

SSH COMMUNICATIONS SECURITY CORPORATION INTERIM REPORT RELEASE, JANUARY 1 – SEPTEMBER 30, 2017**DECREASE OF LOSSES CONTINUES, OPERATING CASH FLOW POSITIVE FOR THE QUARTER**

July–September 2017: Net sales declined 17.1 %, loss decreased 64.6 %. Operating cash flow was positive (EUR 0.4 million), quarter end cash position was strong.

- Net sales totaled EUR 3.0 million, down by 17.1 % year on year (EUR 3.7 million in 7–9/2016).
- Operating loss was EUR -0.8 million (EUR -2.3 million in 7–9/2016). Loss was EUR -0.9 million (EUR -2.4 million).
- Earnings per share EUR -0.03 (EUR -0.08).

January–September 2017: Net sales declined 10.6 %, loss decreased 46.9 %. Performance improvement program has improved the profitability. Operating cash flow was negative, but cash position remained strong as a result of the directed share issue in June.

- Net sales totaled EUR 9.9 million, down by 10.6 % year on year (EUR 11.1 million in 1–9/2016).
- Operating loss was EUR -3.1 million (EUR -6.1 million in 1–9/2016). Loss was EUR -3.5 million (EUR -6.7 million)
- Earnings per share EUR -0.12 (EUR -0.23).

Equity ratio remained good 86.7 % (83.3 %) and liquid assets were EUR 11.4 million (EUR 11.4 million).

KEY FIGURES

EUR million	7–9/2017	7–9/2016	1–9/2017	1–9/2016	Change %	1–12/2016
Net sales	3.0	3.7	9.9	11.1	-10.6	15.1
Operating profit/loss	-0.8	-2.3	-3.1	-6.1	49.5	-10.8
% of net sales	-24.8	-63.8	-31.4	-55.4	43.5	-71.1
Profit/loss before taxes	-0.9	-2.4	-3.5	-6.6	46.6	-11.0
Profit/loss	-0.9	-2.4	-3.5	-6.7	46.9	-11.1
Return on equity, %			-35.7	-54.9	35.0	-112.1
Return on investment, %			-35.5	-54.3	34.5	-111.8
Liquid assets			11.4	11.4	-0.2	7.8
Gearing (%)			-98.6	-88.9	-10.9	-94.8
Equity ratio (%)			86.7	83.3	4.1	63.1
Earnings per share, EUR	-0.03	-0.08	-0.12	-0.23	48.1	-0.36
Shareholders' equity per share, EUR	0.30	0.37	0.30	0.37	-19.5	0.24

CEO'S REVIEW

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

the third quarter of 2017 was a disappointing one for SSH Communications Security. While losses were significantly smaller (-64.6%) than in the same period in 2016 and the cash flow from operations was positive (EUR 0.4 million), our revenue development was not satisfactory, as revenue compared to the same period in 2016 was down (-17.1%).

The sales performance was disappointing but we see some promising leading indicators: open sales pipeline grew by over 40 % during the quarter. This is a result of a proactive sales work and customer interest towards our newest product, PrivX® On-Demand Access Manager. We also recorded our largest software license sale year-to-date just a few days after the close of the quarter.

The Americas region had strong invoicing but disappointing new license sales. The EMEA region improved slightly from the previous quarter but was still very soft during the quarter. The APAC region did not quite match its exceptional Q2 performance but still recorded a robust Q3.

Thanks to our successful cost-control measures and robust invoicing levels, our cash position remains strong and enables us to keep executing the changes necessary for a full recovery.

The level of customer interest in PrivX® On-Demand Access Manager remains high but the sales cycles to our traditional enterprise customers are still long. We expect to start changing this trend during H1/2018 when we plan to launch and start selling a version of PrivX® On-Demand Access Manager geared towards smaller companies and departments within large companies. This product will be offered for sale online to increase our customer exposure and make reaching a large number of customers easier. However, the subscription (and later SaaS) based sales model means the top line impact is going to be gradual rather than sudden, albeit also stable and long-term.

