

SSH COMMUNICATIONS SECURITY CORPORATION INTERIM REPORT, JANUARY 1 – JUNE 30, 2013

SUMMARY Q2

Net sales continued to grow satisfactorily (+12%), result slightly negative due to strong investments on future growth and timing of new deals.

April-June

- Net sales totaled EUR 3.3 million, up by +12.1% year on year (EUR 2.9 million in 4-6/2012).
- Operating loss amounted to EUR -0.1 million (EUR +0.2 million in 4-6/2012) including EUR 0.0 million non-recurring costs (EUR 0.0 million). Net loss EUR -0.1 million (EUR +0.1 million)
- Earnings per share EUR -0.01 (EUR 0.00).

January-June

- Net sales totaled EUR 6.2 million, up by +13.0% year on year (EUR 5.5 million in 1-6/2012).
- Operating profit amounted to EUR -0.0 million (EUR +0.4 million in 1-6/2012) including EUR -0.4 of non-recurring costs (EUR -0.4 million). Net profit EUR 0.4 million (loss EUR -1.2 million)
- Earnings per share EUR- 0.00 (EUR 0.01).

The company's financial position remained in very good level, with equity ratio 79.3% (44.9%) and liquid assets at the end of the period EUR 6.7 million (EUR 2.3 million).

KEY FIGURES						
	4-6/ 2013	4-6/ 2012	1-6/ 2013	1-6/ 2012	Change %	1-12/ 2012
Net sales (MEUR)	3.3	2.9	6.2	5.5	13.0	11.9
Operating profit/loss (MEUR)	-0.1	0.2	-0.0	0.4	-104.3	1.1
% of net sales	-2.2	6.0	-0.3	7.6		9.1
Profit/loss before taxes (MEUR)	-0.1	0.1	-0.0	0.4	-106.0	1.1
Profit/loss (MEUR)	-0.1	0.1	-0.0	0.4	-110.5	1.1
Return on equity, %			-7.2	56.8		30.9
Return on investment, %			-4.7	30.7		28.1
Liquid assets			6.7	2.3	196.4	6.6
Gearing (%)			-88.4	-156.3		-105.2
Equity ratio (%)			79.3	44.9		70.0
Earnings Per Share (EUR)	-0.01	0.00	-0.00	0.01	-114.0	0.04
Shareholders' equity per share (EUR)	0.20	0.05	0.20	0.05	394.7	0.20

CEO'S REVIEW

Deployments of the Universal SSH Key Manager(TM) product continued successfully. The product helps large organizations manage scripted machine-to-machine access and key-based access between information systems.

Several smaller deals were signed for the CryptoAuditor(TM) product, including a deal with one of the most

important operators in the European stock markets. The product enables organizations to monitor encrypted content and encrypted system administration connections.

The company received in May an EUR 1.6M (USD 2M) order, which has been fully paid in July. However, the revenue for the order cannot be recognized until the third and fourth quarters.

Due to the timing of revenue recognition and the investments in future growth, the company made a small loss in the second quarter.

The company has several significant deals in the pipeline for closing later in 2013 and in 2014. The full year forecast of profitability and significant growth is maintained.

The company is also working towards capitalizing on its patent portfolio, which appears to include several essential patents on technologies used in leading smartphones, tablets, state-of-the-art telephony and video conferencing systems, game consoles, and operating systems. The total sales of products using technologies patented by the company may exceed USD 100bn annually. The patent portfolio may generate significant revenue in the future either in the form of revenue from sale of the patents or royalties.

Antti Huima started as Chief Technology Officer in June. Antti was previously CTO and CEO of Conformiq in the Silicon Valley. Conformiq is an automated testing startup that he grew to about 25 people and revenues of several million. Before that he was one of the first employees of SSH Communications Security and helped shape the future of the SSH protocol.

Sami Ahvenniemi will start in August as President of SSH Communications Security, Inc., with responsibility for the group's US operations. He has most recently been a Founding Partner at Conor Venture Partners helping a number of technology startups grow successfully in the United States and globally. In 1998, he started SSH's US operations and grew SSH's US sales to about USD 10M by 2001.

The market's understanding of the importance of managing access to information systems using keys is increasing. Key-based SSH access is an important part of who can access what systems and information and properly terminating access when an employee changes role or leaves is a key requirement in several information security standards. IETF (Internet Engineering Task Force) has published draft guidelines for managing automated access using SSH keys, and several other standards bodies are preparing their own standards. A recent market analyst report from IDC highlights the problem and the company's products.

