equity method, and the former proportionate consolidation is no longer permitted. The new standard is not estimated to have a substantial impact on the Group's consolidated financial statements.
- IFRS 12 Disclosure of Interests in Other Entities (effective for financial periods beginning on or after 1 January 2014): IFRS 12 is a compilation of the requirements for information to be presented in financial statements. These have to do with holdings in other entities, including associated companies, joint ventures, structured units, and other off-balance-sheet entities. The new standard expands the notes the Group presents concerning its holdings in other entities. The new standard is not estimated to have a substantial impact on the Group's consolidated financial statements.
- IAS 27: Separate Financial Statements (reissued in 2011) and the amendments thereto (effective for financial periods beginning on or after 1 January, 2014): The reissued standard outlines the accounting and disclosure requirements, that remained when consolidation requirements were moved to IFRS 10, for 'separate financial statements'. The reissued standard has no impact on the Group's consolidated financial statements.
- IAS 28: Investments in Associates (reissued in 2011) (effective for financial periods beginning on or after 1 January, 2014): The standard was reissued due to issuing IFRS 11. The standard outlines the accounting for investments in associates and joint ventures, and includes the requirements for using the equity method. The reissued standard is not estimated to have an impact on the Group's consolidated financial statements.
- Amendments to IAS 32 Financial Statements: Presentation (effective for financial periods beginning on or after 1 January, 2014): These amendments clarify the requirements pursuant to regulation of offsetting financial assets and

liabilities in the balance sheet. The amended standard must be applied retroactively. The changes are not estimated to have an impact on the Group's consolidated financial statements.

Financial period 2015

- IFRS 9 Financial Instruments* and amendments thereto (the effective date from 1 January, 2013 to 1 January, 2015): The new standard is intended to replace the existing IAS 39 Financial Instruments: Recognition and Measurement and will be published in three stages. Amendments in the first stage (published in March 2009) have to do with the classification, recognition, and measurement of financial assets and liabilities. Different measurement methods are retained but they have been simplified. Financial assets are divided into two classifications based on their measurement: financial assets measured at amortized cost and financial assets measured at fair value. The classification (published in Octoner 2010) depends on the company's business model and the contractual provisions of the instrument. Regarding financial liabilities, the majority of the provisions of IAS 39 have been incorporated in the new standard without changes. The incomplete amendments of IFRS 9 are related to depreciations of financial assets and to hedge accounting. In addition, IASB considers certain amendments to classification and valuation principles of the financial assets. The part concerning macro hedge accounting has been differentiated to a separated project from IFRS 9. Because IFRS 9 amendments are still not complete, no estimates on the impacts on the Group's consolidated financial statements can be given at this point.

**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 segements are based on location of customes and operations

The Group's operating segments are:

- North and South America (AMERICAS),
- Europe and Rest of World (EROW), and
- Asia and the Pacific (APAC).

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

**Geographical Distribution of Net Sales**

| Segment | 2012 | 2011 |
|---|---:|---:|
| | | |
| Finland | 1,086,374 | 351,303 |
| EROW (excl. Finland) | 3,222,660 | 1,579,671 |
| AMERICAS | 6,034,700 | 4,812,710 |
| APAC | 1,576,253 | 1,314,888 |
| Total | 11,919,987 | 8,058,572 |

**INCOME STATEMENT**

| **2012** EUR | **EROW** | **AMERICAS** | **APAC** | **Unallocated costs** | **Group total** |
|---|---|---|---|---|---|
| **NET SALES** | **4,309,034** | **6,034,700** | **1,576,253** | | **11,919,987** |
| Cost of goods sold | -804,809 | -135,065 | 0 | | -939,873 |
| **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** | **2,407,974** | **819,580** | **-5,396,496** | **1,083,333** |
| Financial income | | | | | **187,330** |
| Financial costs | | | | | **-140,454** |
| **PROFIT/LOSS BEFORE TAXES** | | | | | **1,130,209** |
| Income tax | | | | | **-7,635** |
| **PROFIT/LOSS FOR THE FINANCIAL PERIOD** | | | | | **1,122,574** |
| Segment assets | **965,122** | **2,360,551** | **437,388** | **8,746,012** | **12,509,073** |

**INCOME STATEMENT**

| **2011** € | **EROW** | **AMERICAS** | **APAC** | **Unallocated costs** | **Group total** |
|---|---|---|---|---|---|
| **NET SALES** | **1,930,974** | **4,812,710** | **1,314,888** | | **8,058,572** |
| Cost of goods sold | -139,772 | | | | -139,772 |

| | | | | | |
|---|---|---|---|---|---|
| **GROSS MARGIN** | **1,791,202** | **4,812,710** | **1,314,888** | | **7,918,800** |
| Other operating income | | | | | **1,536** |
| Segment costs and depreciations | -833,198 | -2,797,994 | -498,240 | -5,827,252 | **-9,956,685** |
| **OPERATING PROFIT/LOSS** | **958,003** | **2,104,716** | **816,647** | **-5,827,252** | **-2,036,348** |
| Financial income | | | | | **71,154** |
| Financial costs | | | | | **-207,815** |
| **PROFIT/LOSS BEFORE TAXES** | | | | | **-2,172,958** |
| Income tax | | | | | **-21,234** |
| **PROFIT/LOSS FOR THE FINANCIAL PERIOD** | | | | | **-2,194,244** |
| Segment assets | **512,981** | **1,846,362** | **417,727** | **3,580,394** | **6,357,464** |

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

| | **2012** | **2011** |
|---|---|---|
| Income from license sales | 4,867,537 | 2,738,064 |
| Income from maintenance | 6,381,896 | 5,272,267 |
| Consulting and other income | 670,553 | 48,239 |
| Total | 11,919,986 | 8,058,572 |

## 5 Other Operating Income, EUR

| | 2012 | 2011 |
|---|---|---|
| Sales of fixed assets | 1,169 | 1,536 |
| Total | 1,169 | 1,536 |