We continued our transition to the cloud-driven strategic direction we announced in June of 2017 and have strengthened our organizational capabilities to execute that transition. We started the PrivX Business Program to execute the go-to-market strategy of PrivX On-Demand Access Manager and build the future cloud driven offering according to SSH's new strategic direction in the privileged access and identity management field. Mr. Jussi Löppönen who was appointed to run the business program has considerable experience of ramping up global businesses and also a deep understanding of SSH due to his years long career in the SSH R&D team.

We continued our patent licensing efforts and the ongoing litigation processes; however, there were no major new developments on this front during the quarter.

We started the certification process of our firewall product and it is proceeding well. We also continued active negotiations with customers during the quarter. Performance tests of the firewall have also proceeded smoothly and provided very promising results.

I'd like to reiterate what I have written in my previous CEO reviews: we are well on our road to recovery and on track to return to both growth and profitability, but the road is going to be long and sometimes perhaps more volatile than we would like. However, with a committed management team, exceptionally talented staff, new products and business models in the pipeline, and improving sales fundamentals, I am confident of our long-term success.

Kaisa Olkkonen

CEO

NET SALES

Consolidated net sales for July–September totaled EUR 3.0 million (EUR 3.7 million), down by 17.1 %, year on year. Decreased sales was driven by the lower license sales, mainly in USA.

Consolidated net sales for January–September totaled EUR 9.9 million (EUR 11.1 million), down by 10.6 %, year on year driven by the decreased new license sales.

The Americas accounted for 57.7 % (53.9 %), Europe, the Middle East and Africa 26.1 % (33.9 %) and the Asia Pacific region 16.2 % (12.2 %) of reported net sales.

CONSOLIDATED NET SALES

EUR million	7–9/2017	7–9/2016	1–9/2017	1–9/2016	Change %	1–12/2016
BY GEOGRAPHICAL AREA						
The Americas	1.6	2.3	5.7	6.0	-4.2	8.2
Asia Pacific	0.6	0.6	1.6	1.4	18.5	2.0
Europe, the Middle East and Africa	0.8	0.8	2.6	3.8	-31.4	5.0
Total	3.0	3.7	9.9	11.1	-10.6	15.1
BY OPERATION						
Software fees	0.6	1.3	2.3	4.8	-52.8	6.1
Professional services & other	0.4	0.4	1.4	0.5	181.1	1.1
Recurring revenue	2.0	2.1	6.2	5.7	8.1	7.9
Total	3.0	3.7	9.9	11.1	-10.6	15.1

The majority of SSH Communications Security's invoicing is U.S. dollar based. With comparable exchange rates, decline in net sales January–September would have been 10.7 % compared to corresponding period in 2016.

RESULTS AND EXPENSES

Operating loss for July–September amounted to EUR -0.8 million (EUR -2.3 million), with net loss totaling EUR -0.9 million (EUR -2.4 million).

Operating loss for January–September amounted to EUR -3.1 million (EUR -6.1 million), with net loss totaling EUR -3.5 million (EUR -6.7 million).

Sales, marketing and customer support expenses for the July–September reporting period amounted to EUR -1.9 million (EUR -2.9 million), while research and development expenses totaled EUR -1.1 million (EUR -2.1 million) and administrative expenses EUR -0.5 million (EUR -0.5 million). Compared to July–September 2016 operating expenses decreased by 37 % and compared to previous quarter by 17 %, driven by the tight cost control and performance improvement program.

Sales, marketing and customer support expenses for the January–September reporting period amounted EUR -6.4 million (EUR -8.3 million), while research and development expenses totaled EUR -4.4 million (EUR -6.4 million) and administrative expenses EUR -1.4 million (EUR -1.5 million). Operating expenses decreased by 25 % compared to previous year.

BALANCE SHEET AND FINANCIAL POSITION

The financial position of SSH Communications Security remained in good level during the reporting period. The consolidated balance sheet total on September 30, 2017 stood at EUR 20.6 million (September 30, 2016 EUR 21.2 million; December 31, 2016 EUR 21.8 million), of which liquid assets accounted for EUR 11.4 million (September 30, 2016 EUR 11.4 million; December 31, 2016 EUR 7.8 million), or 55.3 % of the balance sheet total. In June, new shares for EUR 7 million were issued in a directed share issue. On September 30, 2017, gearing, or the ratio of net liabilities to shareholders' equity, was -98.6 % (September 30, 2016 -88.9 %; December 31, 2016 -94.8 %) and the equity ratio stood at 86.7 % (September 30, 2016 83.3 %; December 31, 2016 63.1 %).

