Secure business and data transfer

Annual report 2004

ssh®

SSH | Original Secure Shell
10 Years 1995 – 2005

Information for shareholders

Annual General Meeting

SSH Communications Security Corp's Annual General Meeting will be held in the Auditorium, 2nd floor, at SSH Communications Security Corp's office, Valimontie 17-19, Helsinki on April 26, 2005, starting at 3 pm.

Shareholders registered by Friday April 15, 2005 in the shareholders' register maintained by the Finnish Central Securities Depository Ltd, and who by 4 pm Finnish time on Wednesday April 20, 2005 have notified the company of their intention to attend the Meeting are eligible to attend the AGM.

Shareholders wishing to attend the AGM can register either

a) by e-mail to erja.salo@ssh.com,
b) by fax to +358 20 500 7011 or
c) by mail to SSH Communications Security Oyj, AGM, Valimotie 17–19, FI-00380 Helsinki, Finland

Any proxy entitling the holder to exercise a shareholder's voting right at the AGM must be submitted to SSH by 4 pm on April 20, 2005.

Financial reports in 2005

SSH Communications Security Corp will publish the following financial reports during 2005.

Financial statements bulletin for 2004	February 9, 2005
Annual Report 2004	week 12
Interim Report January 1 to March 31, 2005	April 19, 2005
Interim Report January 1 to June 30, 2005	July 27, 2005
Interim Report January 1 to September 30, 2005	October 19, 2005

All financial reports are published in Finnish and English as stock exchange releases and on SSH's website at www.ssh.com. The Annual Report is also available in hard copy in Finnish and English. It can be ordered from ir-team@ssh.com and is also available as a PDF file on SSH's website.

Company information

SSH regularly updates the investor pages on its website. These pages provide information about the company's shareholders, share performance, corporate governance, and many other topical matters. You can also submit questions to SSH about its operations to ir-team@ssh.com.

Investor relations
CFO
Johanna Lamminen
Tel: +358 20 500 7419
E-mail: johanna.lamminen@ssh.com

Contents

The financial statements section appears as a separate enclosure.

SSH in brief

SSH is a supplier of user-friendly, centrally managed security middleware solutions. The company's award-winning products protect the critical applications of numerous large enterprises, financial institutions, and government agencies.

SSH was established in 1995, and its shares have been quoted on the Main List of the Helsinki Exchanges, under the trading code of SSH1V, since December 2000.

SSH reported consolidated net sales of EUR 8.2 million for 2004 and employed 105 persons at the end of the fiscal year. Besides Finland, the company has offices in the United States, Japan, Germany, and the United Kingdom.

SSH monitors its business by geographical region, as defined by the IAS (International Accounting Standards). The regions are the Americas, Asia Pacific, and Europe and the rest of the world. Since, however, business operations are very similar in each of the regions, this Annual Report discusses all of SSH's business operations together.

SSH products, markets, and sales

SSH software products protect customers' internal and external data communications, and support the implementation of more efficient business processes that utilize the full potential of the customer's data networks. SSH is the original developer of globally used Secure Shell technology, and SSH Tectia™ is the first Managed Security Middleware solution on the market.

SSH competes directly or indirectly on the market with SSL VPN solutions, advanced data transmission solutions and Secure Shell-based secure remote access solutions. This market is valued at a total of some EUR 325 million.

SSH generates most of its net sales by direct sales to customer enterprises through its own offices operating in target countries in line with SSH's strategy. Solutions sales and support is also implemented in cooperation with international and local systems integrators. SSH is expanding in selected target countries in the international business arena by training local partners to operate according to SSH's sales and marketing model.

The company is continually increasing product and marketing cooperation with selected partners such as IBM, HP, Entrust, RSA Security, and SAS.

Values drive SSH's operations

SSH employees have defined three shared values for company operations: Select, Solve, and Honor. SSH focuses on serving its selected customer segments by providing a product suite that meets their particular needs. In network security, SSH works together with its customers to develop the most effective solution, and strives to provide user-friendly, reliable network security. SSH aims for lasting cooperation based on a platform of mutual respect, reliability, and transparency.

Key figures	2004	2003	Change, %
Net sales, EUR million*	8.2	13.9	-40.6
Operating profit/loss, as % of net sales	-77.2	38.2	-
Profit/loss before extraordinary items and taxes, as % of net sales	-70.7	40.8	-
Earnings per share, EUR	-0.21	0.20	-205.0
Balance sheet total, EUR million	38.0	39.1	-2.8
Equity-to-assets ratio, %	94.8	94.7	0.1
Personnel at end of period under review	105	104	1.0

** total net sales exclude the OEM business, which was divested in late 2003 and which earlier accounted for approx. 40% of SSH's net sales. Net sales for SSH Tectia include net sales of products similar to SSH Tectia for 2003 and 2004.*

SSH Tectia™

The SSH Tectia solution helps organizations to ensure the confidentiality and integrity of their data communications and reliably authenticate users. Deploying the SSH Tectia solution requires no investment in expensive hardware or major re-engineering of the customer's existing underlying infrastructure. Additionally, SSH Tectia can be easily deployed in extensive multi-application environments.

SSH Tectia protects the three most critical parts of a company's network:

- Connections between users' workstations and applications servers
- Connections from systems maintenance staff computers to the servers managed
- Connections between servers

SSH Tectia comprises four software products: the SSH Tectia Manager, SSH Tectia Server, SSH Tectia Client, and SSH Tectia Connector.

SSH Tectia Manager software enables the SSH Tectia network security solution to be centrally deployed and managed and reduces overall security costs in large enterprises.

SSH Tectia Server software is installed on a server to ensure network security for a host of different operating systems.

SSH Tectia Client software provides interactive file transfer and terminal emulation to securely maintain the system.

SSH Tectia Connector is transparent desktop software that is invisible to the user and can be used to safeguard applications connections such as ERP (Enterprise Resource Planning) or CRM (Customer Relationship Management).

SSH Tectia can help customers improve their protection against growing security threats, increase their flexibility to react to changing legislation, and at the same time enhance their operative risk management. More than 100 global enterprises on the Fortune 500 list deploy SSH network security solutions to protect their communications.

Profitable growth poised
to begin in 2005

We enter 2005 strengthened by many major efforts completed last year. SSH Tectia products are all set, and we are selling increasingly more to new and existing customers. The global market leader in Secure Shell-based solutions, we have overhauled our sales organization to make it stronger than ever.

In line with our strategy, a major building phase is now behind us and we enter 2005 poised to embark on a profitable growth track.

Arto Vainio
CEO

The year under review saw a very encouraging rise in interest by companies and government bodies in network security risk management. Greater awareness, new risk management models, and advances made in legislation impacted on our customers' security policies and technical plans. We believe this trend will gain further momentum during 2005, and spawn a marked increase in demand for our products in all markets.

Companies and government bodies are coming under growing pressure to cost-effectively protect their information networks. Not only is this boosting existing demand for SSH products, but also generating new, broader applications that will greatly increase the size of SSH's overall market. Whilst SSH can best benefit from this ensuing new growth potential among its existing customers, new applications and continuously strengthening competitiveness will also enable us to secure many new customers.

I would like to highlight two examples of new applications of our existing products, and what this implies. Firstly, the increased use of leading-edge SSH Tectia to protect file transfers means we can draw on a much wider market and more extensive partnership projects with large IT companies. Secondly, the use of SSH Tectia to protect companies' application software between the user and server generates much greater market potential than we currently enjoy.

Large orders but weaker US dollar hampered sales growth

In 2004, we secured our greatest single order to date, valued at over one million US dollars. In the US, dollar-based sales of SSH Tectia rose by 30 percent, and the average size of SSH Tectia deals was several times higher than during the previous year.

Despite an 8-percent fall in the value of the US dollar against the euro, sales of products similar to SSH Tectia were up 3 percent on the figure for the previous year.

The fall in the value of the dollar is partly why SSH failed to achieve sales growth targets in 2004. Recruitment and establishing new sales offices was a slow process, and hampered sales development in key countries in Europe. Despite disappointing sales volumes, SSH completed its 2004 investment program as planned. Although this meant financial performance remained well below target and heavily in the red in 2004, completion of the investment program creates a sound platform for growth and profitability in 2005. Likewise, many cost-related and structural arrangements successfully enabled us to greatly reduce the risks affecting long-term earnings.

It should be pointed out that divestment of the OEM business means SSH's key financial figures for 2003 and 2004 are not directly comparable.

Heaviest investments in strengthening sales capacity

Lasting almost the entire year, our investment program included considerable additional investments, especially in our sales organization, to build a platform for future profitable growth. The program was carried out in stages, and it was not until towards the end of Q3 that we completed establishing our new sales offices and restructuring the sales management.

We relocated our North American sales management to Boston to facilitate better communications with large customers on the US East Coast. Also we restructured sales management in Europe and Asia, and opened new offices in the UK and Germany, key countries in Europe. These full-service offices are staffed with experienced and highly energetic teams. We also formed significant new partnerships with leading IT companies.

New SSH Tectia agreements are normally valid for many years, and allow customers to expand their base and obtain continuous maintenance and technical services. Joint sales and marketing information systems and tools had been put into good shape by the end of the year. We believe the benefits of actions taken will start to be evidenced in a major improvement in sales productivity as early as 2005.

Products and R&D in excellent shape

Work continued as planned on enhancing and developing the features of the SSH Tectia product range. Product development programs were completed as scheduled. Constant new development has made the SSH Tectia product range a clear global market leader and a benchmark for Secure Shell-based solutions.

SSH's product development organization underwent a thorough iterative development program, which has resulted in excellent product project and product quality control. SSH launched a full set of enterprise class technical customer service products, including continuous customer satisfaction and productivity measurement. In 2004, by far the most significant achievements within SSH were in the areas of R&D and technical customer service.

Investment focuses in 2005

More and more of our people are now working at the customer interface. This trend will gain added momentum during 2005. Our prime objective is to grow sales faster by allocating more power to sales operations worldwide. We will be paying much attention also to developments in the productivity and sales results delivered by our new sales offices worldwide.

SSH Tectia is a systems level product that is continually being enhanced and developed. Development is based on constant market research, reaction to customer feedback, compliance with network security legislation, monitoring the actions of our competitors, continuous technical innovation, and close cooperation with leading IT companies.

On the product development front, it is vital to keep on launching new, superior features and capacity in every release of the SSH Tectia platform. During 2005, we will roll out an unprecedented number of new SSH Tectia products and features. New architecture and other dynamic development programs will take SSH Tectia to a completely new generation level of capacity, transmission speed and management properties in 2005.

The future

As I hinted at the beginning of my review, the regulatory environment governing the confidentiality and secure transmission of information is currently changing in both the US and Europe. The US is at the leading edge in the areas of both legislation and technical security architecture. The next stage will see rapidly growing demand potential in leading countries in Europe and Asia for highly successful SSH products in the US.

Globally operating companies and international cooperation in risk management will pave the way for models, standards, recommendations, and regulations which will serve as a platform for SSH's future growth. Developed to meet the needs of major financial institutions, large enterprises and government organizations in cutting-edge countries, our products are competitive the world over.

Accordingly, we can expect the market position of SSH and its state-of-the-art products to strengthen in the foreseeable future. As we continue to pursue the SSH Tectia strategy, we are now poised to embark on the profitable growth track we seek.

I would like to thank all SSH people for their invaluable contribution in bringing about the enormous changes made in 2004.

Arto Vainio
CEO

Mission, vision, objectives and strategy

Mission

SSH's mission is to enable its customers' secure business operations and data communications.

Vision

The company aims to be the leading supplier of managed security middleware to large enterprises, financial institutions, and government agencies.

Managed security middleware can protect critical business applications without the need to re-engineer the actual applications or the supporting IT structure. Middleware protects connections from users' workstations to application servers, from system administrators' computers to managed servers and connections between servers.

To achieve its vision, the company's core business focuses on further developing existing products and technologies in close cooperation with selected customer groups. SSH is committed to providing top quality products, to supporting customers' business operations and delivering fast, yet profitable growth. This in turn will provide added value for our customers and increased value for our shareholders.

Long-term goals

Our long-term goal is to maintain net sales growth of 25–30 percent. SSH's growth exceeds the overall growth of those markets in which the company operates.

SSH's long-term goal is to increase the operating profit to 20 percent.

SSH's long-term goal for both R&D and sales & marketing is 30–35 percent of net sales. The company believes that focusing on the selected customer segments and intense cooperation with existing SSH Tectia customers will enable it to further cut sales and marketing costs as a percentage of net sales.

Strategy

SSH's strategic intents are to:

1. increase business in selected target countries through direct sales and partnerships
2. further develop market leading Managed Security Middleware in close cooperation with customers
3. further enhance efficiency and superior quality in all operations

Growing the business

SSH is growing its business in selected target countries primarily through its own sales offices and partnerships. Sales are made using a clearly defined sales team model and in close cooperation with systems integrators. SSH is currently expanding its coverage on the international market through the selection of country-specific partners who operate in line with SSH's sales model. SSH is also increasing the number of customer and stakeholder contacts to make customers and the market better aware of SSH Tectia, which is also being expanded from traditional systems management to encompass new areas of application.

Development of Managed Security Middleware

SSH and customers are working together to further develop its leading Managed Security Middleware solution. SSH's strength on this front is market leadership. We deliver added value to customers through an outstanding, continual R&D and launch program, designed to meet the needs of large, astute customers. SSH is also expanding its product portfolio and developing the features of its products to support new user potential. We are further strengthening cooperation with SSH Tectia partners, and ensuring the compatibility of SSH products with those of our partners.

Enhanced operational efficiency and quality

We are further enhancing operational efficiency and top quality by streamlining and improving the use of existing key processes, and by building on our excellence in all activities. Improved high productivity is based on the best skills in the industry, and further development of the organization and human resources management. Encouraging a disciplinary approach, strengthening shared ways of working and ongoing improvement in all strategic areas of excellence are critical factors for a company to achieve its strategic intents.

Implementation of the strategy has progressed to phase 3

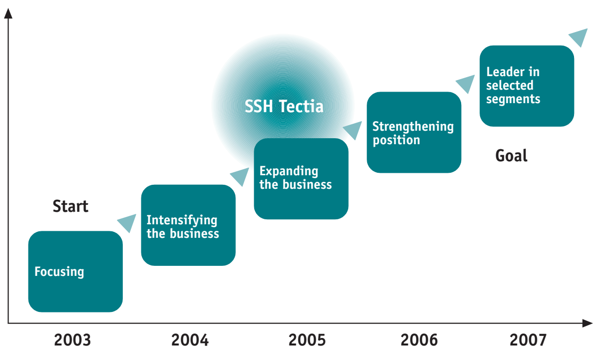
SSH's strategy is divided into four phases: focusing, intensifying the business, expanding the business, and strengthening market position.

In 2003, SSH took a major step towards consolidating its business, through the divestment of its OEM business to US-based SafeNet Inc. In 2004, the business was considerably intensified by creating a strong platform for the SSH Tectia solution, and by building a suitable sales and marketing organization for it. SSH has intensified existing customer relationships through additional sales, by extending licensing agreements, and by targeting canvassing on its main customer segments. In 2004, SSH divested it's purely PKI solutions business and now focuses solely on serving large enterprises, financial institutions, and government agencies.

The next phase of SSH's strategy is to grow the business by selling existing products to new customer segments, and to expand the product range with new products based on the same core technology. In 2005, the business will be expanded considerably by developing new competitive solutions for new SSH Tectia applications. At the same time, geographical coverage will be enhanced through country-specific partners and international distribution agreements.

Strengthening the market position from 2006 onwards involves strengthening the SSH brand among network security professionals, increasing SSH's visibility among its customers, and establishing SSH's position as the global leader in Managed Security Middleware solutions. This development is bolstered by intense cooperation with customers and the world's leading application vendors.

SSH Tectia as part of the strategic path



Tougher corporate network security requirements worldwide

In 2004, a global climate of major legislative reforms making a company's senior management increasingly more responsible for corporate network security worldwide impacted on the network security market. Additionally, as witnessed by the gaps in Microsoft Windows security, the changing threat environment and information system vulnerability forced enterprises to take proactive network security much more seriously. Since tight budgets again meant companies had insufficient funds to implement investments, the changes taking place in the business environment have yet to impact strongly on net sales growth.

Legislative reform requires greater investments in network security

The growing importance of legislative reform in increased security investments was very much in evidence globally during 2004. Privacy legislation relating to the confidentiality of patient records or consumer credit information placed new requirements on companies to effectively protect their information systems. Key legislation on this front in the US includes HIPAA (Health Insurance Portability and Accountability Act) on the healthcare side and GLBA (Gramm-Leach Bliley Act) in the banking sector.

Corporate risk management and laws governing internal control mechanisms are also included in legislation providing for network security requirements. During 2004, public companies in the US prepared for the SOX Act (Sarbanes-Oxley Act), which entered into force on November 15, 2005. Under the SOX Act, the senior management of public companies is personally liable for negligent internal control in financial reporting. Information systems and the documentation and auditing of the control practices relating to them constitute a core element of internal control. This in turn places special demands also on network security suppliers as regards centralized systems management and control.

Increased legislation was reflected in corporate network security budgets during 2004. According to "Organizational Trends in Sarbanes-Oxley and Regulatory Compliance Issues", a survey carried out by META Group Inc., 64 percent of public companies in the US have set aside special budget funds to comply with legislative requirements.

Security focus shifts to protecting internal networks

Increasing remote use of applications, systems integration between companies, and greater numbers of wireless connections have irrevocably changed the structure of corporate networks. A consequence of these trends is that the boundary between companies' internal and external networks is becoming blurred, a phenomenon that, in 2004, the industry began to term deperimeterization.

Deperimeterization meant it was no longer enough to build security at the network perimeter to adequately protect a corporate network. During 2004, application security became a hot topic of discussion in the network security business and many software vendors increasingly began to shift the focus of their operations to protecting the internal network.

Changing threat environment

Continuously growing Internet traffic, deperimeterization and the increasing complexity of information systems led to reports of systems vulnerability and a further rise in the number of security violations in 2004. Symantec's recent survey, "Internet Threat Report 2004", shows that worm-related

"Companies are used to mainly assessing risks relating to their employees, office premises and purely core business. Alongside this, the extensive utilization of data networks and the associated threats have spawned an entirely new risk category, where a company's reputation and ultimately its entire business are at stake. The impact of threats arising as a result of a blurring of the boundary between the local area and external network in particular give rise to increasingly tougher challenges to manage network security risks. Ensuring the confidentiality of information in local area networks (LAN), which traditionally have been considered safe, is also a focal area that needs to be given greater attention."

Tomi Tuominen
INFORMATION SECURITY OFFICER,
TIETOENATOR OYJ

attacks were propagating from more than 40 percent of Fortune 100 companies' networks. This proves that existing network security, mostly at the network perimeter, is inadequate.

Companies also realized the need for proactive network security. This is well illustrated by a US survey, where persons responding considered encryption of data transmitted online to be the second most effective technology to combat breaches of information security (2004 E-Crime Watch Survey, CSO Magazine, United States Secret Service, CERT Coordination Center).

Business grew
in selected customer segments

SSH delivers easy-to-use, centrally managed security solutions to large enterprises, financial institutions, and government agencies. The marked rise in the average size of deals signed in 2004 reflects the fact that we focused on large customers to implement our strategy. Intense cooperation with customers is an inherent part of our business approach to win and keep long-term key customers.

Own sales organization strengthened in key markets

The company's main markets are the United States, the United Kingdom, Germany, Austria, Switzerland, the Nordic countries and Japan. SSH has local sales and support organizations in these market areas to facilitate close customer cooperation.