The SSH protocol is ubiquitous in datacenters and used for managing routers, hardware management ports, virtualized instances, hypervisors, Unix/Linux operating systems, and for file transfers and point-to-point tunneling on all operating systems. As the inventors of the protocol, the company is uniquely positioned to provide solutions in this space.

Tatu Ylönen
CEO

FUTURE OUTLOOK

SSH Communications Security estimates its revenue to grow significantly from 2012 driven by strong need for its products and services. The company estimates the financial year 2013 to be profitable.

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

NET SALES

Consolidated net sales for April-June totaled EUR 3.3 million (EUR 2.9 million), up by +12.1%, year on year.

Consolidated net sales for January-June totaled EUR 6.2 million (EUR 5.5 million), up by +13.0%, year on year.

The Americas, the Europe, Middle East and Africa market area and the Asia Pacific region accounted for 42.9% (48.3%), 45.6% (38.1%) and 11.5% (13.7%) of reported net sales, respectively.

SSH NET SALES						
EUR million	4-6/ 2013	4-6/ 2012	1-6/ 2013	1-6/ 2012	Change %	1-12/ 2012
BY SEGMENT						
AMERICAS	1.4	1.5	2.7	2.6	0.4	6.0
APAC	0.3	0.5	0.7	0.7	-5.2	1.6
EMEA	1.6	0.9	2.8	2.1	35.5	4.3
SSH Group Total	3.3	2.9	6.2	5.5	13.0	11.9
BY OPERATION						
License sales	1.0	1.4	2.0	2.5	-21.2	5.0
Consulting	0.8		1.4			0.6
Maintenance	1.4	1.5	2.8	2.9	-1.2	6.3
Total	3.3	2.9	6.2	5.5	13.0	11.9

The majority of SSH Communications Security's invoicing is U.S. dollar based. During the report period the U.S. dollar's average exchange rate to euro weakened approximately -1.3% compared to the same period a year ago. With comparable exchange rates 2013 net sales growth would have been +13.8% compared with 2012 corresponding period.

RESULTS AND EXPENSES

Operating profit for April-June amounted to EUR -0.1 million (EUR +0.2 million) including EUR 0.0 million non-recurring costs, with net profit totaling EUR -0.1 million (EUR 0.1 million).

Operating profit for January-June amounted to EUR -0.0 million (EUR +0.4 million), with net profit totaling EUR -0.0 million (EUR +0.4 million).

There were no Non-recurring items during January-June.

Sales, marketing and customer support expenses for the April-June reporting period amounted EUR -1.8 million (EUR -1.5 million), while research and development expenses totaled EUR -0.8 million (EUR -0.8 million) and administrative expenses EUR -0.4 million (EUR -0.2 million).

Sales, marketing and customer support expenses for the January-June reporting period amounted EUR -3.3 million (EUR -2.6 million), while research and development expenses totaled EUR -1.5 million (EUR -1.4 million) and administrative expenses EUR -0.7 million (EUR -0.7 million).

BALANCE SHEET AND FINANCIAL POSITION

The financial position of SSH Communications Security remained in very good level during the reporting period.

The consolidated balance sheet total on June 30, 2013 stood at EUR 14.0 million (June 30, 2012 EUR 6.2 million; December 31, 2012 EUR 12.5 million), of which liquid assets accounted for EUR 6.7 million (June 30, 2012 EUR 2.3 million; December 31, 2012 EUR 6.7 million), or 47.9% of the balance sheet total. On June 30, 2013, gearing, or the ratio of net liabilities to shareholders' equity, was -88.4% (June 30, 2012 -156.3%; December 31, 2012 -105.2%) and the equity ratio stood at 79.3% (June 30, 2012 44.9%; December 31, 2011 70.0%). Equity is impacted by assets of SSH Management Investments (EUR 0.5 million) which will be removed when SSH Management Investment will be liquidated during 2013.

The reported gross capital expenditure for the period totalled EUR 0.9 million (EUR 0.5 million). The reported financial income and expenses consisted mainly of interest on deposits and exchange rate gains or losses. Financial income and expenses totalled EUR -0.0 million (EUR -0.0 million).

During January-June, SSH Communications Security reported a positive cash flow of EUR 0.1 million (EUR 0.4 million) from business operations, and investments showed a negative cash flow of EUR -0.9 million (EUR 0.5 million). Cash flow from financing totaled EUR -1.2 million (EUR -0.1 million) due to EUR 2.0 million investment made on fixed income fund, which are shown in investments.

Group has no financial instruments which are valued at fair value.