The reported gross capital expenditure for the period totaled EUR 1.1 million (EUR 1.7 million). Financial income and expenses totaled EUR -0.4 million (EUR -0.5 million), which consisted mainly of exchange rate gains or losses.

During January–September, SSH Communications Security reported a negative cash flow of EUR -1.3 million (EUR -5.0 million) from business operations, and investments showed a negative cash flow of EUR -1.1 million (EUR -1.7 million). Cash flow from financing totaled to EUR 6.1 million (EUR 7.0 million). Increase in cash totaled EUR 3.8 million (EUR 0.3 million).

There were no short-term investments by the end of the reporting period.

RESEARCH AND DEVELOPMENT

Research and development expenses for July–September totaled EUR -1.1 million (EUR -2.1 million), the equivalent of 37.0 % of net sales (58.2 %). During July–September, the company has capitalized R&D costs EUR 0.3 million (EUR 0.4 million).

Research and development expenses for January–September totaled EUR -4.4 million (EUR -6.4 million), the equivalent of 44.2 % of net sales (58.0 %). In reporting period, R&D cost capitalizations amounted to EUR 0.8 million (EUR 1.3 million). The overall activation level has decreased due to maturing of the products, and overall cost reduction. Depreciation from R&D capitalization assets was EUR -1.2 million (EUR -1.1 million).

PERSONNEL

At the end of September, the Group had 84 (December 31, 2016: 84; June 30, 2017: 86) employees on its payroll. The number of employees decreased by 2 persons from the previous quarter.

At the end of the period, 33 (June 30, 2017: 33) of the employees worked in sales, marketing and customer services, 37 (40) in R&D, and 14 (13) in corporate administration.

BOARD AND AUDITORS

At the Annual General Meeting held on March 29, 2017, Petri Kuivala and Ari Vanttinen were elected as new members of the Board of Directors and Tatu Ylönen, Timo Syrjälä and Jukka Manner were re-elected as members of the Board of Directors. At the Board's organizing meeting Jukka Manner was elected as the Chairman of the Board of Directors.

The Authorized Public Accountants Ernst & Young Oy was elected as the auditor of the company. Ernst & Young Oy has informed that Erkka Talvinko, Authorized Public Accountant, will act as the principal auditor.

SHARES, SHAREHOLDING AND CHANGES IN GROUP STRUCTURE

The reported trading volume of SSH Communications Security Corporation shares totaled 4,574,724 (valued at EUR 9,869,269). The highest quotation was EUR 2.59 and the lowest EUR 1.87. The trade-weighted average share price for the period was EUR 2.16 and the share closed at EUR 2.02 (September 29, 2017).

The company's principal owner Tatu Ylönen holds directly and through his company, Clausal Computing Oy, 47.7 % of the company's shares, Timo Syrjälä holds directly and through his company, Acme Investments SPF S.a.r.l., 9.3 % and Juha Mikkonen holds directly and through his company, Assetman Oy, 5.7 %. More information about the shareholding can be obtained from the company's web site www.ssh.com.

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 September 30, 2017 was EUR 1,151,846.49, consisting of 38,394,883 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 Limited Liability Companies Act, either according to the shareholders' pre-emptive right to share subscription or deviating from this right, in one or more tranches. Based on the authorization, either new shares can be issued or own shares, which the company possibly has in its possession, can be transferred. Based on the authorization, the Board of Directors has the same right as the Annual General Meeting to decide on the issuing of shares against payment and special rights (including stock options) in accordance with Chapter 10 Section 1 of the Finnish Limited Liability Companies Act. Thereby, the authorization to be given to the Board of Directors includes, inter alia, the right to deviate from the shareholders' pre-emptive rights with directed issues providing that the company has a weighty financial reason for the deviation in respect of the share issue against payment.

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

The authorization will be valid until the next Annual General Meeting, but will however expire at the latest on June 30, 2018. As announced on June 15, 2017, a directed share issue of 3,400,000 shares was issued under the authorization.

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon the acquiring of a maximum of 2,000,000 shares of the company with assets belonging to the company's non-restricted equity. The shares can also be acquired otherwise than in proportion to the holdings of the existing shareholders (directed acquisition). The maximum compensation to be paid for the acquired shares shall be the market price at the time of purchase, which is determined in the public trading.