## 6 Other Operating Costs

| **Employee Benefits, EUR** | **2012** | **2011** |
|---|---|---|
| Wages and salaries | 4,854,008 | 5,028,248 |
| Pensions, defined-contribution plan | 548,852 | 502,896 |
| Other ancillary personnel costs | 234,941 | 257,528 |
| Stock options issued | 73,375 | 12,532 |
| Total | 5,711,176 | 5,801,204 |

| **Personnel** | **2012** | **2011** |
|---|---|---|
| Average during the financial period | 61 | 61 |
| At the end of the financial period | 70 | 52 |

| **Personnel distribution by business area on 31 Dec** | **2012** | **2011** |
|---|---|---|
| Sales, marketing, and customer support | 29 | 22 |
| Research and development | 32 | 24 |
| Administration | 9 | 8 |
| Total | 70 | 52 |

**Research and development costs recognized as costs, EUR**

| | 2012 | 2011 |
|---|---|---|
| Total | 2,703,540 | 2,518,805 |

| Other operating costs, EUR | 2012 | 2011 |
|---|---|---|
| External services | 2,132,259 | 1,464,192 |
| Other costs | 2,690,264 | 579,343 |
| Total | 4,822,523 | 2,034,625 |

**Auditor's fees**

Auditor's fees by service category in 2012 were as follows:

- Audit: Group KPMG EUR 19,000 (EUR 18,000), others EUR 8,599 (EUR 6,314).
- Tax counselling: Group KPMG EUR 2,065, others EUR 13,462 (KPMG EUR 7,180, others EUR 31,416).
- Other services: Group KPMG EUR 3,887 (EUR 8,751).

**7 Depreciations by asset category, EUR**

| | 2012 | 2011 |
|---|---|---|
| On machinery and equipment | 48,580 | 33,243 |
| On financial leasing assets | 0 | 49,182 |
| On other tangible assets | 940 | 865 |
| On software | 186,828 | 182,093 |
| On capitalized development costs | 234,247 | 45,791 |
| Total | 470,597 | 311,175 |

| Depreciations by function, EUR | 2012 | 2011 |
|---|---|---|
| Sales and marketing costs | 136,404 | 179,623 |
| Research and development costs | 303,652 | 49,001 |
| Administrative costs | 30,541 | 82,550 |
| Total | 470,597 | 311,175 |

SSH recognized no impairments in 2012 or 2011.

**8 Financial income, EUR**

| | 2012 | 2011 |
|---|---|---|
| Interest revenue | 9,291 | 48,178 |

| | | |
|---|---|---|
| Exchange rate gains, loans, and other receivables | 178, 039 | 22,975 |
| Total | 187,330 | 71,154 |

**9 Financial costs, EUR**

| | **2012** | **2011** |
|---|---|---|
| Interest costs on financial leasing, amortized liabilities | 11,450 | 1,752 |
| Changes in value, currency derivatives | 0 | 70,210 |
| Exchange rate losses, loans, and other receivables | 124,888 | 129,517 |
| Other interest costs | 4,116 | 6,337 |
| Total | 140,454 | 207,815 |

**10 Taxes, EUR**

| | **2012** | **2011** |
|---|---|---|
| Income tax | 7,635 | -21,234 |
| Total | **7,635** | **-21,234** |

The Group's unrecognized tax losses on deferred tax assets are EUR 17.5 million (EUR 20.6 million). EUR 10.1 million (EUR 13.6 million) of the tax losses are in the Finland, and EUR 7.0 million (EUR 7.0 million) in the USA. The tax losses expire in Finland between the years 2013-2018, and in the USA between the years 2020-2029. The amount of unrecognized deferred tax assets from the tax losses is  EUR 5.4 million (EUR 6.4 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:

| | **2012** | **2011** |
|---|---|---|
| Profit/income before taxes | 1,122,574 | -2,172,958 |
| Tax at 26% | -275,184 | 564,969 |
| Effect of foreign subsidiaries' differing tax rates | -45.125 | 26,104 |
| Expenses not deductible for tax purposes | 143 | 2,836 |

| | | |
|---|---|---|
| Tax-free revenue | 0 | -329,896 |
| Use of previously unrecognized tax losses | 265,106 | 37,445 |
| Tax assets not recognized for reported losses | -38,982 | -269,361 |
| Impact of change in Finnish tax rate | | 0 |
| Other taxes | 3,843 | -1,123 |
| Tax in income statement | 7,635 | -21 234 |

Corporate tax in Finland changed from 26% to 24.5% from 1.1.2012 onwards.

## 11 Earnings per share, EUR

| | **2012** | **2011** |
|---|---|---|
| Profit/loss attributable to shareholders of the parent company | 1,135,036 | -2,117,230 |
| Weighted average number of shares in issue (1,000) | 30,552 | 30,549 |
| Earnings per share (undiluted) (EUR per share) | 0.04 | -0.07 |
| Adjusted average number of shares considering dilution effect (1,000) | 30,754 | 30,563 |
| Earnings per share (diluted) (EUR per share) | 0.04 | -0.07 |