As in earlier years, most of SSH's net sales in 2004 were generated in the United States, where the company's most important customers include the defense administration and major banks. Late 2004 saw SSH's US head office relocate from California to Boston. This move was made to pave the way for more intense cooperation with major US financial institutions, most of which are headquartered on the East Coast. The office in Los Altos, California is responsible for sales and technical support in the Western States. The United States will remain an important market area for SSH also in 2005.

During 2004, SSH strengthened its sales offices in Germany and the United Kingdom, and is now better placed to sell directly to customers and to provide local customer care in these two key European markets. Although European sales were still hampered by the setting up of the sales organization during 2004, we believe we are now on track for faster business growth in 2005.

December 2004 saw the roll-out of SSH Tectia on the Japanese market. Localization of the product into Japanese, and associated local marketing and sales actions were implemented in a bid to boost sales in Japan during 2005.

Partnerships foster growth

SSH continued to further build on and intensify cooperation with selected business and technology partners during 2004. This will ensure SSH Tectia and supplementary services and products are readily available on target markets.

In February 2004, SSH announced it had entered into global cooperation with U.S. company Entrust Technologies. This was followed by SSH Tectia receiving Entrust Ready™ certification in May the same year. Certification required comprehensive technical product integration, and for customers indicates that SSH products can be reliably used in conjunction with Entrust's identity management solutions. Entrust is worldwide market leader in PKI solutions, and SSH's target customers, especially those in the US, widely use Entrust products. August saw SSH join the HP Enterprise Management Services partner program, which seeks to integrate SSH Tectia into the HP Openview network management solution.

Higher average-sized deals have also led to larger SSH product deployment projects. Consequently, systems integrators continue to gain importance in SSH's business. This is why in 2004, SSH pursued efforts to enhance cooperation with major systems integrators at both a local and global level. During the second half of 2004, SSH concluded its biggest ever agreement with a US systems integrator.

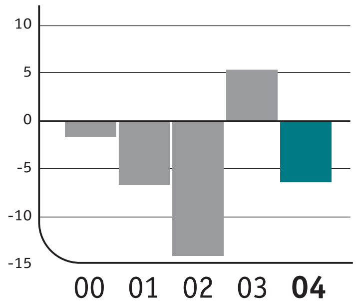
Towards the end of the year, SSH announced two new distributor agreements with Whitehat Security Inc and SiegeWorks in North America. Focusing in line with its strategy resulted in SSH announcing the licensing of the SSH Certifier

Since 1968, Voca has been at the financial heart of one of the world's largest economies. Voca processes more than 90% of UK salaries and enables over 70% of the UK population to pay their household bills by Direct Debit. Voca also provides some of the largest banks in the world and over 100,000 corporate businesses with a secure and trusted transaction infrastructure. SSH Tectia, meeting the strict security requirements of Voca, is used to securely administer the business-critical servers of the most scalable and robust payments engine in the world.

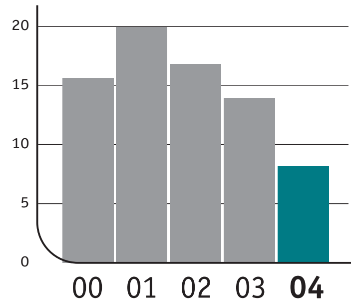
"To maintain our track record of 36 years, 50 billion transactions with zero failures, secure internal infrastructure management is vital. The SSH Tectia solution offers us the strongest system administration security available, with high-quality technical support services that ensure the integrity of our IT infrastructure."

Mark Stanhope
INFORMATION SECURITY MANAGER, VOCA LTD

Operating profit,
EUR million



Net sales performance,
EUR million



PKI platform to a Finnish company, Instasec Oy in October. Licensing includes the transfer of SSH's existing PKI customer relationships to Instasec. This in turn paves the way for SSH to focus its business more intensively on SSH Tectia's core application areas.

Technical services a competitive edge

One of SSH's foremost competitive edges is the local availability of comprehensive technical services, including 24/7 support, in all main market areas. As the original developer of Secure Shell technology, SSH is able not only to provide better quality support services than its rivals, but also to offer its customers a distinct opportunity to impact on the development of product features. In 2004, SSH commercialized SSH Tectia training services on a global basis as part of its efforts to develop technical services.

One solution – multiple application areas

Depending on customer requirement and use, the SSH Tectia Managed Security Middleware solution can be applied in three general areas: secure system administration, secure file transfer, and secure application connectivity. SSH's particular strength lies in an ability to provide a centrally managed total solution that can comprehensively solve enterprises' different needs to secure data in the network.

Secure system administration

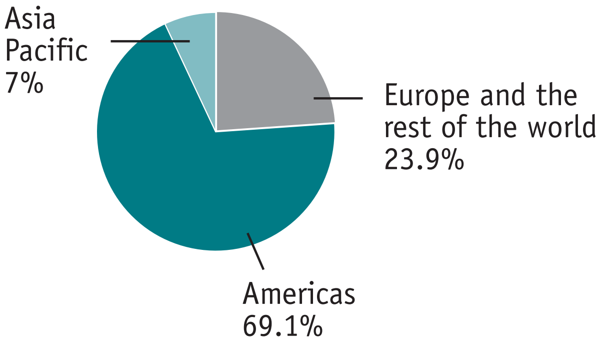
In the ten years since it was developed by Tatu Ylönen in 1995, Secure Shell technology has become an established benchmark in the secure administration of servers. Many companies have completely forbidden unsecured logging, such as the use of Telnet, because of the critical nature of maintaining IT systems and the high access rights required. Based on a platform of Secure Shell technology, the SSH Tectia solution can be utilized to replace unsecured system administration tools and thus ensure IT infrastructure security. Secure system administration was by far the most widespread use of SSH Tectia in 2004, and is set to retain a major position in the foreseeable future.

In fall 2004, SSH rolled out a global marketing campaign to encourage Secure Shell users to update their existing products to SSH Tectia in a bid to improve network security and cut overall costs. SSH's most important competitive advantages include the world's largest Secure Shell technology development organization, extensive support services, the only centralized Secure Shell management on the market (SSH Tectia Manager) and broader FIPS 140-2 certification, as required by US government agencies, than any of its competitors. In late 2004, active marketing efforts began to generate measurable increased sales among Shell Secure users.

In the US, customers considered that the centralized management provided by SSH Tectia definitely facilitated system administration in compliance with the requirements of the Sarbanes-Oxley Act. This was also the reason for most deals concluded during 2004.

SSH's major rivals in secure system administration are OpenSSH, VanDyke and WRQ, which in September signed an exclusive distribution agreement with F-Secure on the global sale of the F-Secure SSH product, which is based on Secure Shell technology developed by SSH.

Net sales
by market area



Secure file transfer

System administration often involves the transfer of files between servers. Most SSH customers like financial institutions deploy numerous automated file transfers such as nightly batch processing as part of their process. Strong encryption and data integrity are often core requirements owing to the business critical nature of the data transferred. SSH Tectia meets these requirements by replacing unsecured file transmission methods with a Secure Shell-based solution.

September saw SSH announce cooperation with Cryptico of Denmark. This enables SSH to incorporate Crypticore, encryption technology into the SSH Tectia solution.

Crypticore technology offers markedly improved performance, especially in protecting large volumes of data. Besides enhanced performance, 2005 will see SSH introduce other major improvements in transferring secured files, thereby further building on the competitiveness of its products.

SSH's rivals in secure file transfers are mostly the same as in secure systems maintenance.

Secure application connectivity

Deperimeterization, changing security threats and greater legislative pressure increase the need for comprehensively secure connections as regards also applications other than those relating to system administration and file transfers. Centralized network security management and transparent encryption, core elements in the SSH Tectia solution, enable extremely cost effective secure application connectivity in large corporate environments. Although there is clearly growing corporate awareness in this field, this area of application had still failed to generate significant net sales in 2004.

To add momentum to the deployment of secure application connectivity in enterprises, SSH rolled out a new licensing model and pricing with the launch of new product versions in the fall of 2004 to enable companies to cost-effectively embark on the protection of their most critical applications. The new licensing model has already been seen as having lowered companies' threshold to budget and launch network security projects to comprehensively protect corporate applications.

In protecting corporate applications, SSH Tectia competes indirectly with SSL VPN products, which include US Aventail, Permeo and Juniper Networks. Whereas SSL VPN products mostly provide secure remote connections to browser-based applications, SSH Tectia is best suited for use in internal networks. It also supports other than browser-based corporate applications.

Select, Solve, and Honor

Values drive responsible business

SSH develops software products and associated services to enable secure data transfer and communication in the information society. SSH's products help ensure that companies' confidential and secret information remains secure, and that only duly authorized persons have access to it.

Ethical and data protection and security issues were again widely reported in the media in 2004. The war on terror forces us to examine the boundary between protection of privacy and the security of the community. There has also been public debate on the risks facing companies and organizations today if they fail to take network security adequately into account. The authorities, too, have taken a stand on the importance of security. Legislative reforms have been introduced to ensure that information on individuals remains secure, and that companies make the necessary modifications to their information systems to prevent leaks.

SSH employees have defined three shared values for responsible company operations: Select, Solve, and Honor. SSH focuses on serving its selected customer segments by providing a product suite that meets their particular needs. SSH works together with its customers to develop the most effective solution, and strives to provide user-friendly, reliable network security solutions. SSH aims for lasting cooperation based on a platform of mutual respect, reliability, and transparency.

Corporate social responsibility and transparent interaction

SSH is an international player whose products are used almost throughout the world. SSH respects the cultures, customs, and values of individuals and groups alike. Wherever it has a presence, SSH complies with national norms and laws in its business operations. SSH strives to be a responsible member of the communities in which it operates. Corporate management seeks to ensure that the entire organization is aware of the Group's policies, and that all companies within the Group act in line with shared policies, aims, and instructions.

SSH promotes open discussion and interaction with all stakeholders.

Employee skills and innovation the cornerstone of prosperity

SSH has employees in five countries across the world. Responsibility towards its own employees and respect for the fundamental rights of SSH employees and those of its subcontractors is an important aspect of the company's corporate social responsibility.

SSH strategically addresses employee matters to further strengthen its reputation as a desirable employer. Whenever possible, SSH takes its employees' expectations and personal needs into account in employment relationship issues.

As an employer, SSH aims to provide its employees with an environment that fosters their development, and provides an opportunity for ongoing learning. Motivated, committed employees support the company's aim of being a world-leading Managed Security Middleware supplier. The company's future prosperity goes strongly hand in hand with the skills and innovation of its employees.

Our HR policy seeks to ensure all employees are treated equally. SSH also strives to offer a level of benefits that ensures the best, most competent individuals remain with the company.

The company's HR management operates on the principle of continuous open interaction. This interaction is supported through internal communication, and a number of employee meetings and events throughout the year. SSH's management culture encourages employees to develop the company's business and future business opportunities together.

During 2004, the company focused on manager training, expounding the role and responsibility of being a manager in the company.

Skills development plays an important role in the company's success

The rapid pace of technological progress requires continual learning and the constant updating of knowledge through training. The company promotes on-the-job training through an internal job rotation policy. SSH's corporate goals form the platform for employee development. Effective employee induction and training seek to ensure that all employees within the organization work consistently towards shared corporate goals.

The company has defined certain critical success factors in its corporate strategy, in which employee skills play an important role. Skill centers have been established around the critical success factors. These centers are tasked with ensuring the company's skills in the various areas of responsibility, and for producing development plans for various employee groups. Skills management seeks to improve the company's competitiveness and enhance operational efficiency.

Employee structure

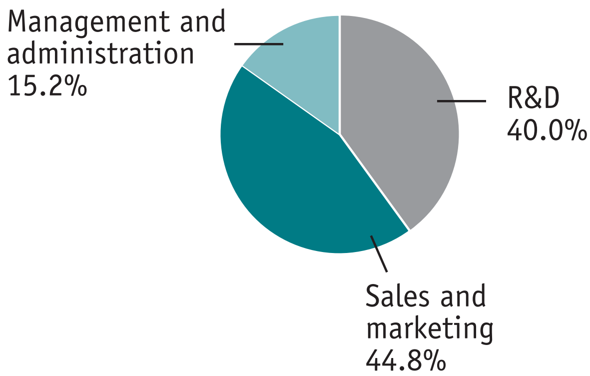
SSH's people are highly educated, with 67 percent of employees having a university degree. The company will continue to take on board highly educated people.

In 2004, 78 percent of employees worked in Finland, 16 percent in the US, 3 percent in Asia and 8 percent in other countries. Men accounted for 78 percent of employees and women for 22 percent. SSH employees have an average age of 37 years. A total of 42 percent of employees work in R&D, 47 percent in sales and marketing, and 16 percent in administration. At just one percent in 2004, staff turnover has remained quite low.

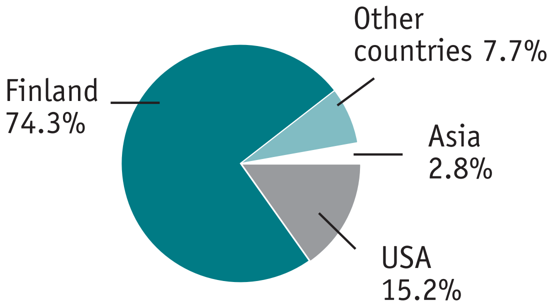
Recruitment needs in 2005 will mostly be in the R&D organization, with some additional people also being hired for software development and quality assurance. Major organizational changes took place already during 2004.

SSH continuously encourages innovation. Many of SSH's employees have made technical innovations for which the company has patents pending or is in the process of applying for international patents.

Employee distribution by business area



Employee distribution by geographical area



Healthy working environment contributes to workplace well-being

A healthy working environment creates a positive corporate culture. Workplace well-being means appropriate mental and physical working conditions, and overall job satisfaction. SSH contributes to the well-being of its employees also through the provision of recreational and leisure activities.

A working environment survey conducted in November 2004 showed that overall employee satisfaction was 3.6, measured on a scale of 1–5. The survey showed persons working in administration and product development as having the highest job satisfaction. An interesting job, an opportunity to grow in the job, and team activity and atmosphere were the factors most impacting on job satisfaction and workplace well-being.

In 2004, SSH further intensified collaboration on the occupational health care front, and introduced age-group medical check-ups for employees.

Industrial safety activities and principles were detailed during 2004. The company also specified its policy to better respond to new legislation determining the protection of privacy in working life and the protection of privacy in electronic communications.

Feedback and incentives motivate employees

Feedback for a job well done is the most important incentive of all. SSH holds development discussions twice a year with each employee. These discussions are used as a platform to draw up personal targets and development plans. Other reward schemes are linked to the achievement of targets. At the start of the year, SSH also introduced a balanced scorecard system. Metrics for each individual have been adapted from corporate metrics to support individual performance. Measurement encourages improvement in things that are already done well, and also identification of those areas with room for improvement.

SSH applies a stock option scheme open to all employees. In addition, the company provides its senior management with an extra incentive based on achieving financial goals at Group level. SSH's sales staff also receive a commission on closed deals and the ensuing customer invoicing.

Some SSH employee benefits vary by country and continent. These variations are due to legislative and cultural differences. In the US, for example, most employees work under a bonus scheme based on personal targets set on a quarterly basis.

SSH cares for the environment

SSH's environment policy seeks to ensure the company is a good corporate citizen that meets statutory obligations, promotes recycling and reduces overall waste. Most of the company's processes are already paper-free. Financial administration has especially developed paperlessness into a fine art.

In 2004, the company revised its procurement policy so that it acquires conventional computers through a financing company. Under the lease agreement, the financing company destroys obsolete computers in the proper way after the lease has ended.

The company sorts and recycles all materials that are recyclable or to be destroyed.

Responsibility also for the well-being of local communities

Responding to shareholders' expectations is a public company's most important financial responsibility. SSH shoulders financial responsibility also by impacting on the well-being of local communities.

SSH seeks to immediately adopt new legislation and changes in the Accounting Act. SSH started using IFRS standards before 2005 and pays particular attention to financial reporting and the scope of the investor pages on the company's website. This ensures investors have easy access to information about the company.

SSH strives to enhance shareholder value in all its operations. The Group was restructured in 2004 through a merger, when the Group's parent company, Applied Computing Research (ACR), merged with and into SSH Communications Security Corp. The merger was carried out in a bid to dissolve and streamline Group structure. This move has further improved transparency and simplified decision-making within SSH.

Corporate Governance

Principles

SSH applies principles of sound corporate governance and high ethical standards, complying with the Finnish Companies Act, securities market legislation, the recommendations of the Helsinki Exchanges, Chamber of Commerce and Federation of Finnish Industry and Employers, and the regulations of the Helsinki Exchanges.

Shareholders' meeting

Ultimate decision-making power at SSH is vested in the shareholders' meeting, at which shareholders participate in the control and supervision of the Company. The shareholders' meeting is convened at least once a year. The Annual General Meeting (AGM) is held within six months of the completion of the Company's financial statements. The AGM decides the number of members on the Board of Directors and appoints Board members. Additionally, under the Finnish Companies Act, the AGM has the authority to amend the Company's Bylaws, adopt the financial statements, determine the amount of dividend, and to select the Company's Auditors. Each SSH share conveys one vote at shareholder meetings.

The documents relating to business to be considered at the AGM are available for inspection in advance at the Company's head office in Helsinki. The Company (registered in Helsinki) makes every effort to choose a suitable venue for the AGM to enable as many shareholders as possible to attend and thus participate in decision-making.

The Company's CEO and usually all Board members attend the AGM. Persons standing for appointment to the Board for the first time must attend the shareholders' meeting at which they seek appointment so as to be properly presented to shareholders.

SSH shareholders are able to make suggestions and initiatives within the limits of the Finnish Companies Act. Additionally, shareholders are able to send management comments, questions and initiatives to ir@ssh.com. Every effort will be made to reply to these messages within the limits of business and Company secrets.

Board of Directors

The AGM appoints three to eight Board members to serve for a term of one year at a time. Board members comprise representatives of major shareholders and external, independent experts with a diverse breadth and depth of experience in the business and industry in which SSH operates. The Board elects a Chairman and Vice Chairman from among its members. SSH's current Board consists of experts in the industry, and representatives from the Company's largest shareholders.

In 2004, the Company's largest shareholder notified the Company in advance of the Board composition it would propose to the AGM. SSH duly issued a stock exchange release on the matter prior to the AGM.

Board responsibilities

The Board works to a predetermined agenda. At the start of each new term of office, a plan is drawn up of the Board's agenda and the themes to be considered during future meetings. During the spring, the agenda focused on outlining strategic policies, and updating the corporate strategy. In the fall, it was mostly matters at the tactical level, whilst in November the Board approved the budget for 2005. Meetings in the early spring focus on preparations for the AGM. Each Board meeting also considers a progress report provided by the CEO and CFO. In line with the standard agenda, all Board meetings monitor sales performance and market development. SSH's CEO attends Board meetings and presents business to be considered to the Board. The Company's General Counsel acts as secretary to the Board. In addition to the secretary and CEO, the CFO and director responsible for US operations also attend Board meetings. SSH's Board of Directors is responsible for the Company's strategic policies, and the appropriate organization of business operations and administration. The Board of Directors acts in the Company's interests at all times.

In addition to the tasks and responsibilities provided by law and the Company's Bylaws, in accordance with its agenda, SSH's Board of Directors

- confirms the Company's long-term goals and strategy
- approves the Company's action plan, budget and financial plan, as well as monitoring their implementation
- decides on large, single investments of strategic importance such as corporate and business acquisitions and divestments
- decides on strategically important product development projects
- appoints the CEO and determines his or her remuneration
- decides bonus and incentive schemes for senior management
- confirms the Company's risk management and reporting procedures
- determines the Company's dividend policy and is responsible for the development of shareholder value
- confirms the Company's values.