RESEARCH AND DEVELOPMENT

Research and development expenses for April-June totaled EUR -0.8 million (EUR -0.8 million), the equivalent of 24.7 percent of net sales (27.8 percent). During April-June company has capitalized R&D costs EUR 0.3 million (EUR 0.2 million).

Research and development expenses for January-June totaled EUR -1.5 million (EUR -1.4 million), the equivalent of 23.9 percent of net sales (25.1 percent).

Company has continued R&D capitalizations during the reporting period related to Universal SSH Key Manager and Crypto Auditor according to IAS 38 standard. In reporting period R&D cost capitalizations amount to EUR 0.8 million (EUR 0.5 million).

HUMAN RESOURCES AND ORGANIZATION

At the end of June, the Group had 86 employees on its payroll. The amount of employees increased by 30 persons from the previous year (+54%) and by 6 from the previous quarter.

At the end of the period, 45% of the employees worked in sales, marketing and customer services, 43% in R&D, and 12% in corporate administration.

BOARD AND AUDITORS

At the Annual General Meeting on March 20, 2013, Sami Ahvenniemi, Päivi Hautamäki and Tatu Ylönen were re-elected as directors of the company. Sami Ahvenniemi 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, KHT, as the accountant with the main responsibility.

SHARES, SHAREHOLDING AND CHANGES IN GROUP STRUCTURE

The reported trading volume of SSH Communications Security shares totaled 5 163 262 shares (valued at EUR 7 191 863). The highest quotation was EUR 2.23 and the lowest EUR 0.75. The trade-weighted average share price for the period was EUR 1.28 and the share closed at EUR 1.70 (June 28, 2013).

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 11.4% and Gaselli Capital Oy 4.1%. SSH Management Investment sold all shares (4.7%) of the company during reporting period. Due to the transaction, SSH Communications Security has recorded EUR 0.1 million gain. More information about the shareholding can be obtained from the company's web site.

No dividend or return of capital has been distributed during the reporting period.

SHARE CAPITAL AND BOARD AUTHORIZATIONS

The company's registered share capital on June 30, 2013 was EUR 922 416.99 consisting of 30 750 983 shares.

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon the issuing of a maximum of 6 000 000 shares as a share issue against payment or by giving stock options or other special rights entitling to shares, in accordance with Chapter 10 Section 1 of the Finnish Companies Act, either according to the shareholders' pre-emptive right to share subscription or deviating from this right, in one or more tranches. The authorization will be valid until the next Annual General Meeting, but will however expire at the latest on June 30, 2014. As announced on June 5, 2013, the Board of Directors decided upon an option plan of maximum 1 700 000 options.

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 own shares of the company with assets belonging to the company's non-restricted equity. This amount corresponds approximately to 6.50% of all the shares of the company. The shares can also be acquired otherwise than in proportion to the holdings of the existing shareholders (targeted repurchase). The maximum compensation to be paid for the acquired shares shall be the market price at the time of purchase, which is determined in the public trading. The authorization will be valid until the next Annual General Meeting, but will however expire at the latest on June 30, 2014.

RISKS AND UNCERTAINTIES

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

Largest risks:

- continuing uncertainty of the macroeconomic environment
- delays on product development and closing new business
- competitiveness of the product portfolio including intellectual property
- 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 USD currency so possible large fluctuation in USD currency rates during 2013 could have unpredictable effects for profitability that are at the time difficult to estimate. Currently USD currency position is not hedged, and company decides hedging of USD based contracts case by case.

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

EVENTS AFTER THE BALANCE SHEET DATE

As announced on July 5, 2013 SSH Communications Security has appointed MSc (Eng.) Sami Ahvenniemi to a member of the Group Management Team responsible for operations in the North and South America from August

12, 2013. Ahvenniemi will continue as a member of the Board. The Chairman of the Board of Directors of SSH Communications Security Oyj will be Päivi Hautamäki from August 1, 2013 onwards.

The SSH Communications Security's management is not aware of any other transactions that happened after the reporting period.

RELATED PARTY TRANSACTIONS

Clausal Computing Oy, a fully owned company of SSH Communications Security's CEO Tatu Ylönen, has delivered the company mainly R&D services valued in total EUR 0.2 million during January-June 2013. During the reporting period there has not been any other significant related party transactions. Hybrid capital securities (EUR 4.0 million) of the company was subscribed by CEO Tatu Ylönen.