The Board of Directors proposes that the authorization for the acquiring of the company's own shares would be used, inter alia, to strengthen the company's capital structure, to finance and realize corporate acquisitions and other arrangements, to realize the share-based incentive programs of the company or otherwise to be kept by the company, to be transferred for other purposes or to be cancelled. The acquisition of shares reduces the company's distributable non-restricted equity.

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

The authorization will be valid until the next Annual General Meeting, but will however expire at the latest on June 30, 2018.

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:

- uncertainty of the macroeconomic environment
- cybercrime, including e.g. ransomware
- delays in product development and closing new business
- ability to execute our strategy
- ability to retain and recruit key personnel
- maintaining our ability to innovate and develop our product portfolio including intellectual property rights (IPR)
- IPR litigation and the utilization of our patent portfolio
- large portion of the company revenue is invoiced in USD currency so possible large fluctuation in USD currency rates during 2017 could have unpredictable effects for profitability that are at the time difficult to estimate. The company decides on hedging of USD based contracts case by case.

Utilization of the company's patent portfolio may have significant positive and/or negative impacts.

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

RELATED PARTY TRANSACTIONS

In the directed share issue issued by the company on June 15, 2017, Member of the Board Tatu Ylönen subscribed for 243,500 shares and Member of the Board Timo Syrjälä through his controlled company for 728,500 shares. During the reporting period, there have not been any other significant transactions with related parties.

EVENTS AFTER THE BALANCE SHEET DATE

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

REPORTING

This financial statement release is prepared according to IAS 34. Financial statement release follows the same principles and standards as the previous financial statement release. Additionally, the effective changes in IAS/IFRS standards during the reporting period have been adopted. These changes have not had impact on the interim report. The changes in IAS/IFRS standards are presented in the 2016 Annual Report. The information presented in this interim report has not been audited.

TABLES

COMPREHENSIVE INCOME STATEMENT

EUR million	7-9/2017	7-9/2016	1-9/2017	1-9/2016	1-12/2016
Net sales	3.0	3.7	9.9	11.1	15.1
Cost of goods sold	-0.3	-0.5	-0.8	-1.0	-1.9
Gross margin	2.7	3.2	9.1	10.0	13.2
Other operating income	0.0	0.0	0.0	0.0	0.0

Sales, marketing and customer support costs	-1.9	-2.9	-6.4	-8.3	-12.0
Research and development expenses	-1.1	-2.1	-4.4	-6.4	-9.5
Administrative expenses	-0.5	-0.5	-1.4	-1.5	-2.4
Operating profit/loss	-0.8	-2.3	-3.1	-6.1	-10.8
Financial income and expenses	-0.1	-0.1	-0.4	-0.5	-0.3
Profit/loss before taxes	-0.9	-2.4	-3.5	-6.6	-11.0
Taxes	-0.0	-0.0	-0.0	-0.1	-0.0
Net profit/loss for the financial period	-0.9	-2.4	-3.5	-6.7	-11.1
Non-controlling 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	0.1	0.0	0.4	-0.3	0.4
Total comprehensive income	-0.7	-2.4	-3.1	-7.0	-10.6
Net profit/loss attributable to:					
Owners of the Company	-0.7	-2.4	-3.1	-7.0	-10.6
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
EARNINGS PER SHARE					
Earnings per share (EUR)	-0.03	-0.08	-0.12	-0.23	-0.36
Earnings per share diluted (EUR)	-0.03	-0.08	-0.12	-0.23	-0.36

BALANCE SHEET

EUR million	30.9.2017	30.9.2016	31.12.2016
ASSETS			
Non-current assets			
Tangible assets	0.1	0.3	0.2
Intangible assets	4.9	5.0	5.2
Investments	0.0	0.0	0.0
Total non-current assets	5.0	5.2	5.5
Current assets			
Trade and other receivables	4.2	4.5	8.5
Other financial assets	0.0	0.0	0.0
Cash and cash equivalents	11.4	11.4	7.8
Total current assets	15.6	16.0	16.4
Total assets	20.6	21.2	21.8
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
Attributable to parent company shareholders	11.5	12.8	8.3
Non-controlling interest	0.0	0.0	0.0
Shareholders' equity, total	11.5	12.8	8.3
Non-current liabilities			
Provisions	0.0	0.0	0.0