SSH's Board of Directors convened 12 times in 2004. The average attendance rate of Board members was 100 percent.

Board composition

The Board of Directors of SSH Communications Security Corp consisted of four members during the 2004–2005 term of office. Since SSH Communications Security Corp's operations focus on one area of business and the Company is still small by international standards, a four-member Board is large enough to effectively manage the Board's responsibilities.

The majority (3 members) of SSH Communications Security Corp's Board of Directors have no dependence on the Company. Tapio Kallioja, Tomi Laamanen and Timo Ritakallio are deemed to be independent Board members.

The fourth member, Tatu Ylönen, has, under Chapter 1, Section 3 of the Finnish Companies Act, a controlling interest in the Company and as such is not an independent Board member.

Board of Directors, from the left: Tapio Kallioja, Timo Ritakallio, Tomi Laamanen and Tatu Ylönen

Tapio Kallioja, born 1948, MSc (Tech)
Board member since 2001
President, Swelcom Oy
Tapio Kallioja has 20 years' management experience with companies in the media sector, including Helsingin Telset Oy, Helsinki Televisio Oy, Eurocable Oy, Sanoma Corporation's New Media Group and Helsinki Media Company Oy.

Tomi Laamanen, born 1968, DSc (Tech), PhD (Econ & Bus Admin)
Board member since 2001, Chairman of the Board since September 21, 2001
Professor Laamanen is professor at the Institute of Strategy and International Business at Helsinki University of Technology. He has been a Board member or Advisory Board member of several Finnish technology-based firms and professional associations. In addition to SSH, he is Chairman of the Board of Deltagon Oy and SystemsGarden Oy, and a member of the Board of Halton Oy, HPY Research Foundation and the Strategic Management Society of Finland.

Timo Ritakallio, born 1962, LLM, MBA
Board member since 2003
First Executive Vice President, OKO Bank
Timo Ritakallio has 15 years of experience in various positions in the finance and banking sectors, and in the capital markets. Mr Ritakallio is currently a member of the Executive Board (Board of Directors) of OKO Bank and chairman of the Board of OKO Venture Capital Ltd. He is also a member of the Board of OMX Exchanges Ltd and Stockholmsbörsen.

Tatu Ylönen, born 1968, LicSc. (Tech)
Board member since 1995
SSH's CTO until September 30, 2004 and major shareholder Tatu Ylönen developed Secure Shell technology for remote access and founded SSH Communications Security Corp. He is an internationally respected network security expert, and plays an active role in the field of data security.

Shares and stock options owned by the Board of Directors at December 31, 2004

	Shares	Stock options
Tapio Kallioja	2 000	2 000
Tomi Laamanen	22 000	4 000
Timo Ritakallio	8 000	
Tatu Ylönen	14 727 649	
Tatu Ylönen*	375 071	

* *indirectly through his company*

Committees of the Board of Directors

In a corporation, the proper functioning of the administrative and control systems requires the work of the Board of Directors to be organized as effectively as possible. The preparation of matters for which the Board of Directors is responsible can be made more effective through setting up committees comprising Board members. An Audit Committee started at SSH Communications Security Corp during 2004.

Chaired by Tomi Laamanen, other Committee members were CFO Johanna Lamminen, CEO Arto Vainio and Authorized Public Accountant Henrik Sormunen. The Board of Directors confirmed the principal responsibilities of the Audit Committee to be as follows:

- to understand the monitoring methods introduced by management to monitor the approval of transactions, the recording of transactions in the books and compliance with rules and regulations when preparing financial statements
- to ensure the correctness of information issued when going through the financial statements and other financial information
- to study major bookkeeping and reporting issues such as the latest rules and regulations governing the preparation of financial statements, and to understand their impact on the financial statements
- to examine corrections made to the financial statements, to make a list of the items (if prepared) remaining uncorrected, and to ask the auditors and management for explanations as to why the errors noticed were not corrected
- to assess whether the information required has been presented in the financial statements, whether the financial statements have been prepared in compliance with the relevant accounting policies, whether the financial statements give a true and fair view, and whether the information presented in the financial statements corresponds to that which Audit Committee members have of the company and its business
- to examine other parts of the annual report – especially the review by the CEO – and to assess whether the informa-

tion contained therein is a true and fair view, and whether the information presented in the financial statements corresponds to that which Audit Committee members have of the Company and its business

- to study the comments in the external audit
- to verify the methods by which Company management collects and compiles the results to be disclosed in interim reports and preliminary financial information, and to what extent the Auditors are involved in going through the information to be disclosed
- to examine the methods created by management to ensure compliance with laws and regulations
- to assess whether matters relating to compliance with rules and regulations have been considered when preparing the financial statements
- to assess the competence, independence, work and fees of the Auditors, and to propose the choice of auditors to the Board of Directors
- to study the proposed auditing plan and scope of audit
- to evaluate findings in the financial statement audit, and to ensure a reply to the findings has been obtained from corporate management

The Audit Committee convened three times in 2004.

All Board members are provided with financial information about the Company once a month. In line with the Board of Director's agenda, each Board meeting goes through the financial report. Additionally, the Audit Committee goes through the interim reports and the financial information on which they are based with the entire Board of Directors.

Owing to the scope of the Company's activities, it has not been deemed necessary to establish a separate appointment committee and remuneration committee. These responsibilities are dealt with by the entire Board of Directors.

CEO

SSH's Board of Directors appoints the CEO and decides the terms of his/her service contract. The CEO is in charge of the Company's operative management in accordance with the Companies Act and the instructions and authority provided by the Board of Directors.

Since July 2, 2002, the Company's CEO has been Arto Vainio BSc (Econ), born 1950. Prior to joining SSH, Mr Vainio was Vice President, Marketing at Tellabs. Before Tellabs, he was Vice President, Sales, South-East Asia, for Nokia Telecommunications (now Nokia Networks).

The CEO's retirement age and determination of pension comply with standard rules under the Employees' Pension Act. The period of notice for the CEO is six (6) months. Severance payment is equivalent to twelve (12) months' salary.

Executive Management Team

SSH's Executive Management Team has six members. The Team is chaired by the CEO, and the other members are the directors responsible for the business operations and various corporate support functions. The Executive Management Team can be enlarged if this is considered necessary for the business and topic under consideration.

The Executive Management Team's principal responsibility is to assist the CEO, to monitor and develop the Company's business in line with the objectives set, disseminate information, and to prepare investment decisions for consideration by the Board. The Team convenes on a regular weekly basis.

Members of the Executive Management Team are all directly subordinate to the CEO and as such report directly to him.

Members of the Executive Management Team

George F. Adams, b. 1948, MBA, BSEE
Executive Management Team member since 1999
President and CEO, SSH Inc, Executive VP, Sales
George F. Adams is responsible for SSH's sales in North America and is President and CEO of SSH's US subsidiary. Before joining SSH, Mr. Adams was Vice President of Business Development at Phoenix Technologies Ltd. Prior to Phoenix, Mr. Adams held management positions in Sun Microsystems, Intel, Analog Devices, and Motorola.

Jorma Kemppainen, b. 1965, M.Sc. (Tech.)
Executive Management Team member since 2003
Vice President, R&D and Technical Services
Jorma Kemppainen is responsible for SSH's product development and customer support, training and professional services. Before joining SSH, Mr. Kemppainen held a number of management positions in F-Secure Corporation, including Vice President of Research and Development. Prior to F-Secure, Mr. Kemppainen was Director of the Company Training Center at Tellabs.

Johanna Lamminen, b. 1966, Lic.Tech., MBA
Executive Management Team member since 1999
CFO
Johanna Lamminen is responsible for SSH's financial management, human resources management, IT management, investor relations, and the development of Group operations and quality function. Before joining SSH, she held various financial management and operations development positions within the Elisa Group, including Managing Director of Arcus

Software, Financial Manager of FINNETCom and Controller, Elisa Group.

Pekka Rauhala, b. 1960, LL.B., MBA
Executive Management Team member since 2001
General Counsel
Pekka Rauhala is General Counsel of SSH and its subsidiaries. He additionally acts as secretary to SSH's Board of Directors. Before joining SSH, Mr. Rauhala was Director of Legal Affairs, Director of Facilities and Legal Counsel at Tellabs, Legal Counsel at the Jaakko Pöyry Group of Companies and Legal and Tax Counsel at Helsinki Chamber of Commerce.

Juha Saksi, b. 1963, M.Sc. (Tech.), eMBA
Executive Management Team member since 2004
Vice President, Sales, SSH
Juha Saksi is responsible for SSH's sales, sales offices, and business development in Europe and Asia. Before joining SSH, Mr. Saksi was Head of F-Secure Corporation's wireless data security business unit and a member of the Management Team. Prior to F-Secure, he was responsible for managing sales and marketing at Vaisala.

Arto Vainio, b. 1950, B.Sc. (Econ.)
Executive Management Team member since 2002
CEO
Arto Vainio serves as Chairman of the Boards of Directors of the Group's subsidiaries. The other members of these boards are Johanna Lamminen, CFO, Pekka Rauhala, General Counsel, and the CEO of the subsidiary in question. Jean-Bernard Dumerc, CEO, SSH Communications Security KK, reports on operative matters to the Vice President of Sales.

Shares and stock options owned by
the Executive Management Team as at December 31, 2004

	Shares	Stock options
George F. Adams	252 850	150 000
Jorma Kemppainen		30 000
Johanna Lamminen	10 815	61 000
Pekka Rauhala		85 000
Juha Saksi		15 000
Arto Vainio	130 000	134 000

Salaries and remuneration

The shareholders' meeting confirms annually in advance the emoluments payable to members of the Board of Directors. The Board of Directors confirms the salary and other benefits of the CEO, and also determines the salaries and benefits payable to senior management.

The bonus scheme for SSH's senior management is approved by the Board of Directors. The bonus scheme is based on the following factors: the Company's net sales and trend in net sales, Company profitability and personal qualitative targets. The weighting of the corporate financial indicators varies slightly between different members of the Company's management, but the weighting of the key financial indicators should represent at least 70–85 percent of the overall target. The targets for the Company's senior management are fixed for one year at a time.

Forms of bonus for SSH's senior management and CEO have involved a performance related bonus and option schemes. The Company has no other bonus practices, nor does it have any differing pension arrangements for the CEO or other senior management.

Members of SSH's Board of Directors since April 27, 2004 and the Company's CEO hold approximately 54.3 percent of the Company's shares and votes, either directly or indirectly through the companies they own. Board members, the CEO, and members of the Executive Management Team hold a total of some 55.3 percent of the Company's shares and votes. As at December 31, 2004, the stock options held by SSH's Board of Directors, CEO, and other members of the Executive Management Team accounted for 27.7 percent of all outstanding stock options for 1999–2003.

Salaries and remuneration	
The Board of Directors	
Tapio Kallioja	€14 800.00
Tomi Laamanen	€14 800.00
Timo Ritakallio	€14 800.00
Tatu Ylönen	
CEO	
Arto Vainio	€177 514.40

Insiders

SSH operates its own insider guidelines, which comply with the Guidelines for Insiders approved for public companies by the Helsinki Exchanges.

Permanent insiders may trade freely only in the three weeks following disclosure of the Company's financial results. Trading is strictly prohibited during the three weeks before publication of the Company's interim reports and financial statement bulletins. SSH has also published on its website a set of principles regulating trading in SSH shares by permanent insiders.

In situations where the company is preparing for an event, such as a corporate acquisition or launch of a new product, that could have a material impact on the value of the company's shares, the company will establish a project-specific insider register. The guidelines approved by the Helsinki Exchanges also apply to project-specific insiders.

By virtue of their position, statutory insiders include Board members, the CEO and Deputy CEO, the auditor, and the principal auditor of the company's firm of auditors. Other persons defined as insiders by virtue of their responsibilities include members of the core management team, persons responsible for corporate communications and investor relations, and secretaries to senior management. In addition, permanent insiders include non-company lawyers and other employees of the accounting firm involved in the audit. There are currently 20 permanent insiders. SSH maintains an insider register in the SIRE system of the Finnish Central Securities Depository Ltd. A list of SSH's permanent insiders and their share and stock option holdings is available online at www.ssh.com/investors-fi/shares/insiders-html.

There is also a number of people employed by the company who, because of the work they do, have agreed to tradin restrictions. These are people who could have an opportunity to gain access to financial information through the nature of their work. These persons work in financial administration, and in the company's IT management. As far as they are concerned, it has been agreed trading in the company's shares requires separate permission from the insider administrator.

The company's CFO acts as insider administrator, with responsibility for the management and monitoring of insider matters.

Internal administration

Internal administration is a process that involves the Board of Directors, management and other employees in the organization. It ensures effective, appropriate operations, dependable financial information and compliance with regulations and the law.

SSH's process or quality work ensures there is a description of all processes, and that the various process interfaces are properly defined and described. Descriptions ensure that there is no discontinuity at any stage. The process is also intended to ensure that everyone in the organization knows how the company works and how the work of each individual is integrated into the company's operations. Separate operational development targets are set each year to ensure continuous development.

SSH also has a set of internal rules and regulations to help ensure the company operates in line with management's instructions. These rules and regulations help ensure the company takes the necessary steps to control any risks threatening the achievement of the targets set. Supervisory actions are effected at all organizational levels and functions, and include actions in respect of approving actions, authorizations, hiring staff and many other matters.

Management accounting provides dependable reports for decision-making. The company provides financial reports for the Board of Directors and management. Standard reports are produced monthly, but since information is always up-to-date, ad hoc reports can also be provided as necessary. Information systems provide the management accounting reports. Information is not just internal but also relates to outside events, operations and conditions. This is necessary in decision-making and external reporting.

Balanced Scorecard measurements ensure that the targets are in balance. The company sets annual financial targets in connection with the budget and constantly tracks target achievement.

SSH has given priority to financial and sales management information systems to enable the continuous availability of relevant, reliable up-to-date information. The systems ensure relevant information is forwarded to the right persons at the right time in a format that shows any deviations from plans, budgets and forecasts, and thus enables prompt reaction.

The company's corporate culture and open, appropriate communications foster honesty and high ethical objectives in the company's operations. The company's organizational structure supports and enables business planning, implementation, control and monitoring to ensure targets are achieved.

SSH management complies with high morals and ethics. The company carefully ensures it complies with all laws and provisions. Both the Board of Directors and operational management are responsible for monitoring compliance with legal provisions. A host of different regulations and policies have been published to support operations and to ensure that the organization takes into account laws and provisions in all operations.

The company's organization is also structured so as to enable it to identify key business risks, such as those relating to technology and reputation, as quickly as possible. This allows the company to quickly assess the likelihood of risk and the significance of their impact. Flexible operations mean the company can prioritize its resources in such cases.

Auditors

SSH has one Principal Auditor Authorized by the Central Chamber of Commerce, and one Deputy Auditor. If a firm of Authorized Public Accountants is appointed as the principal auditor, there is no need to appoint a deputy auditor. The auditor serves for a term of office of one year at a time. SSH's Auditor, PricewaterhouseCoopers Oy, a firm of Authorized Public Accountants, with Henrik Sormunen APA as principal auditor, is responsible for directing and coordinating the audit work.

The Company's Auditors provide shareholders with a report, as required by law, in conjunction with the annual financial statements. The principal aim of the statutory audit is to verify that the financial statements give a true and fair view of the Company's financial performance and position for each fiscal year. In addition to the Auditor's report provided with the annual financial statements, the auditors report on their findings to the Company's Board of Directors in connection with the interim reports.

The Auditor's fees for 2004 were EUR 72,941 in the Group and EUR 41,530 in the parent company. Other fees charged by the firm of auditors were EUR 104,006 in the Group and EUR 74,595 in the parent company. Other fees mostly related to tax advice, and the adoption of IFRS.

Risk management

Ultimate responsibility for the Company's accounting and supervision of its asset management lies with SSH's Board of Directors. The Board of Directors is also tasked with approving SSH's risk management and reporting procedures, and for monitoring the adequacy, appropriateness and efficiency of the company's administrative processes.

To date, SSH Communications Security Corp's main market area has been the United States. To reduce this market risk, the Company is actively seeking to expand operations in Europe. In 2004, the Company launched operations in both Germany and the UK. So far, the Company has not depended on just a few customers, which has made it possible to reduce market risk.

The Company has sought to manage the risks relating to its business operations by developing its operating processes and control points. During 2004, the Company stepped up efforts to develop sales processes and to build sales control systems. Sales operations are supported by the Company's own legal unit, which, through continuous management of contracts, seeks to reduce the risks related to the Company's business operations.

SSH protects its copyrights and trademarks through sales agreements. The Company has an active patent policy to protect its technology and encourages its employees to make and protect inventions.

SSH has a process in place whereby any network security risks found in the Company's products are promptly reported to senior management. Repairs are carried out immediately. The matter is communicated immediately and, likewise, updates are supplied immediately.

The Company provides no financing for its customers other than by granting normal payment periods. Since the Company's liabilities are all short-term, debt financing costs do not affect the Company's financial position. Since most of SSH's invoicing and purchasing takes place in US dollars, the Company has hedged against exchange rate risks. Exchange rate fluctuations may affect the Company's result.

Finance risk management is described separately in the financial statements section of the Company's annual report.

A comprehensive control system monitors the Group's financial performance each month. This control system includes the actual income statement at both Group level and by segment, and sales development by segment and product. Sales are also monitored so as to reflect previous quarters and development. The control system also produces information about the Company's cost structure. Sales forecasts are examined almost weekly. Internal accounting produces up-to-date information on the development of net sales by product and market area for both product and sales management. The Company's cost structure is also continuously monitored. Since the Company is small, it has no separate internal audit organization. The Company's operations are continuously examined in conjunction with interim reports to provide a constant monitoring of financial risks.

The Company's cash reserves have been placed with asset managers, who have invested them in accordance with a policy approved by the Board of Directors. Almost all the assets under management are invested in fixed income funds.

The Company's critical information systems are secured and operations can continue even in the event of an external catastrophe. SSH actively uses its own products to protect its own information system infrastructure. Encryption and strong authentication protect the Company's confidential telecommunications from both internal and external threats.

The Group currently has adequate employees in terms of both numbers and caliber. There is no major risk in this respect. Various working environment surveys are regularly carried out to monitor employee satisfaction and commitment to the Company. The latest results show employees to be highly satisfied and committed to the Company.

SSH Communications Security Corp
Valimotie 17, 00380 Helsinki, Finland
Telephone +358 20 500 7000, fax +358 20 500 7001
www.ssh.com

Secure business and data transfer

IFRS Financial Statements 2004

SSH | Original Secure Shell
10 Years 1995 – 2005

Contents

Report of the Board of Directors

for Jan. 1 – Dec. 31, 2004

Net sales

Consolidated net sales for the period totaled EUR 8.2 million (EUR 13.9 million), down by 40.6 percent, year on year. The 2004 net sales are not comparable with those reported for the same period a year ago, due to the divestment of the OEM business in 2003 based on an agreement signed by SSH and SafeNet Inc, a US company, in October 2003. The divested OEM business accounted for 40.1 percent of SSH's net sales in 2003.

Net sales from products based on the SSH Tectia solution grew by 3.1 percent, year on year, generating almost all of the company's sales in 2004. A small fraction of net sales came from the SSH Certifier product whose further development SSH licensed to Instasec Oy in November 2004.

During the fourth quarter, SSH continued the systematic implementation of its strategy based on its Tectia solution, primary target customer groups including large enterprises, financial institutions, and government agencies, almost all of its Q4 sales stemming from these customer segments.