REPORTING

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

TABLES

SHORT COMPREHENSIVE INCOME STATEMENT						
EUR million		4-6/ 2013	4-6/ 2012	1-6/ 2013	1-6/ 2012	1-12/ 2012
	Net sales	3.3	2.9	6.2	5.5	11.9
	Cost of goods sold	-0.5	-0.3	-0.9	-0.3	-0.9
	Gross profit	2.8	2.6	5.3	5.1	11.0
	Other operating income	0.1	0.0	0.1	0.0	0.0
	Sales, marketing and customer support costs	-1.8	-1.5	-3.3	-2.6	-5.9
	Product development expenses	-0.8	-0.8	-1.5	-1.4	-2.7
	Administrative expenses	-0.4	-0.2	-0.7	-0.7	-1.4
	Operating profit/loss	-0.1	0.2	-0.0	0.4	1.1
	Financial income and expenses	-0.0	0.0	-0.0	0.0	0.0
	Profit/loss before taxes	-0.1	0.1	-0.0	0.4	1.1
	Taxes	-0.0	0.0	-0.0	0.0	0.0
	Net profit/loss for the financial period	-0.1	0.1	-0.0	0.4	1.1
	Minority interest	0.0	0.0	0.0	0.0	0.0
	Other profit and loss account items:					
	Items which might be later transferred to P/L statement					
	Foreign subsidiary translation differences	0.0	0.0	0.0	0.0	-0.1
	Net change in fair value of available-for-sale					

financial assets	0.0	0.0	0.0	0.0	0.0
Total comprehensive income	-0.1	0.1	-0.0	0.4	1.0

Net profit/loss attributable to:					
Owners of the Company	-0.1	0.1	-0.0	0.4	1.0
Non-Controlling interest	0.0	0.0	0.0	0.0	0.0
EARNINGS PER SHARE					
Earnings per share (EUR)	-0.01	0.00	-0.00	0.01	0.04
Earnings per share diluted (EUR)	-0.01	0.00	-0.00	0.01	0.04

BALANCE SHEET				
EUR million				
		30.6.2013	30.6.2012	31.12.2012
ASSETS				
Non-current assets				
Tangible assets		0.2	0.2	0.1
Intangible assets		2.5	1.6	2.1
Investments		0.0	0.0	0.0
Total non-current assets		2.7	1.8	2.2
Current assets				
Trade and other receivables		4.5	2.1	3.7
Short-term financial assets		2.0	0.0	0.0
Cash and cash equivalents		4.7	2.3	6.6
Total current assets		11.3	4.4	10.3
Total assets		14.0	6.2	12.5
LAIBILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity				
Equity attributable to the parent company shareholders total		7.1	1.2	6.0
Non-controlling interest		0.5	0.2	0.2
Shareholders' equity total		7.6	1.4	6.3
Non-current liabilities				
Provisions		0.1	0.2	0.1
Non-current interest-bearing liabilities		0.0	0.0	0.0
Total long-term liabilities		0.1	0.2	0.1
Current liabilities				
		6.2	4.6	6.1
Liabilities total		6.4	4.8	6.3

Total equity and liabilities	14.0	6.2	12.5

CASH FLOW STATEMENT			
EUR million	1-6/2013	1-6/2012	1-12/2012
Cash flow from business operations	0.1	0.4	1.3
Cash flow from investments	-0.9	-0.5	-1.2
Cash flow from financing	-1.2	-0.1	4.1
Increase(+) / decrease(-) in cash	-2.0	-0.3	4.2
Cash at period start	6.6	2.4	2.4
Effect of exchange rate	0.0	0.0	0.0
Cash at period end	4.6	2.1	6.6

STATEMENT ON CHANGES IN SHAREHOLDERS' EQUITY								
EUR million	Share capital	Fair value reserves	Other fund + other equity fund	Tranlation difference	Fund for own shares	Non- controlling interest	Unrestricted equity funds and retained earnings	Total
Shareholders' equity Jan, 2012	0.9	0.2	0.1	-1.2	-1.0	0.2	1.9	1.1
Change		0.0		-0.0				
Net profit							0.4	0.4
Shareholders' equity Jun 30, 2012	0.9	0.2	0.1	-1.2	-1.0	0.2	2.3	1.4
Change	0.0		4.0	-0.1		-0.0		4.0
Net profit							0.8	0.8
Shareholders' equity Jan 01, 2013	0.9	0.2	4.1	-1.3	-1.0	0.2	3.1	6.3
Change					1.0	0.3		1.3
Net profit							-0.0	-0.0
Shareholders' equity Jun 30, 2013	0.9	0.2	4.1	-1.3	0.0	0.5	3.1	7.6