## 12 Tangible Assets

| **Machinery and equipment, EUR** | **2012** | **2011** |
|---|---|---|
| Acquisition cost 1 Jan | 1,303,132 | 1,237,065 |
| Translation difference | 14,951 | 11,494 |
| Increase | 51,789 | 54,573 |
| Decrease | 27,927 | |
| Acquisition cost 31 Dec | 1,341,945 | 1,303,132 |
| Accumulated depreciation 1 Jan | 1,181,847 | 1,132,962 |
| Translation difference | 16,793 | 10,856 |
| Depreciation for the financial period | 48,580 | 38,029 |
| Translation difference on depreciation for the financial period | 0 | 0 |
| Accumulated depreciation on decrease | 0 | 0 |
| Accumulated depreciation 31 Dec | 1,213,481 | 1,181,847 |

| | | |
|---|---|---|
| Book value 31 Dec | 128,465 | 121,286 |

| Other tangible assets, EUR | 2012 | 2011 |
|---|---|---|
| Acquisition cost 1 Jan | 4,492 | 7,954 |
| Translation difference | -87 | -3,462 |
| Decrease | 0 | 0 |
| Acquisition cost 31 Dec | 4,405 | 4,492 |
| Accumulated depreciation 1 Jan | 3,402 | 6,424 |
| Translation difference | | -3,954 |
| Depreciation for the financial period | 850 | 932 |
| Accumulated depreciation on decrease | 0 | 0 |
| Accumulated depreciation 31 Dec | 4,252 | 3,402 |
| Book value 31 Dec | 153 | 1,090 |
| Balance sheet value of tangible assets 31 Dec, EUR | 128,618 | 142,457 |

## 13 Intangible Assets

| Software, EUR | 2012 | 2011 |
|---|---|---|
| Acquisition cost 1 Jan | 1,935,265 | 1,860,836 |
| Translation difference | -76,000 | 67,515 |
| Increase | -7,195 | 6,914 |
| Acquisition cost 31 Dec | 1,852,070 | 1,935,265 |
| Accumulated depreciation 1 Jan | 1,896,151 | 1,817,324 |
| Translation difference | -54,446 | 64,264 |
| Depreciation for the financial period | 10,777 | 14,563 |
| Accumulated depreciation on decrease | 0 | 0 |
| Accumulated depreciation 31 Dec | 1,830,928 | 1,896,151 |
| Book value 31 Dec | 21,141 | 39,114 |

| Immaterial rights, EUR | 2012 | 2011 |
|---|---|---|
| Acquisition cost 1 Jan | 1,477,048 | 797,469 |

| | | |
|---|---|---|
| Increase | 1,176,855 | 679,579 |
| Acquisition cost 31 Dec | 2,653,903 | 1,477,048 |
| Accumulated depreciation 1 Jan | 213,461 | 0 |
| Depreciation for the financial period | 410,298 | 213,461 |
| Translation difference | -3,262 | |
| Accumulated depreciation 31 Dec | 620,497 | 213,461 |
| Book value 31 Dec | 2,033,406 | 1,263,587 |

| | | |
|---|---|---|
| Balance sheet value of intangible assets 31 Dec, EUR | 2,054,548 | 1,302,701 |

| | 2012 | 2011 |
|---|---|---|
| **14 Accounts receivable, EUR** | 3,109,627 | 2,090,774 |

**Accounts receivable by age, EUR**

| | 2012 | Impairment losses | Net value 2012 | 2011 | Impairment losses | Net value 2011 |
|---|---|---|---|---|---|---|
| Non-matured | 1,892,849 | 0 | 1,892,849 | 1,630,879 | 0 | 1,630,879 |
| Matured | | | | | | |
| < 30 days | 983,485 | 0 | 983,385 | 369,456 | 0 | 369,456 |
| 30–60 days | 84,254 | 0 | 84,254 | 8,896 | 0 | 8,896 |
| > 60 days | 149,039 | 0 | 149,039 | 81,544 | 0 | 81,544 |
| Total | 3,109,627 | 0 | 3,109,627 | 2,090,774 | 0 | 2,090,774 |

| **Accounts receivable by currency, EUR** | **2012** | **2011** |
|---|---|---|
| EUR | 346,161 | 396,823 |
| USD | 2,951,903 | 1,406,093 |

| | | |
|---|---|---|
| HKD | 0 | 3,404 |
| GBP | 188,396 | 403 |
| CHF | 352,199 | 284,051 |
| Total (EUR) | 3,109,627 | 2,090,774 |

| 15 **Other receivables, EUR** | **2012** | **2011** |
|---|---|---|
| Advances paid | 151,768 | 201,645 |
| VAT receivables | 109,866 | 114,326 |
| Other current receivables | 130,067 | 16,586 |
| Total | 391,701 | 332,557 |

| 16 **Prepaid expenses and accrued income, EUR** | **2012** | **2011** |
|---|---|---|
| Personnel-related | 127,971 | 0 |
| Other prepaid expenses and accrued income | 71,866 | 59,826 |
| Total | 199,836 | 59,826 |

## 17 Fair Values of Financial Assets and Liabilities

The table shows the book value for each financial assets and liabilities item; this is essentially similar to their fair value. Annual closing of 2012 does not include any financial assets and liabilities valued at fair value. .

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Financial assets** | | | |
| Other financial assets | | 6,613,742 | 2,414,681 |
| Investments held to maturity | 14,15 | 3,109,608 | 2,090,774 |
| **Total:** | | **9,723,350** | **4,505,455** |
| | | | |
| **Financial liabilities** | | | |
| Finance leasing liabilities | 19 | 0 | 5,964 |
| Capital loans | | 36,091 | 115,688 |
| Accounts payable and | 22,23 | 1,938,757 | 394,391 |

other liabilities

| | | |
|---|---|---|
| | **1,974,878** | **516,043** |

## 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, 2012 was EUR 922,529 (EUR 916,476.24), and the number of shares was 30,750,983 (30,548,208). Balance sheet was strengthened by hybrid capital securities in December as announced on 21 December, 2012.

Changes in the share capital:

| | **Number of shares** | **Share capital** |
|---|---|---|
| **31 Dec 2011** | **30,549,208** | **916,476** |
| Subscriptions under stock option plan I/1999 | 4,475 | 134 |
| Subscriptions under share issue | 197,300 | 5,919 |
| **31 Dec 2012** | **30,750,983** | **922,529** |

**Description of the equity reserves:**

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 2012
and 2011 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 comprises the purchase cost of own shares eliminated in the group consolidation of SSH Management Investment Oy, the holding company of the Group management.

Other fund

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

Other equity fund

Other fund includes the hybrid capital securities subscribed in December 2012.