The 2004 fourth-quarter net sales came to EUR 1.9 million, showing a year-on-year fall of 33.2 percent (EUR 2.9 million).

The US dollar's depreciation against the euro had a major effect on consolidated net sales for the report period i.e., the US dollar average rate dropped by 8 percent from the previous year. Almost 80 percent of SSH's invoicing is based on US dollars.

Parent company net sales for the period came to EUR 4.4 million, showing a year-on-year fall of 49.1 percent (EUR 8.6 million).

Results and expenses

Losses for the period were EUR –6.4 million (EUR +5.2 million), while showing a net loss of EUR –5.8 million (EUR +5.5 million). Fourth-quarter operating loss came to EUR –1.7 million (EUR +9.3 million) while the same period showed a net loss of EUR –1.7 million (EUR +9.5 million).

For future earnings and cost structure, major investments in development programs attached to SSH Tectia's sales, marketing and product development were particularly important in 2004, alongside a number of measures to enhance the company's future cost structure.

In 2004, the company's cost structure included exceptional non-recurring expenses arising from the establishment of new offices in Germany and the UK as well as recruiting and training key staff for these offices.

In July, the company recorded a provision for an unprofitable lease agreement. At the end of December, the provision came to EUR 0.1 million. SSH's US subsidiary moved to smaller and significantly lower cost premises. At the same time, the subsidiary subleased its Palo Alto office, but this rental income does not fully cover rental expenses.

Problems related to incorrectly reported and paid royalties between F-Secure Corporation and Nokia Corporation may incur costs to SSH. SSH has had no possibility whatsoever to verify this. F-Secure claims excess royalties paid to SSH for 2001-2004. SSH has entered the royalties for 2004 as net sales adjustments. The total amount under dispute of the royalty repayment claim is approximately EUR 180,000, for which SSH has recorded a provision of EUR 90,000 at the end of December. SSH will continue talks with F-Secure on the amount and fairness of the royalty repayment.

SSH's US subsidiary, SSH Communications Security, Inc., received a claim for recovery from the bankruptcy estate of its US customer, Global Crossing Ltd, on the refund of USD 50,000 concerning a license fee from 2002. The company entered into negotiations over an amicable settlement with Global Crossing Ltd's bankruptcy estate during 2004 and, offered to pay USD 30,000 to the bankruptcy estate. The company expensed this amount in December 2004.

Research and development expenses for the period totaled EUR 3.8 million (EUR 5.2 million), while sales and marketing expenses came to EUR 8.6 million (EUR 9.7 million). Administrative expenses were EUR 2.4 million (EUR 2.6 million).

Fourth-quarter R&D expenses totaled EUR 0.9 million, while a year ago they were EUR 1.2 million. Sales and marketing expenses for the same period amounted to EUR 2.2 million (EUR 2.8 million) while administrative expenses totaled EUR 0.6 million (EUR 0.5 million).

Parent-company operating loss came to EUR –5.7 million (EUR +5.6 million) and net loss totaled EUR –5.3 million (EUR +6.5 million). In the 2003 results, the divestment of the OEM business was recorded almost entirely in the parent company's accounts.

SSH signed a new lease on its Finnish premises in December 2004. The new lease will substantially reduce the company's lease expenses in Finland as of May 1, 2005.

Balance sheet and Financial position

SSH's financial position remained at a healthy level during the report period. Consolidated balance sheet total on December 31, 2004 stood at EUR 38.0 million (EUR 43.8 million), of which the liquid assets accounted for EUR 33.9 million (EUR 36.8 million), or 89.1 percent of the balance sheet total. Except for the subordinated loan of EUR 0.2 million granted by the National Technology Agency (Tekes), the company has no other long-term liabilities.

Gearing, or the ratio of net liabilities to shareholders' equity, was –94.8 (–88.7 percent) at the end of the financial year. Equity ratio on December 31, 2004 stood at 94.8 percent (94.7 percent).

The reported gross capital expenditure for the period totaled EUR 0.5 million (EUR 0.8 million), consisting mainly of software investments. Reported financial income consisted of interest income and capital gains on fund units. Financial income and expenses totaled EUR 0.5 million, whereas a year ago they were EUR 0.3 million.

Since SSH, under IAS 39, classifies financial assets and other marketable securities as available-for-sale assets, it recognizes any unrealized changes in their value under shareholders' equity. Only after the sale of an asset does the company recognize interest income in the income statement. During the report period, SSH recognized an increase of value of EUR 0.07 million under shareholders' equity.

In connection with the sale of the OEM business in November 2003, part of the sales price, USD 2.8 million, was transferred to an escrow account for 12 months. SSH has received the balance in full to the extent that USD 0.8 million remained in the escrow account at the end of December. Since this amount was transferred to SSH's account at the very beginning of January, it was stated under other receivables on the balance sheet.

SSH's business operations and investments showed a negative cash flow of EUR –2.6 million and EUR –0.4 million, respectively. Cash flow from financing, EUR 0.1 million, was generated by share subscriptions based on the employee stock-option scheme. The company showed a negative total cash flow of EUR –2.8 million during the period.

Market developments

In 2004, the number of invitations to tender, and projects pending among SSH's customers showed a marked upward trend. Project negotiation times until the final delivery stage continued to take a relatively long time. Data security remained high on the agenda of companies' and public-sector organizations' IT investments.

Major legislative reforms on data confidentiality and secure data communication are taking place both in the US and Europe. Customers are facing an ever-greater challenge in terms of information security management due to deperimeterization, or the gradual disappearance of boundaries between companies' internal and external information networks, with recent surveys suggesting that large corporations are finding it more difficult to protect their intranets and businesses from sophisticated worms and back doors. The SSH Tectia solution's features align well with this trend, and SSH is confident that reforms will have favorable effects in terms of customers planning secure remote management of their information systems and solutions for protecting their business applications.

The number of companies actively testing new SSH Tectia data security solutions increased in significantly North America, SSH's main market area, with demand mainly focus-

Sales performance

SSH'S NET SALES

EUR million	10–12/2004	7–9/2004	4–6/2004	1–12/2004	10–12/2003	1–12/2003
BY SEGMENT *						
AMER	1.4	1.4	2.0	5.7	1.6	6.5
APAC	0.2	0.1	0.1	0.6	0.5	2.2
EROW	0.3	0.6	0.5	2.0	0.8	5.1
SSH Group total	1.9	2.1	2.6	8.2	2.9	13.9
SSH TECTIA BUSINESS						
Net sales **/***	1.9	2.1	2.6	8.2	2.3	8.3

* The figures for 2003 by segment are not fully comparable with those for 2004 because they include the OEM business divested in Q4/2003.

** The SSH Tectia solution was launched during the last quarter of 2003. Net sales for previous quarters include net sales of earlier versions of SSH products now enhanced and integrated as part of the SSH Tectia solution.

*** The net sales of SSH Tectia solution business for the fiscal year 2004 is not fully comparable with that for 2003, when SSH Certifier product was still included in SSH Tectia solution. Net sales from products based on the SSH Tectia generated almost all of the company's sales in 2004. A tiny fraction of net sales for the period came from the SSH Certifier product.

ing on solutions for secure remote management of network servers and various kinds of data communication equipment. Currently, SSH Tectia Manager is included in practically all major SSH Tectia installations.

In Europe, the SSH Tectia solution attracted growing interest, especially among financial institutions and government organizations. Customers' interest in securing their business applications grew slightly towards the end of the year. For SSH, the most interesting markets in Europe include Germany, the UK and the Nordic countries, with SSH taking a major step forward in the UK during the third quarter when a major UK bank selected the SSH Tectia solution for secure remote management.

In Asia, financial institutions continued to constitute the most important customer segment for SHH during the report year. Asian customers were primarily interested in the secure remote management of traditional network servers and various data communication equipment, as evidenced by an international bank, based in China (Hong Kong), selecting SSH Tectia for secure remote management.

Competition in the market for secure remote management solutions took a new form in the third quarter when F-Secure, a Finnish company, entered into a strategic partnership with WRQ, a US firm, which became the global, exclusive distributor of F-Secure's SSH products. This change is expected to continue the fierce price competition in the US, Europe and Asia.

Most of SSH's net sales for 2004 came from the US, with the US Government, large banks, and large enterprises as SSH's major customers. Sales of SSH Tectia in US dollars grew by almost 30 percent in its main market while the US dollar continued to weaken against the euro. Net sales on products based on the SSH Tectia solution showed a global growth of 3.1 percent year-on-year.

During the fourth quarter, net sales were not at satisfactory levels. Sales were particularly affected by the fact that several customers SSH had predicted would buy at the end of 2004 postponed their purchases, with end-of-year budgetary decisions. Although the sales process of a system-level product for major customers continues to be a long one, average customer invoicing continued to grow in line with SSH's long-term strategy during the last quarter.

The Americas, Asia Pacific, Europe and Rest of the World accounted for 69.1 percent (47.3 percent), 7.0 percent (15.5 percent) and 23.9 percent (37.2 percent) of reported net sales, respectively.

Asia Pacific and Europe and Rest of the World saw a decrease in their year-on-year share of net sales, as a result of the divestment of the OEM business. SSH's measures to reinforce and train its sales organization to sell the SSH Tectia solution in these market areas have proceeded more slowly than expected.

During the report period, SSH concluded 12 customer agreements each worth more than EUR 100,000, three of which were signed during the fourth quarter. SSH's ten largest customers accounted for 39.8 percent of reported net sales, with the largest single customer accounting for 14.6 percent.

Products and marketing

During the report period, SSH focused its sales and marketing efforts on large corporations, financial institutions and government agencies in the US, Europe and Asia, in line with its long-term strategy.

The company strengthened its sales organization by reinforcing its partner network complementing the SSH Tectia solution. In addition, it was involved in major trade fairs and customer workshops in the US, Europe and Asia, while embarking on the launch of active, targeted marketing campaigns promoting secure remote management solutions.

In February, SSH announced that it had joined the Entrust TrustedPartner Program, launched by Entrust, Inc., a US company. Through this strategic partnership with Entrust, Inc., the SSH Tectia product family will be reviewed for compatibility and interoperability with the Entrust PKI-based solutions, paving the way for SSH Tectia's more effective sales and marketing using Entrust's current broad customer base.

In April, Swisscom Eurospot announced that the SSH Tectia client/server products had passed their compatibility tests along with Check Point and Nortel Networks products.

In June, SSH announced that it had concluded a contract on sales and marketing cooperation with SAS Institute, a major supplier of business intelligence solutions in Finland. During the first contract period, product marketing cooperation will begin.

During the second quarter, SSH also launched a new version of the SSH Tectia data security solution. Based on award-winning SSH Secure Shell technology, SSH Tectia is a data security solution for large enterprises. The new version is much easier to integrate with various user data management systems. The SSH Tectia solution enables companies to replace conventional, insufficient authentication methods easily and cost-effectively with electronic certificates and strong two-factor authentication.

In August, SSH joined HP's partnership program and entered into a VAR (Value Added Reseller) partnership with SiegeWorks, a US company.

In September, SSH announced that it had concluded an OEM licensing agreement with Cryptico A/S, enabling SSH to incorporate Cryptico's encryption software into its SSH Tectia solution. High-performance cryptographic algorithms pave the way for new uses for SSH Tectia managed security middleware solution.

The third quarter saw several update projects for SSH Tectia and the extension of operating system support into HP Itanium. At the same time, SSH sharpened its product strategy in such a way that the management of certificates will be integrated seamlessly with SSH Tectia.

In October, SSH licensed the SSH Certifier PKI platform to Instasec Oy. This OEM licensing includes the transfer of existing SSH Certifier customer relationships to Instasec Oy. Furthermore, SSH introduced two new modules for its SSH Tectia solution, the new versions of the SSH Tectia Server software enabling powerful, visible encryption for business applications, while protecting application server remote management. In addition, the company has adopted a new pricing model for its SSH Tectia solution designed to make powerful enterprise security more cost-effective for entry-level customers.

For SSH's business, the relevant data security markets can be roughly divided into two application areas: data communications encryption and secure remote administration. SSH estimates that the size of its target market in 2004 is worth around EUR 180 million, this figure excluding the traditional PKI infrastructure market, which is no longer high on SSH's agenda. This estimate is based on reports by international market research firms and SSH's own analyses.

Research and development

January-December R&D expenses totaled EUR 3.8 million (EUR 5.2 million), accounting for 46.4 percent of net sales (37.4 percent). This fall was due mainly to the divestment of the OEM business in October 2003.

In accordance with IAS, SSH capitalizes only product development expenses caused by the commercialization of new products at the end of R&D processes. Such R&D expenses incurred during the report period totaled EUR 0.3 million, with these expenses to be capitalized as part of the commercialization of the new SSH Tectia Manager solution. SSH will continue to expense the majority of its R&D expenses.

At the end of the report period, the company held nine patents with 18 pending.

Human resources and organization

During the report period, SSH reinforced its sales organization in particular, with the UK and German sales teams in Europe recruiting more staff, in addition to selected key new sales positions in the US.

SSH reorganized its operations in December by bringing its product management, product marketing, product development and customer support under one organization. This new organization ensures that any views and further development proposals coming from the customer interface are conveyed to product management and development as soon as possible to be taken into the right new features for the next product versions.

At the end of December, the Group had 105 employees on its payroll, one person more than a year earlier, when the headcount was 104.

At the end of the period, 40.0 percent of the personnel worked in R&D, 44.0 percent in sales and marketing, and 16.0 percent in administration, with most of the staff changes affecting sales and marketing and administration. At the end of 2004, sales and marketing staff was 4 percent higher than a year earlier, whereas administrative staff was 2 percent lower than at the end of 2003.

In early October, SSH appointed Timo Rinne, M.Sc. (CS), Chief Technology Officer responsible for the company's technology strategy and its application to product development and the SSH Tectia products. His predecessor, Tatu Ylönen, continued as a member of SSH's Board of Directors.

Board and Auditors

Until the Annual General Meeting on April 27, 2004, SSH Communications Security Corp's Board of Directors consisted of Tapio Kallioja, Tomi Laamanen, Timo Ritakallio and Tatu Ylönen, who were all re-elected as Board members, with Tomi Laamanen re-elected as Chairman.

The AGM re-elected PricewaterhouseCoopers Oy, an authorized public accountants firm, as the company's auditor, with Henrik Sormunen, an authorized public accountant, acting as the principal auditor.

Shares, shareholding and changes in the Group structure

The reported trading volume of SSH Communications Security Corp shares totaled 9,344,794 (valued at EUR 15,834,404), i.e. 33.3 percent of the shares changed hands. The highest quotation was EUR 2.69 and the lowest EUR 1.18. The trade weighted average share price for the period amounted to EUR 1.69, and the share closed at EUR 1.28 on the last banking day (on December 30, 2004), when the trading was arranged in the period.

In March, the company announced that the Board of Directors of SSH and Applied Computing Research (ACR) had signed a merger agreement whereby ACR would merge with SSH. Through the implementation of the merger, SSH would issue 16,942,487 new shares for ACR's shareholders, Mr. Ylönen and Mr. Kivinen, as a consideration of the merger. The number of these shares equals that of SSH shares then held by ACR. The shares held by ACR will be transferred to SSH's ownership.

The Annual General Meeting on April 27, 2004 approved the ACR's and SSH's merger plan, the increase of share capital related to the merger consideration, and the merger of ACR with SSH, as proposed by the Board of Directors. The AGM also decided on the conditional cancellation of the SSH shares held by ACR to be transferred to SSH as a result of the merger, and on the reduction of shareholders' equity.

The key objective of the merger was to streamline the corporate structure and enhance the transparency of SSH's shareholding, in addition to observing the Corporate Governance recommendation for listed companies, issued by HEX Helsinki Exchanges.

SSH applied for the shares to be issued as merger consideration to be admitted for public trading on the main list of the Helsinki Stock Exchange as of November 1, 2004, under the same class of shares as its existing shares. In connection with this application, SSH published a prospectus on 25 October 2004.

The merger was implemented according to plan on October 31, 2004, leading to changes in holdings as referred to in the Securities Markets Act (Chapter 2, Section 10), thus causing a significant change in SSH's ownership. As a result, Tatu Ylönen held 53.77 percent and Tero Kivinen 9.25 percent of the company.

In addition, the AGM decided to reduce the company's share premium fund by transferring a total of EUR 15,000,000 to unrestricted equity. This transfer required the approval of the Trade Register.

On 27 August, 2004, the Trade Register gave the green light for the reduction of the share premium fund by EUR 15,000,000.

Share capital and board authorizations

The company's registered share capital on December 31, 2004 came to EUR 843,046.26, consisting of 28,101,542 shares. During the report period, SSH increased its share capital four times, based on the subscription of the new shares under SSH's stock-option scheme. A total of 334,750 and 30,982 new SSH shares were subscribed under the 1999 and 2003 stock-option schemes, respectively, with the result that the company's share capital increased by EUR 10,971.96.

SSH's Annual General Meeting of April 27, 2004 authorized the Board to decide by April 27, 2005 to increase share capital through a rights issue and/or grant stock options or issue bonds with warrants, or convertible bonds, in such a way that the resultant share capital may increase by a maximum of EUR 165,000. The Board did not exercise this authorization by December 31, 2004.

Events after the report period

At the beginning of January 2005, SSH revised its net sales estimate for 2004 because a number of contracts and related income recognition predicted for the fourth quarter of 2004 had been postponed. SSH received and delivered four of these orders in early 2005.

In January, the company launched a major new SSH Tectia data security solution, SSH Tectia Server, which is the first Secure Shell product for IBM mainframe environment. The new product introduces the Secure Shell data security protocol developed by SSH to IBM's z/OS operating system. According to market reports, more than 90 percent of Fortune 1,000 companies use such mainframe environments for their business applications, and more than 70 percent of business data is stored on mainframe computers.

Prospects for 2005

SSH has concluded a period of reorganization and major development investments, which took over two years. The company's management expects to reach a major turning point during 2005, both in terms of sales and profitability.

SSH's sales will grow by 10–30 percent during 2005, thanks to several legislative changes underway both in the US and Europe as well as the new sales offices SSH launched in Germany and the UK in 2004. In 2004, the company also expanded its partner network, expecting this new cooperation to increase the recognition of SSH Tectia solutions. Continuous development of the SSH Tectia solution and new product applications will expand the target market both from the viewpoint of current and new customers.

SSH's management is confident that these factors will have a favorable effect on demand for the SSH Tectia solution.

SSH's net sales forecast for 2005 is EUR 9–11 million. The company's management expects the SSH Tectia solution, including the SSH Tectia Manager and SSH Tectia Connector products, which met with a favorable reception in the market, will increase the average size of contracts while contributing to the achievement of the company's net sales target. The management estimates that SSH will have a possibility to reach profitability in 2005.

Board proposal to the annual general meeting

SSH's total profit from sold of its OEM business during 2003 was over EUR 10 million. SSH Group's distributable assets total of EUR 8,189,362 (parent company EUR 16,147,696).

The Board of Directors proposes to the Annual General Meeting of Shareholders that a dividend of EUR 0.29 per share be paid for 2004, which total about EUR 8,149,930.