NET SALES BY SEGMENT					
EUR million	4-6/ 2013	4-6/ 2012	1-6/ 2013	1-6/ 2012	1-12/ 2012
AMER	1.4	1.5	2.7	2.6	6.0
APAC	0.3	0.5	0.7	0.7	1.6
EMEA	1.6	0.9	2.8	2.1	4.3
SSH Group Total	3.3	2.9	6.2	5.5	11.9

GROSS MARGIN BY SEGMENT					
EUR million	4-6/ 2013	4-6/ 2012	1-6/ 2013	1-6/ 2012	1-12/ 2012
AMER	1.4	1.5	2.7	2.6	5.9
APAC	0.3	0.5	0.7	0.7	1.6
EMEA	1.1	0.6	1.9	1.8	3.5
SSH Group Total	2.8	2.6	5.3	5.1	11.0

OPERATING PROFIT AND LOSS BY SEGMENT					
EUR million	4-6/ 2013	4-6/ 2012	1-6/ 2013	1-6/ 2012	1-12/ 2012
AMER	0.2	0.7	0.5	1.1	2.4
APAC	0.1	0.3	0.4	0.5	0.8
EMEA	0.9	0.5	1.7	1.6	3.3
Common Group expenses	-1.3	-1.3	-2.7	-2.8	-5.4
SSH Group Total	-0.1	0.2	-0.0	0.4	1.1

* Common Group expenses include Group administration expenses (e.g. management and finance) and product management and R&D expenses for corporate headquarters.

KEY FIGURES AND RATIOS			
EUR million	1-6/ 2013	1-6/ 2012	1-12/ 2012
Net sales	6.2	5.5	11.9
Operating profit/loss	-0.0	0.4	1.1
Operating profit/loss as % of net sales	-0.3	7.6	9.1
Profit/loss before extraordinary items and taxes	-0.0	0.8	1.5
Profit/loss before extraordinary items and taxes as % of net sales	-0.4	14.5	12.8
Profit/loss before taxes	-0.0	0.4	1.1
Profit/loss before taxes as % of net sales	-0.4	7.3	9.4
Return on equity (%)	-7.2	56.8	30.9
Return on investment (%)	-4.7	30.7	28.1
Interest-bearing net liabilities	-6.6	-3.4	-6.6

Equity ratio (%)	79.3	44.9	70.0
Gearing (%)	-88.4	-156.3	-105.2
Gross capital expenditure	0.9	0.5	1.2
% of net sales	13.8	9.0	10.0
R&D expenses	1.5	1.4	2.7
% of net sales	24.7	27.8	22.7
Personnel period average	78	53	61
Personnel period end	86	56	70

Calculation for key figures and ratios are presented in 2012 financial statement and annual report. There have not been changes in calculation rules after that.

PER SHARE DATA			
EUR	1-6/ 2013	1-6/ 2012	1-12/ 2012
Earnings per share undiluted	-0.00	0.01	0.04
Earnings per share diluted	-0.00	0.01	0.04
Equity per share	0.20	0.04	0.20
No. of shares at period average (thousand)	30 751	30 549	30 552
No. of shares at period end (thousand)	30 751	30 549	30 751
Share performance			
Average price	1.28	0.49	0.50
Low	0.75	0.30	0.30
High	2.23	0.62	0.90
Share price period end	1.70	0.55	0.76
Market capitalization period end (EUR million)	52.3	16.8	23.4
Volume of shares traded (million)	5.2	5.8	6.6
Volume of shares traded as % of total	16.8	19.0	20.8
Value of shares traded (EUR million)	7.2	2.9	3.2
Price per earnings ratio (P/E)	-	-	20.9
Dividend per share	0.00	0.00	0.00
Dividend per earnings, %	0.00	0.00	0.00
Effective return on dividend, %	0.00	0.00	0.00

CONTINGENT LIABILITIES			
EUR million	30.6.2013	30.6.2012	31.12.2012
Rent security deposits	0.1	0.1	0.1
Leasing commitments outside the balance sheet			
Maturing within 1 year	0.5	0.5	0.5
Maturing between 1 and 5 years	0.1	0.6	0.1

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SSH Communications Security will release its next interim report for period January 1 – September 30, 2013 on October 23, 2013.

Helsinki, July 24, 2013

SSH COMMUNICATIONS SECURITY

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Founded in 1995, SSH Communications Security is the company that invented the Secure Shell protocol - the gold standard protocol for data-in-transit security solutions. Today, over 3,000 customers across the globe - including seven 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. SSH Communications Security operates in the Americas, Europe, and APAC regions, with headquarters located in Helsinki, Finland. The company shares (SSH1V) are quoted on the NASDAQ OMX Helsinki.