## 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.

Capital management concerns equity recognized in the balance sheet. There are no requirements imposed by outside parties on the Group's capital management.

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

Balance sheet was strengthened by hybrid capital securities in December as announced on 21 December, 2012.

**Gearing**

| | **2012** | **2011** |
|---|---|---|
| EUR | | |
| Interest-bearing financial liabilities | 36,091 | 136,658 |
| Interest-bearing receivables | 0 | 0 |
| Cash and cash equivalents | 6,613,742 | 2,414,681 |
| Net liabilities | 6,577,651 | -2,279,023 |
| Equity total | 6,253,666 | 1,078,770 |
| Equity ratio | 70.0 | 36.2 |
| Gearing | -105.2 | -230.0 |

## 20 Share-Based Payments

SSH Communications Security share-based payments consist of the following option plans:

| **Option plan** | **Option certificate** | **Release date** | **Subscription period** | | **Subscription price EUR** | **Options not exercised** |
|---|---|---|---|---|---|---|
| | | | **Begin** | **End** | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **I/1999** | I/1999 G | 05 Aug 1999 | 01 May 2003 | 01 May 2013 | 0.03 | 1,951 |
| | I/1999 H | 05 Aug 1999 | 01 Nov 2003 | 01 Nov 2013 | 0.03 | 1,675 |
| | | | | | | 3,626 |
| | | | | | | |
| **II/2000** | II/2000D | 22 Mar 2001 | 01 May 2003 | 01 May 2013 | 13.87 | 875 |
| | II/2000E | 22 Mar 2001 | 01 Nov 2003 | 01 Nov 2013 | 13.87 | 875 |
| | II/2000F | 22 Mar 2001 | 01 May 2004 | 01 May 2014 | 13.87 | 875 |
| | II/2000G | 22 Mar 2001 | 01 Nov 2004 | 01 Nov 2014 | 13.87 | 875 |
| | | | | | | 3,500 |
| | | | | | | |
| **I/2012** | I/2012A | 27 Jul 2012 | 1 Jun 2014 | 1 Sep 2017 | 0.65 | 660,000 |
| | I/2012B | 27 Jul 2012 | 1 Jun 2016 | 1 Sep 2017 | 0.65 | 660,000 |
| | I/2012C | 27 Jul 2012 | 1 Jun 2017 | 1 Sep 2017 | 0.65 | 680,000 |
| | | | | | | 2,000,000 |

In the company's industry it is common practice internationally that incentives are provided to employees in the form of equity-settled share-based instruments, like options.Personnel of the company belongs to options plans . If not working any more for the company, one looses her/his options.

On the balance sheet date, SSH Communications Security had 2,007,126 stock options outstanding (65,875), representing 6.1% of shares and 6.1% of votes. The weighted average exercise price of outstanding stock options was EUR 0.67 (EUR 4.65). The weighted average of the remaining subscription period was 3.1 years (0.6). The exercise price varies from EUR 0.03 to EUR 13.87, and the remaining subscription period from 4 months to 4.7 years.

Changes in outstanding stock options and in weighted average subscription price:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | 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 | 4.65 | 65,875 | 0.65 | 230,615 |
| Stock options granted | 0.65 | 1,450,000 | 0 | 0 |
| Stock options forfeited | 0 | 0 | 0.03 | 0 |
| Stock options canceled | 4.73 | 54,274 | 0.03 | 163,740 |
| Stock options exercised | 0.03 | 4,475 | 0.03 | 1,000 |
| At the end of the financial period | 0.67 | 2,007,126 | 4.65 | 65,875 |
| Exercisable option rights at the end of the financial period | 0.67 | 2,007,126 | 4.65 | 65,875 |

The weighted average price of SSH Communications Security shares in 2012 was EUR 0.50 (EUR 0.51).

## 21 Financial Liabilities

| Finance leasing liabilities – minimum lease payments, EUR | 2012 | 2011 |
|---|---|---|
| Within one year | 0 | 15,858 |
| Within more than one year but no more than 5 years | 0 | 6,841 |
| Total | 0 | 22,699 |

| Finance leasing liabilities – current value of minimum lease payments, EUR | 2012 | 2011 |
|---|---|---|
| Within one year | 0 | 13,826 |
| Within more than one year but no more than 5 years | 0 | 5,964 |
| Total | 0 | 19,790 |
| | | |
| Future financing costs | 0 | 2 652 |

| Total finance leasing liabilities, EUR | 2012 | 2011 |
|---|---|---|
| Current | 0 | 13,826 |
| Non-current | 0 | 5,964 |

The Group has leased office and IT equipment under long-term agreements. The lease agreements for IT equipment contain renewal options and purchase options at market price. The other lease agreements do not contain renewal or purchase options. All rents are at a fixed rate.

**22 Advances received, EUR**

| | 2012 | 2011 |
|---|---|---|
| | 3,579,281 | 3,373,604 |

**23 Accounts payable, EUR**

| | 2012 | 2011 |
|---|---|---|
| | 546,382 | 496,253 |

**24 Accrued Liabilities and Deferred Income, EUR**

| | 2012 | 2011 |
|---|---|---|
| Personnel-related | 960,098 | 599,546 |
| | | |
| Restructuring provisions | | 352,097 |
| Accruals | 324,528 | |
| Other accrued liabilities and deferred income | 126,000 | 8,435 |
| | | |
| Deferred rental expense benefit | 0 | 61,873 |
| Total | 1,410,626 | 1,021,951 |

**25 Other liabilities, EUR**

| | | 2012 | 2011 |
|---|---|---|---|
| Personnel-related | | 108,681 | 98,665 |
| Finance leasing liabilities | | 0 | 43,220 |
| VAT liabilities | 21 | 2,560 | 5,254 |
| Other current liabilities | | 412,384 | 97,777 |
| Total | | 523,625 | 244,907 |

## 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 U.S. dollar. Transaction risks are managed based on the net position using, when required, forward contracts or options. During the period under review, the Group took action to hedge against exchange rate fluctuations against U.S. dollar. 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 U.S. dollar change on profits: +-10% = +-220/-220 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.