Helsinki, 8 February 2005

SSH COMMUNICATIONS SECURITY CORP

Board of Directors

Consolidated income statement

EUR	Notes	CONSOLIDATED Jan. 1 – Dec. 31, 2004	CONSOLIDATED Jan. 1 – Dec. 31, 2003
NET SALES		**8,229,959**	**13,850,908**
Purchasing and production costs		149,317	2,506,173
GROSS PROFIT		**8,080,641**	**11,344,736**
Other operating income		293,638	11,327,117
Expenses	1., 2.		
Product development costs		3,822,748	5,194,955
Sales and marketing costs		8,509,120	9,658,165
Administration costs		2,398,074	2,628,040
OPERATING PROFIT/LOSS		**–6,355,663**	**5,190,693**
Financial income and expenses (net)	3.	541,092	352,786
PROFIT/LOSS BEFORE TAXES		**–5,814,570**	**5,543,479**
Taxes	4.	–21,098	0
PROFIT/LOSS FOR THE FINANCIAL PERIOD		**–5,835,669**	**5,543,479**
Earnings per share (undiluted) (€ per share)	5.	–0.21	0.20
Earnings per share (diluted) (€ per share)	5.	–0.21	0.19

Consolidated balance sheet

EUR	Notes	CONSOLIDATED Dec. 31, 2004	CONSOLIDATED Dec. 31, 2003
ASSETS			
FIXED AND NON-CURRENT ASSETS			
Tangible assets	6.		
Machinery and equipment		237,546	250,511
Other tangible assets		204,986	288,599
Tangible assets, total		**442,532**	**539,110**
Intangible assets	7.		
Intangible rights		700,968	1,174,246
R&D expenses		181,296	0
Intangible assets, total		**882,265**	**1,174,246**
Deferred tax assets	8.	245,415	243,507
FIXED AND NON-CURRENT ASSETS, TOTAL		**1,570,211**	**1,956,863**
INVENTORIES AND CURRENT ASSETS			
Inventories	9.	**5,824**	**3,054**
Current receivables	10.		
Accounts receivable		1,229,572	1,590,110
Receivables from Group companies		0	2,464
Other receivables		860,000	2,762,728
Prepaid expenses and accrued income		468,171	799,070
Current receivables, total		**2,557,743**	**5,154,372**
Investments	11.		
Available-for-sale assets		31,430,189	29,177,707
Held-to-maturity assets		906,255	2,997,630
Investments, total		**32,336,444**	**32,175,337**
Cash and cash equivalents	12.	1,515,331	4,558,582
INVENTORIES AND CURRENT ASSETS, TOTAL		**36,415,341**	**41,891,346**
ASSETS, TOTAL		**37,985,553**	**43,848,209**

Consolidated balance sheet

EUR	Notes	CONSOLIDATED Dec. 31, 2004	CONSOLIDATED Dec. 31, 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY			
Share capital		843,046	832,074
Share premium fund		24,423,673	39,340,741
Fair value reserve		74,222	0
Unrestricted equity fund		15,000,000	0
Retained profit/loss		869,783	–4,575,081
Net profit/loss for the period		–5,835,669	5,543,479
SHAREHOLDERS' EQUITY, TOTAL		**35,375,056**	**41,141,213**
LONG-TERM LIABILITIES	13.		
Deferred tax liabilities		26,072	0
Provisions		222,135	12,090
Long-term financial liabilities		330,054	245,218
LONG-TERM LIABILITIES, TOTAL		**578,260**	**257,308**
SHORT-TERM LIABILITIES	14.		
Advances received		659,703	384,496
Accounts payable		167,982	254,077
Accrued expenses and deferred income		881,552	902,809
Other liabilities		322,999	908,305
SHORT-TERM LIABILITIES, TOTAL		**2,032,237**	**2,449,688**
LIABILITIES, TOTAL		**2,610,498**	**2,706,996**
SHAREHOLDERS' EQUITY AND LIABILITIES		**37,985,553**	**43,848,209**

Statement of changes in shareholders' equity, Group

Statement of changes in shareholders' equity	Share capital	Share premium	Fair value and other reserves	Translation differences	Retained earnings/ loss	Total
2003						
Shareholders' equity Dec. 31, 2002	**831,418**	**54,606,320**	**0**	**–349,550**	**–19,134,064**	**35,954,124**
Effect of IFRS [1)]	0	–1,643,000	0	0	1,643,000	0
Adjusted shareholders' equity Jan. 1, 2003	**831,418**	**52,963,320**	**0**	**–349,550**	**–17,491,064**	**35,954,124**
Translation differences				–360,765		–360,765
Net income/expenses recognized under shareholders' equity	**0**	**0**	**0**	**–360,765**	**0**	**–360,765**
Net profit/loss for the period					5,543,478	5,543,478
Total income and expenses recognized for the period	**0**	**0**	**0**	**–360,765**	**5,543,478**	**5,182,713**
Transfer to the other shareholders' equity item	0	–13,626,298	0		13,626,298	0
Subscribed shares based on stock options	656	3,719				4,375
Shareholders' equity Dec. 31	**832,074**	**39,340,741**	**0**	**–710,314**	**1,678,712**	**41,141,213**
2004						
Shareholders' equity Jan. 1	**832,074**	**39,340,741**	**0**	**–710,314**	**1,678,712**	**41,141,213**
Translation differences				–98,615		–98,615
Available-for-sale assets: gain/loss measured at fair value			74,222			74,222
Net income/expenses recognized under shareholders' equity	**0**	**0**	**74,222**	**–98,615**	**0**	**–24,393**
Net profit/loss for the period					–5,835,669	–5,835,669
Total income and expenses recognized for the period	**0**	**0**	**74,222**	**–98,615**	**–5,835,669**	**–5,934,283**
Transfer to the other shareholders' equity item	0	–15,000,000	15,000,000		0	0
Subscribed shares based on stock options	10,972	82,932				93,904
Shareholders' equity Dec. 31	**843,046**	**24,423,673**	**15,074,222**	**–808,929**	**–4,156,956**	**35,375,056**

1) As a result of IFRS adoption, the subordinated loan (EUR 245,218), under the Finnish Companies Act, was transferred from shareholders' equity to long-term liabilities.

Entries in the shareholders' equity, related to Applied Computing Research Oy's merger stated in the Review by the Board of Directors, had no impact on the final shareholders' equity, which is why these are not shown in the above table.

Consolidated cash flow statement

	CONSOLIDATED Jan. 1– Dec. 31, 2004	CONSOLIDATED Jan. 1– Dec. 31, 2003
Cash flow from operations		
Sales revenue	8,647,804	14,377,556
Revenue from other operations	666,417	11,395,875
Payments for operating expenses	–12,516,559	–22,755,150
Cash flow from operations before financial items and taxes	**-3,202,338**	**3,018,281**
Interest paid and other financial expenses paid	–521,391	–1,153,285
Operating interests and other financial income received	1,144,771	1,430,277
Direct taxes paid		–42,349
Cash flow from operations	**–2,578,957**	**3,252,926**
Cash flow from investments		
Investments in tangible and intangible assets	351,486	–1,004,042
Investments in other financial assets	0	–84
Cash flow from investments	**–351,486**	**–1,004,126**
Cash flow from financing		
Issue premium	93,904	4,375
Cash flow from financing	**93,904**	**4,375**
Change in liquid assets/increase (+), decrease (–)	**–2,836,539**	**2,253,175**
Liquid assets at beginning of period	36,733,919	34,700,741
Adjusted translation difference	–45,606	–219,997
Change in liquid assets	–2,836,539	2,253,175
Liquid assets at end of period	**33,851,775**	**36,733,919** *)

*) The company adjusted the comparative data for 2003 in such way that assets in the escrow account due to divested businesses are included in cash flow from operations, instead of liquid assets.

Notes to the consolidated financial statements

(All figures in the notes to the financial statements have been rounded to full euros, unless otherwise stated)

SSH Group is a manufacturer of secure middleware used by SSH's target customers to secure their data communications within their internal network, in particular. SSH sells licenses to its software and provides its customers with maintenance and support services. The Group operates in five countries.

The Group's parent company, SSH Communications Security Corp, is domiciled in Helsinki with its registered office at Fredrikinkatu 42, FI-00100 Helsinki.

1. Accounting principles

1.1. Basis of preparation

The consolidated financial statements have been prepared in compliance with IAS and IFRS valid on December 31, 2004, under the International Financial Reporting Standards (IFRS).

On January 1, 2004, the Group adopted IFRS and adjusted its 2003 consolidated financial statements to IFRS. Section 1 specifies the effects of the IFRS adoption. Before IFRS, the Group applied the Finnish Accounting Act and related rules and regulations. The transition date was Jan. 1, 2003, except for IAS 32 and 39. With respect to these standards, the IAS 39 version issued in December 2003 and applied by the Group to its 2004 financial reporting does not require to disclose IAS 39-compliant comparative data for 2003. Consequently, the Group applied the Finnish Accounting Standards to the 2003 comparative data used in financial instrument reporting under IAS 32 and 39.The reconciliation statement reveals the effects of the IFRS adoption. Comparative data for 2003 were adjusted to IFRS.

The consolidated financial statements have been prepared under the historical cost convention, excluding a few exceptions specified in the accounting principles section below. For example, available-for-sale assets and derivative contracts are stated at fair value.

The preparation of financial statements under IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the date of financial statements and the reported amounts of income and expenses during the report period. Although these estimates are based on Group management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

1.2. Group accounting

Subsidiaries

Subsidiaries, which include those companies in which the Group has an interest of more than half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated. 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. Intra-Group transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless cost cannot be recovered.

Associated companies

SSH Communications Security Group has no associated companies.

Foreign currency translation

For income statements, Group companies' foreign currency transactions are translated into euros using monthly average exchange rates quoted for the report period. All balance-sheet items, except for net profit/loss for the period, are translated into euros using exchange rates quoted on the balance sheet date.

Foreign currency denominated transactions are recorded at the exchange rate on the transaction date. Outstanding receivables and payables in foreign currencies are stated using the exchange rates on the balance sheet date. Exchange rate gains and losses on actual business operations are treated as sales adjustment items or adjustment items to materials and services. Exchange rate gains and losses on financing are entered as financial income and expenses in net terms.

1.3. Revenue recognition

SSH's net sales derives mainly from software sales and license and maintenance fees. Net sales comprise the invoiced value for the sale of goods and services net of sales tax, rebates and discounts and exchange rate differences.

Revenue is principally entered in net sales once delivery has occurred or services have been rendered, the contract has been completed or the buyer has placed a written order and it has been assured that the buyer is solvent.

Maintenance agreements are recognized evenly on an accrual basis throughout the contract period. Royalties are recognized as revenue for the period during which the customer has made a payment or provided confirmation, or the amount of royalties has otherwise stated.

Sale based on electronic transactions is recognized as revenue on a cash basis. Revenue recognition on a cash basis versus that on an accrual basis has no material effect on net sales or profit for the period.

1.4. Function-based costs

Expenses have been divided among functions according to their causative principles.

1.5. Government grants

Government grants received are recognized as other operating income.

1.6. Property, plant and equipment

Group companies' property, plant and equipment are measured at cost less accumulated planned straight-line depreciation and any impairment losses. When a part of an asset is treated as a separate asset, expenses related to its replacement must be capitalized. Otherwise, expenses incurred at a later date will be included in the asset only if it is probable that the Group expects it to provide future economic benefits and the asset's cost can be measured reliably. Other repair and maintenance expenses are expensed as incurred.

Depreciation is calculated on a straight-line basis to reduce the asset's carrying value 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 lease:	3–5 years from month of acquisition, depending on the depreciation period of the corresponding item to be depreciated
Basic repairs on rental premises:	7 years, maximum, from year of acquisition

An asset's residual value and useful life are reviewed for all financial statements and, if necessary, adjusted to indicate changes expected in the asset's economic benefits.

Capital gains and losses are determined by comparing proceeds with carrying amounts and are included in operating profit.

1.7. Intangible assets

Research and development expenses

Based on the straight-line method, the cost of the asset is amortized to reduce its carrying value to its residual value over its estimated useful life.

Software and other intangible rights:	3-5 years from year of acquisition
Product development costs:	5 years from month of commercial production

Research costs are expensed as incurred. Development costs (related to the design and testing of new or improved products) are recognized as intangible assets if it is probable that their economic benefits will flow to the company. Other development costs are expensed as incurred. Previously expensed development costs are not recognized as an asset for a subsequent period. Capitalized development costs are amortized on a straight-line basis from the commencement of commercial production over the period of its expected economic benefits, not exceeding five years.

Other intangible assets

Patents and trademarks are expensed as incurred. Costs related to patent applications and trademark registration and their maintenance are expensed as incurred. The company holds several patents and trademarks, and several patents are pending, all of these applying to products developed by the company on an inhouse basis.

1.8. Impairment of long-lived assets

The Group must review on each balance sheet date whether there is any indication of an impaired asset. Wherever indicators of impairment exist, the asset's carrying value is compared with its recoverable amount.

The recoverable amount is the asset's fair value less, which is the higher of the asset's net selling price and its value in use. Whenever the asset's carrying amount exceeds its recoverable amount, it will be impaired, and the resulting impairment loss will be recognized in the income statement.

1.9. Derivative contracts

The Group's forward exchange contracts and currency options, initially recognized in the balance at cost, are re-measured to fair value on the balance sheet date, with the resulting gains and losses arising from changes in fair value being included in the income statement.

1.10. Investments

Since early 2004, the Group has applied IAS 39 "Financial Instruments: Recognition and Measurement", the 2003 data being adjusted accordingly. Note 3 in the Notes to the financial statements states the effects resulting from the adoption of this standard.

The Group classifies almost all of its financial assets as available-for-sale assets intended to be held for an indefinite period, which may be sold in response to needs for liquidity or changes in interest rates. These investments are included in current assets.

The Group also holds a small number of assets classified as held-to-maturity investments included current assets.

The Group applies a consistent policy in recognizing an asset based on the trade date, which is the date that the Group commits to buy or sell the asset. Unrealized gains and losses arising from changes in the fair value of available-for-sale assets are recognized under shareholders' equity for the period during which they occur. An asset's fair value is based on quoted bid prices or amounts derived from e.g. cash flow models or another revaluation model. If an asset's fair value cannot be measured, it will be measured at cost less any impairment losses. When the asset is sold or impaired, the accumulated fair value adjustments are included in the income statement. Held-to-maturity assets are originally measured at cost and subsequently carried at amortized cost.

1.11. 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 leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. An asset based on a finance lease will be depreciated over its useful life or within the shorter lease term. 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 charged to the income statement on a straight-line basis over the period of the lease.

Legal entities' leases are expensed for each period.

1.12. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the average-price method.

1.13. Accounts receivable

Accounts receivable are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

1.14. Share capital

(1). Incremental external costs directly attributable to the issue of new shares, other than in connection with business combination, are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

(2). If SSH Security Corp or its subsidiaries purchases SSH shares, the consideration paid including any attributable incremental external costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled. If such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

1.15. Loans

Loans are recognized initially at the proceeds received, net of transaction costs incurred, and are subsequently stated at amortized cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the loan period. Subordinated loans are classified borrowings in accordance with IAS 32.

1.16. Income taxes and deferred taxes

Tax expenses in the income statement comprise tax based on taxable income for the period and deferred tax. Tax based on taxable income for the period is calculated using the corporate income tax rate effective in each country, adjusted to any taxes from previous periods.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences arise primarily from depreciation on property, plant and equipment, and revaluation of certain investments and derivative contracts, finance leases, tax losses deducted for subsequent periods and the difference between the fair value and taxable value of net assets resulting from purchase.

Tax rates enacted or substantively enacted by the balance sheet date are used in the determination of deferred income tax.

According to IAS 12 (Income Taxes), the Group recognizes deferred tax assets as long-term assets and deferred tax liabilities as long-term liabilities. Exercising special prudence with deferred tax assets, the Group recognizes deferred tax assets to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

1.17. Employee benefits

Pensions

The Group's pension schemes comply with each country's rules and regulations. Pension expenses for the Group's personnel are managed in external insurance companies. The Group applies both defined benefit and defined contribution pension plans, as classified under IAS 19 (Employee Benefits). Contributions under the defined contribution plan will be recognized in the income statement for the accounting period during which such contributions were made. Disability pension obligation under the Finnish Employees' Pension Act (TEL) is interpreted as a defined benefit according to IAS 19, i.e. pension expenses under the defined benefit plan are recognized as expenses for the period of employment, based on calculations performed by authorized actuaries. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

Equity compensation benefits

The Group has granted stock options to its management and employees at a fixed subscription price specified in the terms of the stock option scheme. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium The Group does not make a charge to staff costs in connection with stock option.

1.18. Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. If the Group expects a provision to be reimbursed, for example, by a third party, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The Group recognizes a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. The Group recognizes a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations.

Onerous contracts

The Group recognizes a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations.

Restructuring

Restructuring provisions comprise lease termination penalties and employee termination payments, and are recognized in the period in which the Group becomes legally or constructively committed to payment. Payments related to employment termination are not recognized until the employer has agreed with employee representatives on the terms of termination payments and the number of employees subject to dismissal, or until specific terms have been notified to individual employees. Costs related to the ongoing activities of the Group are not provided in advance.

1.19. New standards

The Group will adopt IFRS 2 during 2005. The Group has valid stock option plans for 1999, 2000, 2002 and 2003, applying to all personnel.

The Group will charge as expenses the proceeds from stock options, which employees have received after November 7, 2002 and whose subscription period begins after January 1, 2005, which are attainable according to the option pricing theory (the Black-Scholes theory). Expenses are recognized for the period during which the subscription period for each warrant begins.

IFRS 2 adoption will add to staff costs. The Group has analyzed IFRS 3,4 and 5 and states that these will have no material effect on its financial statements.

2. Financial risk management

2.1. Financial risk factors

Risk management is carried out by the Group's Treasury under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

Foreign exchange risks

The Group operates internationally and is exposed to foreign exchange risk. The currencies used include EUR, USD and JPY. To a major extent, the Group does not hedge its transaction and translation risks.

Interest rate risks

Due to the balance sheet structure, the Group's interest rate risk management focuses on financial investments. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant liabilities.

Credit risks

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 risks

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding. SSH maintains healthy liquidity by investing in highly liquid securities.

2.2. Accounting for derivative financial instruments and hedging activities

For the moment, SSH does not apply IAS 39-compliant hedging accounting. Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value. The resulting gains and losses are recognized in financial items in the income statement.

2.3. Fair value estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices on the balance sheet date. The fair value of forward foreign exchange contracts is determined using forward exchange market rates on the balance sheet date.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing on each balance sheet date. Such methods used include estimated discounted value of future cash flow or another revaluation model. If an instrument's fair value cannot be determined, it will be measured at cost less any impairment losses. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

3. Effects of IFRS adoption on previously reported profit and balance

Before IFRS, the Group applied the Finnish Accounting Act and related rules and regulations.

Income statement	Notes	CONSOLIDATED FAS Jan. 1 – Dec. 31, 2003	CHANGE	CONSOLIDATED IFRS Jan. 1 – Dec. 31, 2003
NET SALES		**13,850,908**		**13,850,908**
Purchasing and production costs		2,506,173		2,506,173
GROSS MARGIN		**11,344,736**		**11,344,736**
Other operating income		11,327,117		11,327,117
Expenses	1.			
R&D expenses		5,178,309	16,646	5,194,955
Sales and marketing expenses		9,582,165	76,000	9,658,165
Administrative expenses		2,615,949	12,090	2,628,040
OPERATING PROFIT/LOSS		**5,295,430**		**5,190,693**
Financial income and expenses, (net)		352,786		352,786
PROFIT/LOSS BEFORE TAXES		5,648,216		5,543,479
PROFIT/LOSS FOR THE FINANCIAL PERIOD		**5,648,216**		**5,543,479**
Earnings per share (undiluted) (€ per share)		0.20		0.20
Earning per share (diluted) (€ per share)		0.20		0.19

1. External services costs resulting from a brand developed by the Group were capitalized under intangible assets for 2003. According to IAS 38 (Intangible assets), these costs are charged to expense since they do not fulfill the criteria set for the recognition of intangible assets.