Interest-bearing liabilities	0.0	0.0	0.0
Total non-current liabilities	0.0	0.0	0.0
Current liabilities	9.0	8.4	13.6
Total liabilities	9.0	8.4	13.6
Total equity and liabilities	20.6	21.2	21.8

CASH FLOW STATEMENT

EUR million	1-9/2017	1-9/2016	1-12/2016
Cash flow from business operations	-1.3	-5.0	-8.1
Cash flow from investments	-1.1	-1.7	-2.5
Cash flow from financing	6.1	7.0	7.1
Increase(+) / decrease(-) in cash	3.8	0.3	-3.5
Cash at period start	7.8	11.3	11.3
Effect of exchange rate	-0.2	-0.2	0.1
Cash at period end	11.4	11.4	7.8

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR million	Share capital	Hybrid capital securities	Translation difference	Unrestricted invested equity fund	Retained earnings	Total
Shareholders' equity 1.1.2016	0.9	12.0	-2.1	6.8	-6.2	11.4
Change	0.1		-0.3	8.1	0.1	8.1
Net profit					-6.7	-6.7
Shareholders' equity 30.9.2016	1.0	12.0	-2.4	15.0	-12.7	12.8
Change	0.0		0.7		-0.9	-0.2
Net profit					-4.4	-4.4
Shareholders' equity 31.12.2016	1.0	12.0	-1.7	15.0	-18.0	8.3
Change	0.1		0.4	7.2	-0.9	6.8
Net profit					-3.5	-3.5
Shareholders' equity 30.9.2017	1.2	12.0	-1.3	22.1	-22.4	11.5

KEY FIGURES AND RATIOS

EUR million	1-9/2017	1-9/2016	1-12/2016
Net sales	9.9	11.1	15.1
Operating profit/loss	-3.1	-6.1	-10.8
% of net sales	-31.4	-55.4	-71.1
Profit/loss before items affecting comparability	-3.5	-6.6	-11.0
% of net sales	-35.6	-59.6	-72.9
Profit/loss before taxes	-3.5	-6.6	-11.0
% of net sales	-35.6	-59.6	-72.9

Return on equity (%)	-35.7	-54.9	-112.1
Return on investment (%)	-35.5	-54.3	-111.8
Interest-bearing net liabilities	-11.4	-11.4	-7.8
Equity ratio (%)	86.7	83.3	63.1
Gearing (%)	-98.6	-88.9	-94.8
Gross capital expenditure	1.1	1.7	2.5
% of net sales	10.8	15.6	16.2
R&D expenses	4.4	6.4	9.5
% of net sales	44.2	58.0	62.5
Personnel, period average	83	112	111
Personnel, period end	84	115	84

Calculation for key figures and ratios are presented in 2016 financial statement and annual report. There have not been changes in calculation rules after that.

PER SHARE DATA

EUR	1-9/2017	1-9/2016	1-12/2016
Earnings per share undiluted*	-0.12	-0.23	-0.36
Earnings per share diluted*	-0.12	-0.23	-0.36
Equity per share	0.30	0.37	0.24
No. of shares at period average (thousand)	35,957	32,491	32,983
No. of shares at period end (thousand)	38,395	34,377	34,561
Share performance			
Average price	2.16	3.43	2.84
Low	1.87	2.65	1.86
High	2.59	4.39	4.39
Share price period end	2.02	3.73	1.94
Market capitalization period end (EUR million)	77.6	128.2	67.0
Volume of shares traded (million)	4.6	2.6	6.5
Volume of shares traded as % of total	12.7	8.0	19.6
Value of shares traded (EUR million)	9.9	8.9	18.3
Price per earnings ratio (P/E)	neg.	neg.	neg.
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

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

CONTINGENT LIABILITIES

EUR million	30.9.2017	30.9.2016	31.12.2016
Interest on hybrid capital securities	0.5	0.5	0.7
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	0.4	0.5	0.4

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SSH Communications Security Corporation will release its financial statement for 2017 in February 7th 2018.

Helsinki, October 24, 2017

SSH COMMUNICATIONS SECURITY CORPORATION

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