## 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** | **2012** | **2011** |
|---|---|---|
| Within one year | 441,054 | 329,595 |
| Within more than one year but no more than 5 years | 102,819 | 347,245 |
| Total | 543,873 | 677,020 |

| **Non-terminable rental agreements for IT services – minimum rents, EUR** | **2012** | **2011** |
|---|---|---|
| Within one year | 14,177 | 97,035 |
| Within more than one year but no more than 5 years | 9,451 | 50,979 |
| Total | 23,629 | 148,014 |

| **Non-terminable rental agreements for vehicles – minimum rents, EUR** | **2012** | **2011** |
|---|---|---|
| Within one year | 6,228 | 32,006 |
| Within more than one year but no more than 5 years | 0 | 21,170 |
| Total | 6,228 | 53,176 |

The Group rents the office facilities it uses. The duration of the rental agreements is usually 3 to 5 years, and normally the agreements include options to renew past the original termination date. The index, renewal, and other terms and conditions differ from agreement to agreement. The income statement for 2012 includes rents based on rental agreements totaling EUR 398,258 (EUR 337,224).

The Group sub-let part of its office facilities in the 2012 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 2012 includes vehicle leasing costs totaling EUR 48,266 (EUR 76,236).

## 28 Guarantees Given and Other Commitments, EUR

| | 2012 | 2011 |
|---|---|---|
| Rental guarantees (pledged) | 129,824 | 86,619 |

## 29 Group Companies and Related Party Transactions

| 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 Management Investment Oy*, Helsinki | Finland | 0 | 100 |
| SSH Communications Security Solutions Oy, Helsinki | Finland | 100 | 100 |

* SSH Communications Security Corporation holds a controlling interest in the company pursuant to the shareholders’ agreement.

** SSH Communications Security Licensing S.A R.L. was closed in 2012.

| Salaries and Fees Paid to Management and Members of the Board of Directors, EUR | 2012 | 2011 |
|---|---|---|
| CEO/Tatu Ylönen (as of 26 Sep 2011) | 225,000 | 0 |
| CEO/Jari Mielonen (until 26 Sep 2011) | | 162,990 |
| - Severance benefits upon dismissal | | 250,000 |
| Board / Juhani Harvela (until 28 Mar 2012) | 7,500 | 24,000 |
| Board / Pyry Lautsuo (until 28 Mar 2012) | 6,300 | 25,800 |
| Chairman of the Board / Juho Lipsanen (until 28 Mar 2012) | 14,500 | 48,000 |
| Board / Tiia Tuovinen (until 28 Mar 2012) | 6,500 | 27,000 |
| Board / Juha Mikkonen (until 3 Mar 2011) | | 6,000 |
| Chairman of the Board / Päivi Hautamäki (as of 28 Mar 2012) | 18,000 | 0 |
| Board / Sami Ahvenniemi (as of 28 Mar 2012) | 13,500 | 0 |
| Board / Tatu Ylönen | 0 | 0 |

| | 31 Dec 2012 | 31 Dec 2012 | 31 Dec 2011 | 31 Dec 2011 |
|---|---|---|---|---|
| **Share and stock option holdings of Board members** | **Shares** | **Options** | **Shares** | **Options** |
| Pyry Lautsuo (until 28 Mar 2012) | 12,500 | 0 | 12,500 | 0 |
| Juho Lipsanen (until 28 Mar 2012) | 21,865 | 0 | 21,865 | 0 |
| Tatu Ylönen (CEO) | 17,727,698 | 0 | 13,919,048 | 0 |
| Total | 17,762,063 | 0 | 13,953,413 | 0 |

| | 31 Dec 2012 | 31 Dec 2012 | 31 Dec 2011 | 31 Dec 2011 |
|---|---|---|---|---|
| **Share and stock option holdings of the management group** | **Shares** | **Options** | **Shares** | **Options** |
| Tatu Ylönen | 17,727,698 | 0 | 13,919,048 | 0 |
| Kalle Jääskeläinen | 10,000 | 100,000 | 0 | 0 |

| | | | | |
|---|---|---|---|---|
| Matthew McKenna | 25,000 | 200,000 | 0 | 0 |
| Jyrki Lalla | 100,000 | 100,000 | 0 | 0 |
| Mikko Karvinen* | | | 225,653 | 0 |
| Pekka Rauhala* | | | 245,653 | 7,500 |
| Total | 17,862,698 | 400,000 | 14,390,354 | 7,500 |

* Includes indirect ownership through SSH Management Investment Oy.

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

The management holding company, SSH Management Investment Oy (SMI), owns 1,433,750 company shares. Of these, 1,100,000 shares were subscribed in a separate share issue directed at the holding company. Moreover, in December 2009 SSH Management Investment Oy acquired 337,500 company shares on the open market. The acquisition of SSH shares was financed with a capital investment of EUR 266,640 made by the Group management group and a loan of EUR 792,000 granted by the parent company of the Group. The shares will be held by the SMI until it is dissolved. The dissolvment of holding the SMI will be decided by 30 April, 2013 as defined in share holder agreement. The interest rate on the loan granted by the parent company is the 12-month Euribor rate plus a margin of 0.65 percentage points. Interest is paid in case of dividend, otherwise interest is capitalized annually. The loan will be repaid by the date when the holding company is dissolved at the latest. The capital may be repaid in whole or in part at an earlier date. A repayment of EUR 72,000 on the loan was made after the capital return in March 2010. SSH Communications Security Corporation may call in the loan prematurely if SMI violates the terms of the loan agreement. The shares in the parent company held by the holding company form the security for the loan pursuant to the loan agreement. The AGM of SSH Communications Security Corporation on 3 March 2010 decided to authorize the Board of Directors to accept the company's own shares pledged as security.