Balance Sheet	Notes	CONSOLIDATED FAS Dec. 31, 2003	CHANGE	CONSOLIDATED IFRS Dec. 31, 2003
ASSETS				
NON-CURRENT ASSETS				
Tangible assets	2.			
Machinery and equipment		250,511		250,511
Other tangible assets			288,599	288,599
Tangible assets, total		**250,511**		**539,110**
Intangible assets	3.			
Intangible rights		1,266,892	–92,646	1,174,246
Development costs		0		0
Other intangible assets		288,599	–288,599	0
Intangible assets, total		**1,555,492**		**1,174,246**
Deferred tax	4.	**0**	243,507	**243,507**
TOTAL NON-CURRENT ASSETS		**1,806,003**		**1,956,863**
CURRENT ASSETS				
Deferred tax		**243,507**	–243,507	0
Inventory		**3,054**		**3,054**
Current receivables				
Receivables from the Group's companies		2,464		2,464
Accounts receivable		1,590,110		1,590,110
Other receivables		2,591,456		2,591,456
Prepaid expenses and accrued income		970,342		970,342
Current receivables, total		**5,154,372**		**5,154,372**
Investments				
Available-for-sale assets		29,177,862		29,177,862
Held-to-maturity investments		2,997,475		2,997,475
Investments, total		**32,175,337**		**32,175,337**
Liquid assets		4,558,582		4,558,582
CURRENT ASSETS TOTAL		**42,134,853**		**41,891,346**
ASSETS		**43,940,856**		**43,848,209**

Balance Sheet	Notes	CONSOLIDATED FAS Dec. 31, 2003	CHANGE	CONSOLIDATED IFRS Dec. 31, 2003
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY	5.			
Share capital		832,074		832,074
Share premium fund		40,983,741	–1,643,000	39,340,741
Retained profit/loss		–6,218,081	1,643,000	–4,575,081
Net profit/loss for the period		5,648,216	–104,737	5,543,479
Subordinated loans	6.	245,218	–245,218	0
SHAREHOLDERS' EQUITY, TOTAL		**41,491,168**		**41,141,213**
LONG-TERM LIABILITIES				
Provisions		0	12,090	12,090
Long-term financial liabilities		0	245,218	245,218
TOTAL LONG-TERM LIABILITIES		**0**		**257,308**
CURRENT LIABILITIES				
Advances received		384,496		384,496
Accounts payable		254,077		254,077
Accrued expenses and deferred income		902,809		902,809
Other liabilities		908,305		908,305
CURRENT LIABILITIES TOTAL		**2,449,688**		**2,449,688**
LIABILITIES TOTAL		**2,449,688**		**2,706,996**
SHAREHOLDERS' EQUITY AND LIABILITIES		**43,940,856**		**43,848,209**

2., 3. Capitalized expenses resulting from the leasehold improvements on rented premises in the USA were transferred from intangible assets to tangible assets, in accordance with IAS 16 (Property, Plant and Equipment).

3. Expenses resulting from external services used for a brand developed by SSH have been capitalized under intangible assets for 2003. IAS 30 (Intangible Assets) requires this item to be entered as expenses, since it does not fulfill the recognition criteria set for intangible assets.

4. In accordance with the Finnish Accounting Standards, deferred tax assets, based on confirmed losses for taxation, were recognized only to the amount of payable taxes, complying with special prudence. Based on IAS 12 (Income Taxes) criteria, SSH considers that this amount recognized in the balance sheet, in accordance with the Finnish Accounting Standards, currently corresponds to the amount, for which there is sufficient evidence required by the standard that the tax income can be utilized. Deferred tax assets will be presented under non-current assets, in accordance with IAS 12. IFRS adjustments will not lead to any major deferred tax consequences.

5. Expenses under retained earnings and resulting from the company's 1999 private placement and the 2000 listing on the stock exchange will be accounted for as a deduction from issue premium fund, in accordance with the interpretation of SIC 17.

Retained earnings reported on December 31, 2002 were subject to an adjustment of EUR 1.6 million, pertaining to the transfer of the above expenses.

In addition to this EUR 1.6 million, retained earnings reported on December 31, 2003 were subject to a EUR -0.1 million adjustment, with the most significant items including the recognition of the intangible asset in Section 1 above and the tax effect due to IFRS adjustments. Consequently, retained earnings adjustments on December 31, 2003 totalled EUR 1.5 million.

6. As prescribed by the Finnish accounting legislation, the subordinated loan under the Companies Act will be presented as a separate item under the shareholders' equity, whereas IAS 39 (Financial Instruments) requires it to be presented under liabilities.

4. Segment information

The Group's primary reporting format is based on geographical segments, based on the Group's internal organizational structure and financial reporting. The nature of markets and risks differ from segment to segment.

The Group's geographical segments are as follows:
– USA
– Europe and Rest of World
– Asia

The Group is organized into one business segment. Segment assets and liabilities are items which are used by the segment in its business or which can be reasonably allocated to the segment. Unallocated items include items shared by the Group. Capital expenditure comprises additions to property, plant and equipment used during several periods.

The so called arm's length principle is used for intrasegment transactions, or at market price.

2004	**EROW**	**AMER**	**APAC**	**Eliminations**	**Group total**
	Jan. 1 –	**Jan. 1 –**	**Jan. 1 –**	**Jan. 1 –**	**Jan. 1 –**
Income statement	**Dec. 31, 2004**	**Dec. 31, 2004**	**Dec. 31, 2004**	**Dec. 31, 2004**	**Dec. 31, 2004**
NET SALES	**1,951,723**	**5,690,410**	**572,820**	**15,005**	**8,229,959**
Purchasing and production costs, external	–102,125	–44,934	–2,258	0	–149,317
GROSS MARGIN	**1,849,598**	**5,645,476**	**570,562**	**15,005**	**8,080,641**
Other income	0	0	0	293,638	293,638
Depreciation	–581,920	–141,030	0	0	–722,950
Segment costs	–2,848,196	–3,418,515	–381,305		–6,648,015
Group-level costs				–7,358,977*)	–7,358,977
OPERATING PROFIT/LOSS	**–1,580,519**	**2,085,932**	**189,257**	**–7,050,333**	**–6,355,663**
SEGMENT ASSETS	1,415,640	1,448,250	520,299		3,384,189
Unallocated assets				34,601,363	34,601,363
SEGMENT LIABILITIES	834,097	8,640,228	444,278	–8,177,361	1,741,242
Unallocated liabilities				869,256	869,256
Capital expenditure	439,444	20,593	0		460,037

2003 Income statement	EROW Jan. 1 – Dec. 31, 2003	AMER Jan. 1 – Dec. 31, 2003	APAC Jan. 1 – Dec. 31, 2003	Eliminations Jan. 1 – Dec. 31, 2003	Group total Jan. 1 – Dec. 31, 2003
NET SALES	**5,136,241**	**6,547,969**	**2,152,909**	**13,790**	**13,850,908**
Purchasing and production costs, external	–527,051	–1,554,080	–425,041	0	–2,506,173
GROSS MARGIN	**4,609,190**	**4,993,889**	**1,727,868**	**13,790**	**11,344,736**
Other income	0	659,438	111,189	10,556,490	
Depreciation	–467,098	–250,774	0	0	–717,872
Segment costs	–3,767,605	–4,366,534	–1,109,522	3,551	–9,240,110
Group-level costs				–7,523,177*)	–7,523,177
OPERATING PROFIT/LOSS	**374,487**	**1,036,019**	**729,534**	**3,050,654**	**5,190,693**
SEGMENT ASSETS	4,644,331	1,970,112	551,845		7,166,289
Unallocated assets				36,681,920	36,681,920
SEGMENT LIABILITIES	558,845	9,192,933	449,572	–8,826,178	1,375,172
Unallocated liabilities				1,331,824	1,331,824
Capital expenditure	639,690	0	0		639,690

*) Group-level costs mainly comprise group-level R&D and administration expenses.

5. Notes to the income statement

Notes to the income statement	CONSOLIDATED 2004	CONSOLIDATED 2003
Other operating income		
Other operating income also includes EUR 292,797 in product development contributions granted by the National Technology Agency of Finland (TEKES), these contributions amounting to EUR 780,999 in 2003.		
1. Employee benefits		
Wages and salaries	6,855,290	8,539,145
Pensions, defined contribution plan	715,968	784,027
Social security expenses	404,614	502,847
Total	7,975,871	9,826,020
The Group applies the defined contribution plan for all pensions, except for the Finnish disability pension.		
Personnel on average during the period	105	131
Personnel at period-end	105	104
Personnel distribution by business area on Dec. 31		
R&D	42	41
Sales and marketing	47	44
Administration	16	19
Total	105	104
Management benefits		
Managing Directors' salary	561,552	584,790
Board emoluments	44,400	31,691
Termination benefits	145,200	132,000
2. Depreciation and write-downs		
By asset		
On machinery and equipment	165,743	301,575
Depreciation on financial assets	26,778	0
Depreciation on other tangible assets	83,640	101,779
On software	367,019	314,518
On capitalized development expenses	79,770	0
Total	722,950	717,872
By activity		
On R&D expenses	262,465	218,338
On sales and marketing expenses	221,172	254,574
On administration expenses	239,313	244,960
Total	722,950	717,872

Notes to the income statement	CONSOLIDATED 2004	CONSOLIDATED 2003
3. Financial income and expenses		
Interest income	56,912	882,179
Gains/losses on available-for-sale assets	671,503	0
Gains/losses on derivative contracts	39,576	0
Net exchange rate differences	–224,886	–514,599
Interest on loans	0	–14,713
Interest on finance leases	–2,012	–81
Total	541,092	352,786
4. Direct tax		
Other direct taxes	–21,098	0
	–21,098	0
Comparison of taxes based on the valid tax rate with those stated in the income statement:		
Profit/loss before taxes, Finland	–5,258,489	8,028,269
Profit/loss before taxes, other countries	–556,082	–2,484,790
Profit/loss before taxes, total	–5,814,570	5,543,479
Tax at 26% (2003: 29%)	–1,511,788	1,607,609
Effect of foreign subsidiaries' differing tax rates	–145,260	–647,731
Income not subject to tax	0	0
Expenses not deductible for tax purposes	33,965	63,854
Utilization of previously unrecognized tax losses	0	–1,023,732
Tax assets not recognized for reported losses	1,623,083	
Tax charge	0	0

5. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by SSH and held as treasury shares.

	2004	2003
Net profit attributable to shareholders	–5,835,669	5,543,479
Weighted average number of shares in issue (thousands)	28,014	27,728
Earnings per share (undiluted) (€ per share)	–0.21	0.20
Adjusted average number of shares considering dilution effect (thousands)	28,457	28,506
Earning per share (diluted) (€ per share)	–0.21	0.19

The diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

6. Notes to the balance sheet

Notes to the balance sheet	CONSOLIDATED 2004	CONSOLIDATED 2003
6. Tangible assets		
Machinery & equipment		
Acquisition cost Jan. 1	1,336,257	1,608,669
Conversion difference	–39,679	–118,586
Increase	32,089	34,821
Reduction	–119,664	–188,647
Acquisition cost Dec. 31	1,209,002	1,336,257
Accumulated depreciation Jan. 1	1,085,746	1,048,256
Conversion difference	–33,437	–73,886
Depreciation for the period	165,743	301,575
Conversion difference of depreciation	–4,891	–15,072
Accumulated depreciation on decrease	–118,631	–175,127
Accumulated depreciation Dec. 31	1,094,529	1,085,746
Book value Dec. 31	114,472	250,511
Leased assets based on finance leases		
Acquisition cost Jan. 1	0	0
Increase	149,852	0
Acquisition cost Dec. 31	149,852	0
Accumulated depreciation Jan. 1	0	0
Depreciation for the period	26,778	0
Accumulated depreciation Dec. 31	26,778	0
Book value Dec. 31	123,074	0
Total book value of machinery and equipment Dec. 31	**237,546**	**250,511**
Other tangible assets		
Acquisition cost Jan. 1	557,056	761,166
Conversion difference	–40,529	–129,151
Increase	13,706	0
Reduction	0	–74,958
Acquisition cost Dec. 31	530,233	557,056
Accumulated depreciation Jan. 1	268,457	257,636
Conversion difference	–19,532	–43,714
Depreciation for the period	83,640	101,779
Conversion difference of depreciation	–7,318	–10,645
Accumulated depreciation on decrease	0	–36,598
Accumulated depreciation Dec. 31	325,247	268,457
Book value Dec. 31	204,986	288,599
Balance sheet value of tangible assets, Dec. 31	**442,532**	**539,110**

Notes to the balance sheet	CONSOLIDATED 2004	CONSOLIDATED 2003
7. Intangible assets		
Software and projects in process		
Acquisition cost Jan. 1	370,228	0
Increase	0	446,228
Reduction	–370,228	–76,000
Acquisition cost Dec. 31	0	370,228
Book value Dec. 31	0	370,228
Software		
Acquisition cost Jan. 1	1,481,287	886,406
Conversion difference	–1,191	–4,472
Increase	264,391	604,869
Reduction	0	–5,516
Acquisition cost Dec. 31	1,744,487	1,481,287
Accumulated depreciation Jan. 1	660,623	366,363
Conversion difference	–476	–894
Depreciation for the period	367,019	314,518
Conversion difference of depreciation	–293	–511
Accumulated depreciation on decrease	16,646	–2,206
Accumulated depreciation Dec. 31	1,043,518	677,269
Book value Dec. 31	700,968	804,018
Development expenses		
Acquisition cost Jan. 1	0	0
Increase	261,067	0
Reduction	0	0
Acquisition cost Dec. 31	261,067	0
Accumulated depreciation Jan. 1	0	0
Depreciation for the period	79,770	0
Accumulated depreciation Dec. 31	79,770	0
Book value Dec. 31	181,296	0
Balance sheet value of intangible assets, Dec. 31	**882,265**	**1,174,246**

Notes to the balance sheet			CONSOLIDATED 2004	CONSOLIDATED 2003
8. Deferred tax receivables				
At the beginning of period			243,507	227,716
Income statement charge			1,908	15,791
At the end of period			245,415	243,507
Deferred tax assets were not recognized for the following confirmed losses:		**Tax loss year**	**Amount of tax**	**Tax loss expiry year**
Parent company		2001	346,726	2011
		2002	7,642,272	2012
Subsidiary SSH Communications	Inc	1998	21,506	2018
		2000	356,100	2020
		2001	2,311,263	2021
		2002	3,028,731	2022
		2003	483,097	2023
Subsidiary SSH Communications	KK	2003	11,678	2010
9. Current assets				
Finished products/goods			5,824	3,054
Total				
Change in inventories included in acquisition cost of sold finished goods			2,770	–795,120
10. Current receivables				
Accounts receivables			1,229,572	1,590,110
Other receivables				
Derivative contracts			31,891	0
Prepayments			97,720	192,731
VAT receivables			131,413	171,272
Other current receivables *			598,976	2,398,725
Total			860,000	2,762,728

* Other receivables for 2004 include EUR 587,328 coming from the divestment of the OEM business.
This amount was not transferred to the company until January 2005.

Prepaid expenses and accrued income	**2004**	**2003**
Grants	265,703	638,482
Interest receivables	24,866	5,606
Accrued liabilities and deferred income	68,368	64,708
Advance tax	0	18,208
Other prepaid expenses and accrued income	109,234	72,066
Total	468,171	799,070

Notes to the balance sheet	CONSOLIDATED 2004	CONSOLIDATED 2003
11. Investments		
Available-for-sale investments	**2004**	**2003**
Fair value Jan. 1	29,177,707	20,422,511
Additions/reductions, net	2,163,960	8,755,196
Change in fair value	88,522	0
Fair value Dec. 31	31,430,189	29,177,707
Current	31,430,189	29,177,707

Available-for-sale investments consist mainly of fund units.

In 2004, capital gains and losses of EUR 0.7 million on available-for-sale investments were recognized in financial income and expenses.

Held-to-maturity investments, commercial papers	906,255	2,997,630

12. Cash and cash equivalents

Cash at bank and in hand	1,515,331	4,558,582

The company includes short-term investments in liquid assets under the cash flow statement. Liquid assets consist of available-for-sale and held-to-maturity. Available-for-sale investments mainly comprise interest fund units and held-to-maturity investments commercial papers.

For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

Cash at bank and in hand	1,515,331	4,558,582
Available-for-sale investments	31,430,189	29,177,707
Held-to-maturity investments, commercial papers	906,255	2,997,630
Total	33,851,775	36,733,919

Notes to the balance sheet	CONSOLIDATED 2004	CONSOLIDATED 2003
13. Long-term liabilities		
Deferred tax liabilities		
At the beginning of period	0	0
Recognized in fair value reserve under shareholders' equity	26,078	0
At the end of period	26,078	0

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, primarily based on the tax rate of 26 percent (2003: 29 percent).

Provisions	Onerous contracts	Restructuring and other agreements	Total
At the beginning of period	0	12,090	12,090
Additional provisions	114,722	104,260	218,982
Unused amounts reversed	0	–4,037	–4,037
Exchange differences	–4,877	–24	–4,901
At the end of period	109,845	112,290	222,135

SSH Communications Security Inc. subleased its office in Palo Alto, California, and moved onto new, smaller premises in Los Altos, California. As a result, the company will save overhead rental expenses. Since the resulting rental income from the Palo Alto office does not fully cover rental expenses, the company recorded an expense provision equivalent to the resulting net loss.

The Group recorded a provision for December 2004, regarding any royalties repayable to F-Secure Corporation. This problem is related to royalty invoicing between F-Secure Corporation and Nokia Corporation. Accordingly, F-Secure claims disputed excess royalties of around EUR 180,000 paid to SSH for 2001–2004. Consequently, SSH entered a provision of around EUR 90,000 in December 2004.

Equity compensation benefits

The Group's stock option scheme applies to all personnel, a stock option entitling its holder to buy company shares for a fixed subscription price specified in the terms of the stock option scheme during the stipulated time. SSH's stock option scheme is presented in the Share capital section.

Changes in the number of stock options outstanding are as follows Jan. 1 – Dec. 31, 2004:	
Jan. 1	2,464,929
Granted new stock options	30,000
Exercised	365,732
Lapsed	151,625
Returned to company	238,603
Dec. 31	1,738,969

The Group received EUR 93,904.34 in share subscriptions based on stock options, EUR 10,971.96 being recognized in shareholders' equity and EUR 82,932.38 in share premium fund.

Long-term financial liabilities	2004	2003
Finance lease liabilities	84,836	0
Subordinated loan, according to Finnish Companies Act	245,218	245,218
Total	330,054	245,218

Subordinated loans

The parent company has a subordinated loan, as defined in 1§, Chapter 5 of the Companies Act, issued by the State Treasure/ National Technology Agency, amounting to EUR 245,218. The loan will be paid off as soon as the company can do that as stipulated in the Companies Act. The interest payable is one (1) percentage point lower than the Bank of Finland base rate valid at the time, but not less than three (3) percent. Interest on the loan is payable to the extent the company has net profit attributable to shareholders. The company has entered the interest accumulated on the loan as an annual expense.

Notes to the balance sheet		CONSOLIDATED 2004	CONSOLIDATED 2003
14. Current liabilities		**2004**	**2003**
Advances received		659,704	384,496
Accounts payable		167,982	254,077
Accrued expenses and deferred income			
Personnel related		828,585	851,727
Interest on subordinated loan		30,652	30,652
Other accrued expenses and deferred income		22,315	20,429
Total		881,552	902,809
Other liabilities			
Personnel related		176,599	160,515
Finance lease liabilities		40,615	0
VAT liabilities		–6,590	155,636
Other current liabilities		112,376	592,154
Total		322,999	908,305
Derivative contracts		**2004**	**2003**
Forward exchange contracts			
Fair value		25,740	39,055
Face value		759,705	1,622,586
Currency options			
Fair value	Sold	–11,187	0
	Bought	18,080	0
Face value	Sold	1,492,537	0
	Bought	746,269	0
Net profit attributable to shareholders		8,189,362	0
Contingent liabilities and other commitments		**2004**	**2003**
Rental guarantees (monetary pledge)		3,987	5,198
Rental guarantees (monetary pledge) given on behalf of SSH Communications Security Inc		144,263	158,353
Other guarantees		587,328	2,358,068
Operating lease commitments			
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:			
For vehicles and machinery (next year)		42,296	104,887
For vehicles and machinery (Later than 1 year and not later than 5 years)		35,541	99,381

7. Related party transactions

Other notes to the balance sheet		CONSOLIDATED 2004	CONSOLIDATED 2003
Group companies	**native country**	**Group holding, %**	**Share of voting rights, %**
SSH Communications Security Oyj, Helsinki	Finland		
SSH Communications Security Inc., Los Altos	USA	100	100
SSH Communications Security K.K, Tokyo	Japan	100	100
SSH Operations Oy, Helsinki	Finland	100	100

Management compensation

Management benefits		
Managing Directors' salary	561,552	584,790
Board emoluments	44,400	31,691
Termination benefits	145,200	132,000

Stock options

As of December 31, 2004, the stock options held by SSH's Board of Directors, CEO, and other members of the Executive Management Team accounted for 27.7 percent of all outstanding stock options for 1999-2003. The stock options C, D, E, F, G and H under the stock option I/1999 scheme are also traded on the Helsinki Stock Exchange.

Management shareholding

SSH's Board members since 27 April 2004 and President and CEO hold, directly or indirectly through companies they own, around 54.3 percent of Company shares and votes. Board members, President and CEO, and Executive Management Team members held a total of around 55.3 percent of Company shares and votes.

The Company has no other major related party transactions.

8. Share capital and changes

SSH's registered share capital on December 31, 2004 totaled EUR 843,046,26, consisting of 28,101,542 shares at a per-share nominal value of EUR 0.03.

Changes in the number of shares January 1 – December 31, 2004	
Number of shares on Jan. 1, 2004	27,735,810
Increase in the number of shares, based on 1999 stock options	334,750
Increase in the number of shares, based on 2003 stock options	30,982
Number of shares on Dec. 31, 2004	28,101,542

SSH has one series of shares. Each share entitles its holder to one vote at the shareholders' meeting.

Data of share subscriptions based on options and convertible loans

No. of Stock Options issued at subscription price of EUR 0.20, Stock Option Scheme I/1999:

– Warrant C	May 1, 2001 – May 1, 2011;	4,625
– Warrant D	Nov. 1, 2001 – Nov. 1, 2011;	4,675
– Warrant E	May 1, 2002 – May 1, 2012;	26,249
– Warrant F	Nov. 1, 2002 – Nov. 1, 2012;	24,374
– Warrant G	May 1, 2003 – May 1, 2013;	84,003
– Warrant H	Nov. 1, 2003 – Nov. 1, 2013;	19,124

No. of Stock Options issued at subscription price of EUR 6.50, Stock Option Scheme I/2000:

– Warrant A	May 1, 2001 – May 1, 2011;	56,525
– Warrant B	Nov. 1, 2001 – Nov. 1, 2011;	70,190
– Warrant C	May 1, 2002 – May 1, 2012;	42,310

Based on the Board authorization to issue 42,000 stock options, 32,000 remain to be subscribed for EUR 6.50 during November 1, 2000 – November 1, 2010.

No. of Stock Options issued at subscription price of EUR 15.00, Stock Option Scheme II/2000:

– Warrant A	Nov. 1, 2001 – Nov. 1, 2011;	3,250
– Warrant B	May 1, 2002 – May 1, 2012;	1,625
– Warrant C	Nov. 1, 2002 – Nov. 1, 2012;	875
– Warrant D	May 1, 2003 – May 1, 2013;	875
– Warrant E	Nov. 1, 2003 – Nov. 1, 2013;	875
– Warrant F	May 1, 2004 – May 1, 2014;	875
– Warrant G	Nov. 1, 2004 – Nov. 1, 2014;	875

Data of share subscriptions based on options and convertible loans

No. of Stock Options issued at subscription price of EUR 3.50, Stock Option Scheme I/2002:

– Warrant A	May 1, 2003 – May 1, 2008;	254,477
– Warrant B	May 1, 2004 – May 1, 2008;	203,013
– Warrant C	Nov. 1, 2005 – May 1, 2008;	140,813
– Warrant D	May 1, 2006 – May 1, 2008;	80,749

No. of Stock Options issued at subscription price of EUR 2.00, Stock Option Scheme II/2002:

– Warrant A	June 6, 2002 – April 11, 2012;	5,250
– Warrant B	May 6, 2003 – April 11, 2012;	4,125
– Warrant C	May 6, 2004 – April 11, 2012;	4,125
– Warrant D	May 6, 2005 – April 11, 2012;	4,125

No. of Stock Options issued at subscription price of EUR 1.90, Stock Option Scheme III/2002:

– Warrant A	May 6, 2003 – June 26, 2012;	10,749
– Warrant B	May 6, 2004 – June 26, 2012;	10,750
– Warrant C	May 6, 2005 – June 26, 2012;	10,750
– Warrant D	May 6, 2006 – June 26, 2012;	10,750

No. of Stock Options issued at subscription price of EUR 0.87, Stock Option Scheme I/2003:

– Warrant A	May 1, 2004 – May 1, 2009;	177,018
– Warrant B	May 1, 2005 – May 1, 2009;	208,000
– Warrant C	May 1, 2006 – May 1, 2009;	209,000

No. of Stock Options issued at subscription price of EUR 0.87, Stock Option Scheme II/2003:

– Warrant A	May 1, 2004 – April 29, 2013;	7,998
– Warrant B	May 1, 2005 – April 29, 2013;	8,002
– Warrant C	May 1, 2006 – April 29, 2013;	7,998
– Warrant D	May 1, 2007 – April 29, 2013;	8,002

9. Per share data

Per share data	Jan. 1, 2004– Dec. 31, 2004	Jan. 1, 2003– Dec. 31, 2003	Jan. 1, 2002– Dec. 31, 2002	Jan. 1, 2001– Dec. 31, 2001	Jan. 1, 2000– Dec. 31, 2000
Earnings per share (Group), EUR	–0.21	0.20	–0.49	–0.15	–0.04
Earnings per share (Group) considering dilution effect, EUR	–0.21	0.19	–0.48	–0.15	–0.04
Earnings per share (company), EUR	–0.21	0.20	–0.29	–0.14	–0.06
Shareholders' equity per share (Group), EUR	1.26	1.49	1.30	1.82	1.97
Dividend per share, EUR	0.29	0.00	0.00	0.00	0.00
Dividend pay-out ratio, %	–139.66	0.00	0.00	0.00	0.00
Adjusted average number of shares during the period	28,013,597	27,728,032	27,701,641	27,379,418	24,100,563
Adjusted average number of shares at the end of the period	28,101,542	27,735,810	27,713,935	27,691,011	27,577,999
Adjusted average number of shares considering dilution effect	28,456,548	28,506,197	28,133,185	28,211,667	24,310,813
Price per earnings ratio (P/E)	–6.14	8.35	–1.55	–20.5	–429.00
Market capitalization, EUR million	35.97	47.20	20.80	84.5	424.70
Share performance in Helsinki Exchanges, EUR					
Average price	1.69	1.31	1.66	7.06	15.32
Share price, period-end	1.28	1.70	0.75	3.05	15.40
Lowest	1.18	0.61	0.60	2.30	14.16
Highest	2.69	2.36	3.70	15.99	18.30
Volumes of shares traded, million	9.3	7.6	4.3	8.4	2,840.0
Volumes of shares traded, %	33.3	27.5	6.9	5.5	10.3
Volumes of shares traded, EUR million	15.8	10.0	7.1	59.4	44.90

10. Key financial indicators

Key financial indicators	Jan. 1, 2004 – Dec. 31, 2004	Jan. 1, 2003 – Dec. 31, 2003	Jan. 1, 2002 – Dec. 31, 2002	Jan. 1, 2001 – Dec. 31, 2001	Jan. 1, 2000 – Dec. 31, 2000
Net Sales, EUR	8,229,959	13,850,908	16,801,298	19,851,478	15,624,983
Operating profit/loss, EUR	–6,355,663	5,190,693	–14,066,158	–6,721,456	–1,670,212
% of net sales	–77.23	37.48	–83.72	–33.86	–10.69
Result before extraordinary items, appropriations and taxes, EUR	–5,814,570	5,543,479	–13,601,275	–4,121,344	–2,507,040
% of net sales	–70.65	40.02	–80.95	–20.76	–16.05
Result before taxes, EUR	–5,814,570	5,543,479	–13,601,218	–4,121,344	–2,507,040
Result before taxes, % of net sales	–70.65	40.02	–80.95	–20.76	–1,605.00
Return on equity, %	–15.14	14.38	–31.68	–7.93	–7.29
Return on investments, %	–13.47	16.33	–30.04	–7.06	–7.07
Net interest-bearing debt, EUR	–33,521,721	–36,488,701	–34,455,523	–44,385,570	–50,853,789
Gearing, %	–94.76	–88.69	–95.83	–88.95	–93.74
Equity-to-assets ratio, %	94.77	94.66	88.72	90.06	93.58
Capital expenditure, EUR	460,038	860,130	478,455	1,390,589	2,436,682
% of net sales	5.59	6.21	2.60	7.00	15.59
Research and development expenditure, EUR	3,822,748	5,194,955	8,232,005	8,328,745	6,372,329
% of net sales	49.6	39.00	49.00	41.96	40.78
% of net sales (without investments)	46.4	37.40	49.00	40.65	38.50
Personnel, average	105	131	166	182	130
Personnel at the end of the period	105	104	147	181	172

Parent company income statement

SSH COMMUNICATIONS SECURITY OYJ Income statement	Jan. 1 – Dec. 31, 2004	Jan. 1 – Dec. 31, 2003
NET SALES	**4,354,756.32**	**8,551,699.46**
Purchasing and production costs	569,661.71	2,399,570.52
GROSS MARGIN	3,785,094.61	6,152,128.94
R&D expenses	3,559,628.22	4,380,931.98
Sales and marketing expenses	4,016,222.78	4,531,005.29
Administrative expenses	2,192,949.58	2,200,781.46
Other operating income	293,638.22	10,556,490.35
OPERATING LOSS	**–5,690,067.75**	**5,595,900.56**
Financial income and expenses		
Interest and financial income from Group companies	192,494.41	174,698.50
Other interest and financial income	822,170.27	1,424,416.57
Interest and other financial expenses	596,593.98	707,165.76
Financial income and expenses, total	418,070.70	891,949.31
LOSS BEFORE EXTRAORDINARY ITEMS	**–5,271,997.05**	**6,487,849.87**
LOSS BEFORE APPROPRIATIONS AND TAXES	**–5,271,997.05**	**6,487,849.87**
LOSS FOR THE FINANCIAL PERIOD	**–5,271,997.05**	**6,487,849.87**

Parent company balance sheet

SSH COMMUNICATIONS SECURITY OYJ **Balance sheet**	**Dec. 31, 2004**	**Dec. 31, 2003**
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Intangible rights	772,343.35	1,257,070.61
Development expenses	181,296.19	
Intangible assets, total	953,639.54	1,257,070.61
Tangible assets		
Machinery & equipment	65,177.37	164,703.76
Tangible assets, total	65,177.37	164,703.76
Investments		
Shares in Group companies	200,344.24	200,344.24
Investments, total	200,344.24	200,344.24
NON-CURRENT ASSETS, TOTAL	**1,219,161.15**	**1,622,118.61**
CURRENT ASSETS		
Inventory	5,823.91	3,053.91
Receivables		
Current receivables		
Accounts,receivable	166,548.79	733,026.05
Receivables from the Group companies	4,274,765.18	8,018,075.29
Other receivables	775,858.34	2,635,267.18
Prepaid expenses and accrued income	356,024.95	699,513.55
Current receivables, total	5,573,197.26	12,085,882.07
Long-term receivables		
Receivables from Group companies	4,559,580.90	740,192.45
Total long-term receivables	4,559,580.90	740,192.45
Financial investments		
Other securities	32,336,443.88	32,175,337.27
Cash in hand and at bank	895,338.36	3,428,848.36
CURRENT ASSETS, TOTAL	**43,370,384.31**	**48,433,314.06**
ASSETS, TOTAL	**44,589,545.46**	**50,055,432.67**

Parent company balance sheet

SSH COMMUNICATIONS SECURITY OYJ

Balance sheet	Dec. 31, 2004	Dec. 31, 2003
SHAREHOLDERS' EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
Share capital	843,046.26	832,074.30
Share premium fund	26,066,673.25	40,983,740.87
Retained profit/loss	21,487,849.73	0.00
Unrestricted equity fund	74,221.54	0.00
Net loss for the period	–5,271,997.05	6,487,849.87
Subordinated loans	245,218.00	245,218.00
SHAREHOLDERS' EQUITY, TOTAL	**43,445,011.73**	**48,548,883.04**
STATUTORY PROVISIONS		
Provisions	95,450.69	0.00
STATUTORY PROVISIONS, TOTAL	**95,450.69**	**0.00**
LIABILITIES		
Deferred tax liabilities	26,077.90	0.00
Current liabilities		
Advances received	40,231.54	160,945.24
Accounts payable	103,390.09	163,696.66
Liabilities to Group companies	0.00	70,375.17
Other liabilities	149,927.95	383,535.12
Accrued expenses and deferred income	729,455.56	727,997.44
Current liabilities, total	1,023,005.14	1,506,549.63
LIABILITIES TOTAL	**1,049,083.04**	**1,506,549.63**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	**44,589,545.46**	**50,055,432.67**

Parent company cash flow statement

SSH COMMUNICATIONS SECURITY Oyj Cash flow statement	Jan. 1 – Dec. 31, 2004	Jan. 1 – Dec. 31, 2003
Cash flow from operations		
Sales revenue	3,953,529.28	7,032,001.69
Revenue from other operations	666,417.02	10,625,248.65
Payments from operating expenses	–8,189,559.74	–15,317,583.33
Cash flow from operations before financial items and taxes	–3,569,613.44	2,339,667.01
Interest paid and other financial expenses paid	–827,602.37	0.00
Operating interest and other financial income received	1,326,930.91	919,442.10
Cash flow before extraordinary items	–3,070,284.90	3,259,109.11
Cash flow from operations	–3,070,284.90	3,259,109.11
Cash flow from investments		
Investments in tangible and intangible assets	–166,934.37	–1,080,125.92
Cash flow from investments	–166,934.37	–1,080,125.92
Cash flow from financing		
Issue premium	93,904.00	4,375.00
Loans granted	–876,913.58	–1 558,656.43
Received Payments of long-term loans	1 647,825.84	1 889,310.80
Cash flow from financing	864,816.26	335,029.37
Change in liquid assets/increase (+), decrease (–)	**–2,372,403.01**	**2,514,012.56**
Liquid assets at beginning of period	35,604,185.63	33,090,173.07
Liquid assets at end of period	33,231,782.62	* 35,604,185.63

*) The company adjusted the comparative data for 2003 in such way that assets in the escrow account due to divested businesses are included in cash flow from operations, instead of liquid assets.

Parent company notes to the financial statements

NOTES TO THE INCOME STATEMENT Net sales by market area	Jan. 1 – Dec. 31, 2004 EUR	Jan. 1 – Dec. 31, 2003 EUR
Finland	1,022,624	2,912,820
Rest of Europe	686,078	1,705,225
North America	2,279,922	2,037,258
Other	366,132	1,896,396
Total	4,354,756	8,551,699

Personnel expenses	Jan. 1 – Dec. 31, 2004 EUR	Jan. 1 – Dec. 31, 2003 EUR
Wages and salaries	4,503,685	5,326,254
Pension costs	694,181	758,007
Social security expenses	214,900	235,865
Total	5,412,766	6 320,126

Personnel on average during the period	Jan. 1 – Dec. 31, 2004	Jan. 1 – Dec. 31, 2003
Personnel on average	97	83

The parent company had a staff of 78 at the end of the financial year.

Personnel distribution by business area at period-end	Jan. 1 – Dec. 31, 2004	Jan. 1 – Dec. 31, 2003
R&D	40	37
Sales and marketing	23	27
Administration	15	17
Total	78	81

Salaries and other remuneration to management	Jan. 1 – Dec. 31, 2004 EUR	Jan. 1 – Dec. 31, 2003 EUR
Managing Directors' salary	177,514	140,429
Board emoluments	44,400	31,691

Depreciation and write-downs	Jan. 1 – Dec. 31, 2004 EUR	Jan. 1 – Dec. 31, 2003 EUR
On software	378,890	292,984
On capitalized development expenses	79,770	0
On machinery and equipment	111,232	157,468
Total	569,892	450,452

Other operating income

SSH Communications Security Group sold its OEM business to an American company, SafeNet Inc., in October 2003. The parent company's share of the gains on the divested business was recognized as other income in 2003. Other income also includes EUR 781,000 for 2003 and EUR 292,797 for 2004 in product development funding from the National Technology Agency (TEKES).

Financial income and expenses	Jan. 1– Dec. 31, 2004 EUR	Jan. 1– Dec. 31, 2003 EUR
Interest and financial income from Group companies	192,494	174,699
Other interest and financial income	50,834	133,902
Capital gains on available-for-sale assets	671,503	755,196
Capital gains on derivative contracts	169,379	0
Capital losses on derivative contracts	–129,803	0
Net exchange rate differences	–536,337	–157,135
Interests on loans	0	–14,713
Total	418,070	891,949

NOTES TO THE BALANCE SHEET Non-current assets and other long-term investments	2004 EUR
Projects in progress	
Acquisition cost Jan. 1	76,000
Reduction	–76,000
Acquisition cost Dec. 31	0
Software	
Acquisition cost Jan. 1	1,464,918
Increase	340,390
Acquisition cost Dec. 31	1,805,308
Accumulated depreciation Jan. 1	654,075
Depreciation for the period	378,890
Accumulated depreciation Dec. 31	1,032,965
Book value	772,343
Development expenses	
Acquisition cost Jan. 1	0
Increase	261,067
Acquisition cost Dec. 31	261,067
Accumulated depreciation Jan. 1	0
Depreciation for the period	79,771
Accumulated depreciation Dec. 31	79,771
Book value	181,296

Non-current assets and other long-term investments	2004 EUR
Machinery & equipment	
Acquisition cost Jan. 1	790,874
Increase	11,705
Acquisition cost Dec. 31	802,579
Accumulated depreciation Jan. 1	626,170
Depreciation for the period	111,232
Accumulated depreciation Dec. 31	737,402
Book value	65,177

Balance sheet value of machinery and equipment	Dec. 31, 2004	Dec. 31, 2003
	65,177	194,728

Parent company receivables from Group companies	2004 EUR	2003 EUR
Accounts receivable	4,274,765	3,427,775
Loan receivables	4,559,581	5,330,493
Total	8,834,346	8,758,268

Prepaid expenses and accrued income	2004 EUR	2003 EUR
Grants	265,703	638,482
Interest receivables	24,841	5,606
Accrued liabilities and deferred income	65,481	55,426
Total	356,025	699,514

Other receivables	2004 EUR	2003 EUR
Derivative contracts	31,891	0
Advances paid	27,522	65,858
VAT receivables	117,469	171,272
Other current receivables	598,976	2,398,137
Total	775,858	2,635,267

Other current receivables include the amount entered in the escrow account due to the OEM business divestment. This amount came to EUR 2,350,966 in 2003 and EUR 587,328 in 2004.