As of 31 December 2012, the CEO and members of the Board of Directors of SSH Communications Security owned 57.7% (45.7%) of the shares and votes in the company, either directly or indirectly through companies they own. The Board members and CEO have no option rights. Yhtiöllä ei ole poikkeavia eläkejärjestelyjä toimitusjohtajalle tai muulle ylimmälle johdolle.

Management group members apart from the CEO directly or indirectly held about 0.4% (1.5%) of company shares and have a total of 400,000 (0) option rights.

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

**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 0.1 million) in the course of the year 2012. As announced on 21 December, 2012, hybrid capital securities were subscribed by Tatu Ylönen. There were no other essential related party transactions during the period under review.

## 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.

## 3. PARENT COMPANY FINANCIAL STATEMENT

### 3.1. Parent Company Income Statement

| **INCOME STATEMENT** | Note | | |
|---|---|---|---|
| | | **1 Jan - 31 Dec** | **1 Jan - 31 Dec** |
| EUR | | **2012** | **2011** |
| NET SALES | 1 | **6,619,939.35** | **4,094,453.36** |
| Purchasing and production costs | | 878,670.73 | 139,771.60 |
| GROSS MARGIN | | **5,741,268.62** | **3,954,681.76** |
| Research and development costs | 2,3,6 | 2,703,540.29 | 2,540,233.67 |
| Sales and marketing costs | 2,3,6 | 899,482.83 | 2,326,961.41 |
| Administrative costs | 2,3,6 | 1,309,240.00 | 1,587,410.80 |
| Other operating income and costs | 7 | -1,654.88 | -1,270,368.86 |
| OPERATING PROFIT/LOSS | | **830,660.38** | **-1,229,556.25** |
| Financial income and costs | 8 | | |
| Interest revenue and other financing costs | | 193,958.50 | 72,996.66 |
| Interest costs and other financing costs | | 136,128.07 | 118,171.09 |
| Financial income and costs, total | | 57,830.43 | -45,174.43 |
| PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS | | **888,490.81** | **-1,274,730.68** |
| Extraordinary items | | | |
| Extraordinary income | 9 | 759,000.00 | 255,093.97 |
| PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES | | **1,647,490.81** | **-1,019,636.71** |

| | | |
|---|---|---|
| | **1,647,490.81** | **-1,019,636.71** |
| PROFIT/LOSS BEFORE TAXES | | |
| PROFIT/LOSS FOR THE FINANCIAL PERIOD | **1,647,490.81** | **-1,019,636.71** |

3.2. Parent Company Balance Sheet

| **BALANCE SHEET** | Note | | |
|---|---|---|---|
| **EUR** | | **31 Dec 2012** | **31 Dec 2011** |
| | | | |
| **ASSETS** | | | |
| | | | |
| NON-CURRENT ASSETS | | | |
| Intangible assets | 10 | | |
| Immaterial rights | | 2,048,990.40 | 1,294,804.26 |
| Intangible assets, total | | **2,048,990.40** | **1,294,804.26** |
| | | | |
| Tangible assets | 10 | | |
| Machinery and equipment | | 78,488.13 | 105,235.81 |
| Tangible assets, total | | **78,488.13** | **105,235.81** |
| | | | |
| Investments | | | |
| Shares in Group companies | 10 | 104,309.18 | 104,309.18 |
| Other shares | | 11,000.00 | 11,000.00 |
| Investments, total | | **115,309.18** | **115,309.18** |
| | | | |
| NON-CURRENT ASSETS, TOTAL | | **2,242,787.71** | **1,515,349.25** |
| | | | |
| Non-current receivables | | | |
| Receivables from Group companies | 11 | 720,000.00 | 720,000.00 |
| Non-current receivables, total | | **720,000.00** | **720,000.00** |
| | | | |
| Current receivables | | | |
| Accounts receivables | | 226,901.97 | 102,027.09 |
| Receivables from Group companies | 11 | 1,219,186.49 | 110,197.17 |
| Prepaid expenses and accrued income | 12 | 82,253.09 | 29,401.98 |
| Other receivables | 13 | 116,415.58 | 101,312.31 |
| Current receivables, total | | **1,644,757.13** | **342,938.55** |
| Financial instruments | | 6,109,389.14 | 1,992,241.76 |

| | | |
|---|---|---|
| CURRENT ASSETS, TOTAL | **8,474,146.27** | **3,055,180.31** |
| **ASSETS, TOTAL** | **10,716,933.98** | **4,570,529.56** |

| BALANCE SHEET | Note | | |
|---|---|---|---|
| **EUR** | | **31 Dec 2012** | **31 Dec 2011** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| | | | |
| EQUITY | 14 | | |
| Share capital | | 922,529.49 | 916,476.24 |
| Unrestricted invested equity fund | | 6,204,663.35 | 6,072,472.35 |
| Retained profit/loss | | -4,035,631.40 | -3,015,994.69 |
| Profit/loss for the financial period | | 1,647,490.81 | -1,019,636.71 |
| EQUITY, TOTAL | | **4,739,052.25** | **2,953,317.19** |
| | | | |
| LIABILITIES | | | |
| Long-term liabilities | | | |
| Other liabiltiies | | 4,000,000.00 | 0.00 |
| Current liabilities | | | |
| Subordinated loans | 15 | 36,090.67 | 115,687.61 |
| Advances received | | 173,757.29 | 82,638.11 |
| Accounts payable | | 296,210.96 | 431,082.82 |
| Accrued expenses and deferred income | 16 | 1,346,240.70 | 914,699.90 |
| Other liabilities | 17 | 125,583.11 | 73,103.93 |
| Currents liabilities, total | | **1,977,882.73** | **1,617,212.37** |
| | | | |
| LIABILITIES, TOTAL | | **5,977,882.73** | **1,617,212.37** |
| | | | |
| **EQUITY AND LIABILITIES, TOTAL** | | **10,716,934.98** | **4,570,529.56** |