Investments **Available-for-sale assets**	**2004** **EUR**	**2003** **EUR**
Fair value Jan. 1	29,177,707	20,422,511
Net increase/decrease	2,163,960	8,755,196
Change in fair value	88,522	0
Fair value Dec. 31	31,430,189	29,177,707
Short-term	31,430,189	29,177,707

Available-for-sale assets mainly comprise fund units.

In 2004, the Group recognized capital gains and losses of EUR 0.7 million on available-for-sale assets in financial income and expenses.

Held-to-maturity investments	**2004** **EUR**	**2003** **EUR**
Commercial papers	906,255	2,997,630
Total	906,255	2,997,630

Provisions	**2004** **EUR**	**2003** **EUR**
Other provisions		
At beginning of period	0	0
Increase in provisions	95,451	0
At end of period	95,451	0
Total	95,451	0

The parent company recorded a provision for December 2004, regarding any royalties repayable to F-Secure Corporation. This problem is related to royalty invoicing between F-Secure Corporation and Nokia Corporation.

Accordingly, F-Secure claims disputed excess royalties of around EUR 180,000 paid to SSH for 2001–2004. Consequently, SSH entered a provision of around EUR 90,000 in December 2004.

Shareholders' equity and liabilities	2004 EUR	2003 EUR
Share capital Jan. 1	832,074	831,418
Share issues	10,972	656
Share capital Dec. 31	843,046	832,074
Share premium fund Jan. 1	40,983,741	54,606,320
Share premium on share issue	82,932	3,719
Transfer to unrestricted equity	–15,000,000	–13,626,298
Share premium fund Dec. 31	26,066,673	40,983,741
Retained earnings Jan. 1	6,487,850	–13,626,298
Transfer to retained profit/loss	15,000,000	13,626,298
Retained earnings/loss Dec. 31	21,487,850	0
Fair value reserve	74,222	0
Net profit/loss for the period	–5,271,997	6,487,850
Subordinated loan	245,218	245,218
Shareholders' equity total	43,445,012	48,548,883

Entries in the shareholders' equity, related to Applied Computing Research Oy's merger stated in the Review by the Board of Directors, had no impact on the final shareholders' equity, which is why these are not shown in the table on changes in shareholders' equity.

Distributable earnings	2004 EUR	2003 EUR
Total	16,147,696	0

The Group had no net profit attributable to shareholders in 2003.

Accrued liabilities and deferred income	2004 EUR	2003 EUR
Personnel related	698,803	697,346
Interest on subordinated loan	30,652	30,652
Total	729,455	727,998

Other liabilities	2004 EUR	2003 EUR
Personnel related	149,638	144,756
Other short-term liabilities	290	238,779
Total	149,928	383,535

Derivative contracts

Forward Exchange Contracts		2004 EUR	2003 EUR
Fair value		25,740	39,055
Face value		759,705	1,622,586
Currency options			
Fair value	Sold	–11,187	0
	Bought	18,080	0
Face value	Sold	1,492,537	0
	Bought	746,269	0

SUBORDINATED LOANS

Parent Company:

The parent company has a subordinated loan of EUR 245,218, in accordance with Article 1, Chapter 5 of the Companies Act, issued by the State Treasury/ National Technology Agency. The loan will be paid off as soon as the Company can do so, as specified in the Companies Act. The interest payable is one percentage point lower than the Bank of Finland base rate valid at the time, but not less than three percent.
A condition of the repayment of the loan is that following the repayment on the loan, a full margin remains for the company's own invested capital and other distributable earnings. The company has entered the interest accumulated by the loan as an annual expense.

Shares and shareholders

Shares and share capital

SSH Communications Security Corp's share capital is a minimum of EUR 600,000 and a maximum of EUR 2,400,000, within which limits it can be increased or reduced without altering the Corporate Bylaws.

The company's registered share capital on December 31, 2004 came to EUR 843,046.26, consisting of 28,101,542 shares at a nominal per-share value of EUR 0.03. During 2004, SSH increased its share capital four times, based on the subscription of the new shares under SSH's stock-option scheme. A total of 334,750 and 30,982 new SSH shares were subscribed under the 1999 and I/2003 stock-option schemes, respectively. Based on these subscriptions, the company's share capital increased by EUR 10,971.96 (four share capital increases). The number of the year-end unexercised stock options totaled 1,738,969. As a result of the remaining subscriptions, the share capital may increase by a maximum of EUR 52,169.07.

SSH has one class of shares. Each share entitles its holder to one vote at the shareholders' meeting.

Changes in Group structure

In March, the company announced that the Board of Directors of SSH Communications Security Corp and Applied Computing Research (ACR) had signed a merger agreement whereby Applied Computing Research (ACR) would merge with SSH Communications Security Corp. Through the implementation of the merger, SSH Communications Security Corp would issue 16,942,487 new shares for Applied Computing Research (ACR)'s shareholders, Mr. Ylönen and Mr. Kivinen, as a consideration of the merger. The number of these shares equaled that of SSH shares then held by Applied Computing Research (ACR). The shares held by Applied Computing Research (ACR) will be transferred to SSH's ownership.

The Annual General Meeting also decided on the conditional cancellation of the SSH shares held by Applied Computing Research (ACR) to be transferred to SSH as a result of the merger, and on the reduction of shareholders' equity.

The key objective of this merger is to streamline the corporate structure and enhance the transparency of SSH's shareholding. The merger was implemented according to plan on October 31, 2004.

In addition, the AGM decided to reduce the company's share premium fund by transferring a total of EUR 15,000,000 to unrestricted equity, the transfer being authorized by the Trade Register on August 27, 2004.

Shareholders

All SSH shares totaling 28,101,542 have been entered in the book-entry securities systems maintained by Central Securities Depository Ltd.

At the end of 2004, SSH had a total of 6,591 shareholders. Of all the company's shares, a total of 27,904,912 were based on direct shareholding (accounting for 99.3% of shares and voting rights) and 196,630 (accounting for 0,7% of shares and voting rights) were nominee-registered shares.

SSH's ten largest shareholder's holdings accounted for approximately 76.14 % of the company's shares and voting rights. Foreign shareholding represented 1.06%, of which 0.70% was based on direct holdings and 0.36% on nominee-registered shares. SSH holds no treasury shares.

At the end of the year, SSH's largest shareholder was Mr. Tatu Ylönen, holding 53.74 percent of company shares based on personal holdings and holdings through a company wholly owned by him. Consequently, Ylönen has a controlling interest in the company, as referred to in Chapter 1 of the Finnish Securities Market Act. On December 31, 2004, the company's freely tradable shares accounted for around 43 percent of all shares.

The ten largest shareholders on December 31, 2004
(exc. those with nominee-registered shares) were as follows:

	%	Number of shares
1. Ylönen Tatu Juhani	52.41	14,727,649
2. Kivinen Tero Tapani	8.61	2,419,271
3. Assetman Oy	4.98	1,400,000
4. Jaakonsaari Markus	1.78	500,000
5. Ilmarinen Mutual Pension Insurance Company	1.72	483,450
6. Promotion Capital I Ky	1.71	480,000
7. Tatu Ylönen Oy	1.33	375,071
8. Grahn Juha Kalevi	1.33	375,000
9. Pohjola Finland Value Mutual Fund	1.32	370,000
10. Kaukonen Kalle	0.95	267,650
Total	76.1	21,398,091
Nominee-registered holdings	0.7	196,630

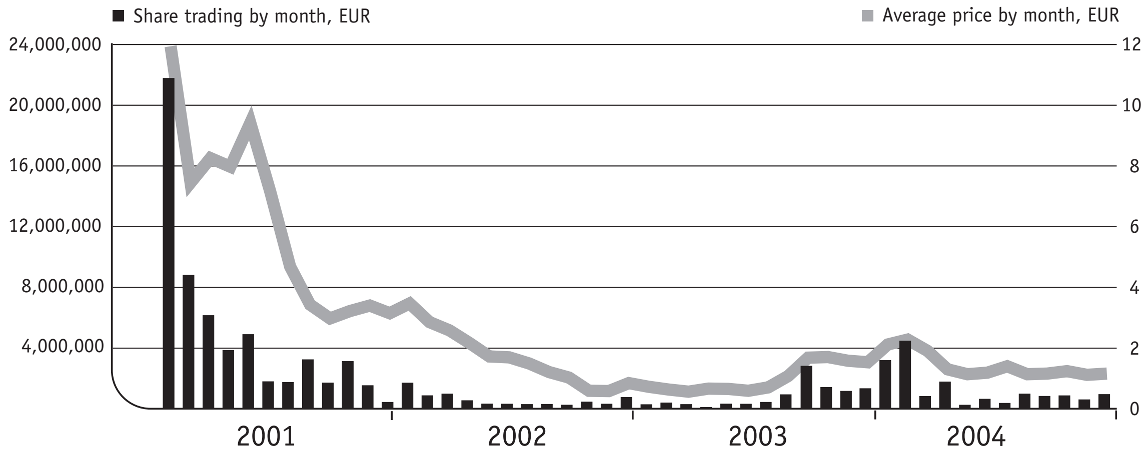
Management shareholding

Those SSH Board members serving on the Board since April 27, 2004 and the CEO hold about 54.3% of the company's shares and voting rights, either directly or through the companies they own. The Board members, CEO and the Executive Management Team hold about 55.3% of the company's shares and voting rights.

Public trading of shares

SSH shares have been quoted on the Helsinki Exchanges' Main List since December 22, 2000. The company's trading code is SSH1V and a trading lot consists of 50 shares traded in euros. The ISIN code used in the clearing and settlement of international securities is FI0009008270.

Share trading and average price



Share performance and trading volume

The reported trading volume of SSH Communications Security Corp shares for the financial year totaled 9,344,794 shares (valued at EUR 15,834,404), i.e. 33.3 percent of the shares changed hands. The highest quotation for the year was EUR 2.69 (the highest quotation in year 2003 was EUR 2.36) and the lowest EUR 1.18 (the lowest quotation in year 2003 was EUR 0.61). The trade-weighted average share price for the year was EUR 1.69, and the company's share closed at EUR 1.28 on the final trading day of the year (December 30, 2004), i.e. down 24.7 percent compared to the share price on December 31, 2003. At the end of the financial period the market value of the shares was EUR 35,969,973.76.

Dividend for 2004

SSH's total profit from sold of its OEM business during 2003 was over EUR 10 million. SSH Group's distributable assets total of EUR 8,189,362 (parent company EUR 16,147,696).

The Board of Directors proposes to the Annual General Meeting of Shareholders that a dividend of EUR 0.29 per share be paid for 2004, which total about EUR 8,149,930.

Taxable value of share in Finland

In taxation for 2004, the confirmed taxable value of SSH Communications Security Corp's share is EUR 0.88.

Board authorizations

SSH's AGM of April 27, 2004 authorized the Board to decide to increase share capital through a rights issue and/or grant stock options or issue bonds with warrants, or convertible bonds by April 27, 2005, in such a way that the resultant share capital may exceed by a maximum of EUR 165,000. The Board did not exercise this authorization by December 31, 2004.

During the fiscal year 2004, the Board of Directors had no authorization to acquire treasury shares.

Stock options

The stock option plan is an integral part of the Group's employee commitment and incentive scheme. SSH's Annual General Meetings of 1998, 1999, 2000, 2001, 2002 and 2003 decided to issue stock options for share subscription by its employees, subcontractors, and/or partners.

SSH's stock option plan has always applied to all of its staff, with the number of stock options offered to an employee depending on his/her responsibilities at the company.

Based on the stock option plan (I/1999) approved by the shareholders' meeting on August 6, 1999, a total of 163,000 stock options remain unexercised, entitling their holders to subscribe for new shares for EUR 0.20. These subscriptions may increase share capital by a maximum of EUR 4,890.00.

The stock option plans (I/2000/Lot 1), (I/2000/Lot 2) and (I/2000/Lot 3) approved by the Board on July 10, 2000, September 13, 2000 and March 22, 2001, respectively, on the basis of the shareholders' meeting authorization, were combined to form a single stock option plan (I/2000), in connection with the entry in the book-entry securities system. Based on the I/2000 stock option plan, a total of 169,025 stock options remain unexercised, entitling their holders to subscribe for new shares for EUR 6.50. These subscriptions may increase share capital by a maximum of EUR 5,070.75.

Based on a separate stock option plan approved by the Board on July 10, 2000 on the basis of the shareholders' meeting authorization, a total of 32,000 stock options remain unexercised, entitling their holders to subscribe for new shares for EUR 6.50. These subscriptions may increase share capital by a maximum of EUR 960.00.

Based on the stock option plan (II/2000) approved by the Board on March 22, 2001 on the basis of the shareholders' meeting authorization, a total of 9,250 remain unexercised, entitling their holders to subscribe for new shares for EUR 15.00. These subscriptions may increase share capital by a maximum of EUR 277.50.

The share subscription period has expired for warrants based on the stock option plan (I/2001) approved by the AGM on April 19, 2001 i.e., the plan is no longer valid.

Based on the stock option plan (I/2002) approved by the AGM on April 11, 2002, a total of 679,052 stock options remain unexercised, entitling their holders to subscribe for new shares for EUR 3.50. These subscriptions may increase share capital by a maximum of EUR 20,371.56.

Based on the stock option plan (II/2002) approved by the AGM on April 11, 2002, a total of 17,625 stock options remain unexercised, entitling their holders to subscribe for new shares for EUR 2.00. These subscriptions may increase share capital by a maximum of EUR 528.75.

Based on the Board's decision on June 26, 2002 to issue stock options under the stock option plan (III/2002), a total of 42,999 stock options remain unexercised, entitling their holders to subscribe for new shares for EUR 1.90. These subscriptions may increase share capital by a maximum of EUR 1,289.97.

Based on the AGM's decision on April 29, 2003 to issue stock options under the stock option plan (I/2003), a total of 594,018 remain unexercised, entitling their holders to subscribe for new shares for EUR 0.87. These subscriptions may increase share capital by a maximum of EUR 17,820.54.

Based on the AGM's decision on April 29, 2003 to issue stock options under the stock option plan (II/2003), a total of 32,000 remain unexercised, entitling their holders to subscribe for new shares for EUR 0.87. These subscriptions may increase share capital by a maximum of EUR 960.00.

The combined stock options for 1998-2003 held by SSH's Board, CEO and Executive Management Team accounted for 27.7 percent of all outstanding stock options on December 31, 2004.

The stock option plan I/1999, series C, D, E, F, G and H have also been traded on the Helsinki Stock Exchange.

Largest shareholders by number of shares

Shares	**Number of owners**	**Percentage of ownership, %**	**Number of shares**	**Percentage of share capital, %**
1 – 50	2,895	43.92	142,855	0.51
51 – 100	536	8.13	53,159	0.19
101 – 500	1,531	23.23	466,800	1.66
501 – 1 000	671	10.15	567,609	2.02
1 001 – 5 000	781	11.85	1,845,928	6.57
5 001 – 10 000	92	1.40	695,970	2.48
10 001 – 50 000	62	0.94	1,343,567	4.78
50 001 – 100 000	7	0.11	510,647	1.82
100 001 – 500 000	13	0.20	3,928,087	13.98
500 001 – 1 000 000	0	0.00	0	0.00
1 000 001 – 5 000 000	2	0.03	3,819,271	13.59
5 000 000 – 999 999 999	1	0.02	14,727,649	52.41
Total	**6,591**	**100**	**28,101,542**	**100**
of which nominee registered	7	0.11	196,630	0.70

Shareholding by sector

Type of sector	**Number of shares**	**Percentage of shares and votes, %**
Non-banking corporate sector	**3,228,100**	**11.09**
Financial institutions and insurance companies	**1,162,366**	**4.14**
Public-sector organizations	**621,200**	**2.21**
Non-profit organizations	**94,200**	**0.34**
Households	**22,808,986**	**81.17**
Foreign shareholders	**297,680**	**1.06**
Total	**28,101,542**	**100**

SIGNATURES

Helsinki, 8 February 2005

Tomi Laamanen
Chairman of the Board of Directors

Timo Ritakallio

Tapio Kallioja

Tatu Ylönen

Arto Vainio
CEO

AUDITOR'S NOTATION

The financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements.
We issued today an auditors' report based on our audit.

Helsinki, 11 February 2005

PricewaterhouseCoopers Oy
Authorized Public Accountants

Henrik Sormunen
Authorized Public Accountants

Calculation of financial ratios

Return on equity, % (ROE)

$$= \frac{\text{Profit before extraordinary items and taxes – taxes}}{\text{Shareholders' equity + minority interest (average for the year)}} \times 100$$

Return on investment, % (ROI)

$$= \frac{\text{Profit before extraordinary items and taxes + interest and other financial expenses}}{\text{Total assets – non-interest bearing debt (average for the year)}} \times 100$$

Equity-to-assets ratio, %

$$= \frac{\text{Shareholders' equity + minority interest}}{\text{Total assets – advances received}} \times 100$$

Earnings per share (EPS)

$$= \frac{\text{Profit before extraordinary items and taxes – taxes +/– minority interest}}{\text{Adjusted average number of shares during the financial period}}$$

Dividend per share

$$= \frac{\text{Dividend}}{\text{Adjusted number of shares at the end of the financial period}}$$

Dividend pay-out ratio, %

$$= \frac{\text{Dividend per share}}{\text{Earning per share (EPS)}} \times 100$$

Shareholders' equity per share

$$= \frac{\text{Shareholders' equity}}{\text{Adjusted number of shares at the end of the accounting period}}$$

Gearing, %

$$= \frac{\text{Interest-bearing debt – cash and cash equivalents}}{\text{Shareholders' equity + minority interest}} \times 100$$

Auditor's report

To the shareholders of SSH Communications Security Oyj

We have audited the accounting records, the financial statements and the administration of SSH Communications Security Oyj for the period 1.1.–31.12.2004. The financial statements prepared by the Board of Directors and the Chief Executive Officer include the report of the Board of Directors, consolidated financial statements of the SSH Communications Security Oyj prepared in accordance with International Financial Reporting Standards (IFRS), and parent company's financial statements prepared in accordance with prevailing rules and regulations in Finland (FAS). Based on our audit we express an opinion on these financial statements and on the parent company's administration.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of administration has been to examine that the members of the Board of Directors and the Chief Executive Officer of the parent company have legally complied with the rules of the Finnish Companies' Act.

In our opinion the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) give a true and fair view of the consolidated result of operations, as well as of the financial position of the SSH Communications Security Oyj. The consolidated financial statements have been prepared in accordance with prevailing rules and regulations in Finland and can be adopted.

The parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements. The parent company's financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the company's result of operations and of the financial position. The parent company's financial statements can be adopted and the members of the Board of Directors and the Chief Executive Officer of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable funds is in compliance with the Finnish Companies' Act.

Helsinki, 11 February, 2005

PricewaterhouseCoopers Oy
Authorised Public Accountants

Henrik Sormunen
APA

SSH Communications Security Corp
Valimotie 17, 00380 Helsinki, Finland
Telephone +358 20 500 7000, fax +358 20 500 7001
www.ssh.com