## 3.3. Parent Company Cash Flow Statement

**CASH FLOW STATEMENT**

| EUR | 1 Jan - 31 Dec 2012 | 1 Jan - 31 Dec 2011 |
|---|---|---|
| **Cash flow from business operations** | | |
| Sales revenue | 5,533,962.45 | 4,453,143.92 |
| Revenue from other business operations | 1,654.88 | 1,535.97 |
| Costs of business operations | -5,119,593.83 | -5,547,342.59 |
| Cash flow from business operations before financial items and taxes | 416,023.50 | -1,092,662.70 |
| Interest and payments on other financial costs of business operations | -113,988.20 | -20,179.26 |
| Interest and other financial revenue from business operations | 175,698.63 | -37,753.30 |
| **Cash flow from business operations** | **477,733.93** | **1,150,595.26** |
| | | |
| **Cash flow from investing activities** | | |
| Investments in tangible and intangible assets | -1,178,367.61 | -733,562.62 |
| Repayment on loan receivables | - | 49,538.32 |
| Other investments | - | 3,467.43 |
| **Cash flow from investing activities** | **-1,178,367.61** | **-687,491.73** |
| | | |
| **Cash flow from financing activities** | | |
| Long-term loans raised | 4,000,000.00 | 1,752,744.34 |
| Capital loan repayment | -79,596.94 | 1,050,000.00 |
| Share subscriptions | 134.00 | 30.00 |
| Group contribution received | 759,000.00 | 220,074.80 |
| Payments received from share issue | 138,244.00 | 0.00 |
| **Cash flow from financing activities** | **4,817,781.06** | **3,022,849.14** |
| | | |
| **Change in liquid assets** | **4,117,147.38** | **1,184,762.15** |
| | | |
| **Liquid assets at beginning of financial period** | **1,992,241.76** | **807,479.61** |
| Change in liquid assets | 4,117,147.38 | 1,184,762.15 |
| **Liquid assets at end of financial period** | **6,109,389.14** | **1,992,241.76** |

## 3.4. 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 statement.

*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’. Assets leased under finance leasing agreements and liabilities derived from these are not recognized in the parent company balance sheet.

*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 10,5 million (13.6 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 year of capitalization |
| | Other capitalized expenditure 5 years from year of capitalization |
| Major renovations of rental premises | Length of the rental agreement, though no more than 7 years, from year of capitalisation |

*Research and Product Development Costs*

Research and development costs are recognized as costs in the financial period in which they were 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.

**Notes to the Income Statement**

**1 <u>Net Sales by Market Area, EUR</u>**

| | 2012 | 2011 |
|---|---|---|
| Finland | 1,086,374 | 377,521 |
| Rest of Europe | 2,256,289 | 844,393 |
| North America | 2,424,409 | 1,894,281 |
| Other | 852,867 | 978,258 |
| Total | 6,619,939 | 4,094,453 |

## 2 Operating Costs, EUR

| Other operating costs | 2012 | 2011 |
|---|---|---|
| External Services | 1,718,825.35 | 1,108,722.33 |
| Other | 583,608.55 | 508,606.82 |
| Total | 2,302,433.90 | 1,396,496.56 |

**Auditor's fees**

Auditor’s fees by service category were as follows:

- Audit: EUR 19,000 (EUR 18,000.00)
- Tax counselling: EUR 2,065 (EUR 10,553.40 )
- Other services: EUR 3,887 (EUR 7,326.50 )

## 3 Personnel Costs and Average Number of Employees

| Personnel costs, EUR | 2012 | 2011 |
|---|---|---|
| Wages and salaries | 2,805,036.96 | 3,119,733 |
| Pension costs | 548,852.74 | 504,979 |
| Other ancillary personnel costs | 194,894.87 | 164,564 |
| Total | 3,548,784.57 | 3,789,277 |

| | 2012 | 2011 |
|---|---|---|
| Average number of employees | 40 | 44 |

## 4 Personnel Distribution by Business Area at the End of the Financial Period

| | 2012 | 2011 |
|---|---|---|
| Research and development | 31 | 24 |
| Sales and marketing | 7 | 6 |
| Administration | 7 | 5 |
| Total | 45 | 35 |

## 5 Salaries and Fees Paid to Management and Members of the Board of Directors, EUR

See note 29 to the consolidated financial statement.

## 6 Depreciation and Impairment, EUR

| | 2012 | 2011 |
|---|---|---|
| On immaterial rights | 184,582.77 | 180,239 |
| On research and development costs | 234,247.83 | 45,791 |
| On machinery and equipment | 32,098.55 | 25,196 |
| Total | 450,929.15 | 251,226 |

No impairments were recognized in 2012 nor 2011.

## 7 Other Operating Income and Costs

Other operating income for 2012 comprises an income item of EUR 1,654.88.

Other operating income for 2011 comprised rental income of EUR 1,536. Other operating costs for 2011 included written-off bad debts from wholly-owned subsidiaries to a total of EUR 1,268,833.

## 8 Financing Income and Costs, EUR

| | 2012 | 2011 |
|---|---|---|
| Interest revenue | 16,409.31 | 18,425 |
| Revenue from financial securities | 4,284.18 | 42,770 |
| Exchange rate gains and losses (net) | 53,321.02 | -102,804 |
| Interest costs | -16,184.03 | -3,566 |
| Total | 57,830.43 | -45,174 |

## 9 Extraordinary Income, EUR

| | 2012 | 2011 |
|---|---|---|
| Group contribution, SSH Communicatior curity Operations Oy | 759,000 | 255,093 |

## Notes to the Balance Sheet

### 10 Non-Current Assets and Other Long-Term Investments, EUR

| Immaterial rights | 2012 | 2011 |
|---|---:|---:|
| Acquisition cost 1 Jan | 3,401,169 | 2,713,422 |
| Increase | 1,176,856 | 687,747 |
| Decrease | -3,569 | 0 |
| Acquisition cost 31 Dec | 4,574,456 | 3,401,169 |
| | | |
| Accumulated depreciation 1 Jan | 2,106,635 | 1,880,334 |
| Depreciation for the financial period | 418,830 | 226,031 |
| Accumulated depreciation 31 Dec | 2,525,466 | 2,106,365 |
| Book value 31 Dec | 2,048,990 | 1,294,804 |
| | | |
| **Machinery and equipment** | | |
| Acquisition cost 1 Jan | 1,177,654 | 1,127,672 |
| Increase | 20,285 | 49,982 |
| Decrease | -14,934 | 0 |
| Acquisition cost 31 Dec | 1,183,005 | 1,177,654 |
| | | |
| Accumulated depreciation 1 Jan | 1,072,419 | 1,043,056 |
| Depreciation for the financial period | 32,098 | 29,363 |
| Accumulated depreciation 31 Dec | 1,104,517 | 1,072,419 |
| Book value 31 Dec | 78,488 | 105,236 |
| | | |
| **Investments** | | |
| Book value 1 Jan | 115,309 | 111,842 |
| Increase | 0 | 3,467 |
| Book value 31 Dec | 115,309 | 115,309 |

### 11 Receivables From Group Companies, EUR

| | 2012 | 2011 |
|---|---:|---:|
| Accounts receivable | 1,219,186.49 | 110,197 |

| | | |
|---|---:|---:|
| Loan receivables | 720,000.00 | 720,000 |
| Total | 1,939,186.49 | 830,197 |

**12 Prepaid Expenses and Accrued Income, EUR**

| | **2012** | **2011** |
|---|---:|---:|
| Interest receivables | 39,255.00 | 28,561 |
| Personnel-related | 42,998.00 | 841 |
| Total | 82,253.00 | 29,402 |

**13 Other Receivables, EUR**

| | **2012** | **2011** |
|---|---:|---:|
| Advances paid | 10,958.67 | 72,388 |
| VAT receivables | 0 | 28,812 |
| Other current receivables | 105,456.91 | 112 |
| Total | 116,415.58 | 101,312 |

**14 Equity, EUR**

| | **2012** | **2011** |
|---|---:|---:|
| Share capital 1 Jan | 916,476 | 916,446 |
| Increase in share capital | 6,053 | 30 |
| Share capital 31 Dec | 922,529 | 916,476 |
| | | |
| Unrestricted invested equity fund 1 Jan | 6,072,472 | 6,072,472 |
| Subscription from personnel share issue | 132,191 | 0 |
| Unrestricted invested equity fund 31 Dec | 6,204,663 | 6,072,472 |
| | | |
| Retained earnings | -4,035,631 | -3,015,994 |
| Profit/loss for the financial period | 1,647,490 | -1,019,637 |
| | | |
| Equity total | 4,739,052 | 2,953,317 |

## Statement on Distributable Funds, EUR

| | 2012 | 2011 |
|---|---|---|
| Retained earnings | -4,035,631 | -3,015,994 |
| Profit/loss for the financial period | 1,647,490 | -1,019,637 |
| Unrestricted invested equity fund | 6,204,663 | 6,072,472 |
| Total | 3,816,522 | 2,036,841 |

## 15 Accrued Liabilities and Deferred Income, EUR

| | 2012 | 2011 |
|---|---|---|
| Personnel-related | 789,485.99 | 829,700 |
| Accruals | 324 ,528.00 | 27,145 |
| Other accrued liabilities and deferred income | 232,226.71 | 57,825 |
| Total | 1,346,240.70 | 914,670 |

## 16 Other Liabilities, EUR

| | 2012 | 2011 |
|---|---|---|
| Personnel-related | 108,543.00 | 70,305 |
| VAT liabilities | 17,040.11 | 2,799 |
| Total | 125,583.31 | 73,104 |

## 17 Other Commitments, EUR

**Non-terminable rental agreements for office facilities - future rent payment**

| | 2012 | 2011 |
|---|---|---|
| Within one year | 313,510 | 202,654 |
| Within more than one year but no more than 5 years | 60,843 | 241,990 |
| Total | 374,353 | 444,644 |

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 payments

| IT services | 2012 | 2011 |
|---|---|---|
| Within one year | 14,177 | 97,035 |
| Within more than one year but no more than 5 years | 9 ,451.81 | 50,979 |
| Total | 23,629 | 148,014 |

### Non-terminable rental agreements for vehicles - future rent payments

| | 2012 | 2011 |
|---|---|---|
| Within one year | 6,228.54 | 32,006 |
| Within more than one year but no more than 5 years | 0 | 21,170 |
| Total | 6,228.54 | 53,177 |

### Non-terminable rental agreements for other assets - future rent payments

| | 2012 | 2011 |
|---|---|---|
| Within one year | 0 | 13,826 |
| Within more than one year but no more than 5 years | 0 | 5,964 |
| Total | 0 | 19,790 |

### Guarantees given

| | 2012 | 2011 |
|---|---|---|
| Rental guarantees (pledged) | 105,278 | 69,381 |

### 18 Group Companies

| 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 Management Investment Oy, Helsinki | Finland | 0 | 100 |
| SSH Communications Security Solutions Oy | Finland | 100 | 100 |

**1. SIGNATURES TO THE BOARD OF DIRECTORS REPORT AND FINANCIAL STATEMENTS**

Helsinki 13 February.2013

| | |
|---|---|
| Päivi Hautamäki | Sami Ahvenniemi |
| Chairman of the Board of Directors | Member of the board |

Tatu Ylönen
CEO

## Auditor's note

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

Helsinki 27 February 2013

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 os SSH Communications Security Corporation for the year ended December 31, 2012. 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 toward 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 judgement, 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 byt 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 2013

KPMG OY AB

KIRSI JANTUNEN
*Authorized Public Accountant*